The Vietnamese Communist Party debate and the leading role of the state sector:

Ideological straight-jacket, vested interests or real social progress?

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August 2009
I, Michael Alexander Karadjis, hereby declare that this dissertation is my original work.

August 9, 2009
Abstract

Discussion of ‘economies in transition’ often assumes movement from socialist planning to free market capitalism. Vietnam has moved significantly in this direction, but the Communist Party of Vietnam (CPV) claims the long-term transition is to a higher form of socialism than in the past.

CPV cadres list a variety of aspects that differentiate their ‘socialist-oriented market economy’ from a ‘capitalist market economy’. What this orientation consists of, and whether there is anything “socialist” about it, is however much debated.

This dissertation focuses on the state-owned enterprises as one way to assess whether any authentic socialist orientation exists. It finds considerable complexity in state enterprises, so the assessment is not straightforward. But the complexity includes significant socialist substance. Their decisions regarding investment or profit distribution are not purely commercially driven, and their purported “inefficiency” is often connected to socially beneficial activity, not only for their own workers but within society at large.

This helps explain the stubborn tenacity of the state sector, despite years of “liberalising” legislative changes. This is not merely elites who “oppose reform” due to their vested interests. Significant sectors of society also have an interest in opposing the kind of “reform” that would be detrimental to their interests and the social good overall.

These conflicting pressures on and in state enterprises are reflected in the debates within the CPV about socialist orientation. One central feature of this orientation is that public forms of ownership must predominate even while capitalism forms part of the economy. But challenging this is a minority who blur the distinction between the socialist-oriented and a capitalist market economy.

These two broad tendencies are often labelled “conservatives” and “reformers,” implying a value judgement. I propose to rename them the Socialist-Orientation Tendency (SOT), and the Market-Orientation Tendency (MOT), signifying opposing emphases within the “market economy with a socialist orientation” equation. They do not represent hard and fast factional groupings, but rather tendencies of thought; many cadres incorporate elements of both, and both have sprouted sub-tendencies.

The role of the state enterprises is often central to the debate between these tendencies and among analysts of Vietnam’s political economy. Much has been written showing that they fall short of their socialist purpose. That they allegedly have little relation to social progress is often seen as evidence that the Socialist Orientationists are merely elite ideologues or corrupt officials who use the socialist label to cover their intransigence or malfeasance. This dissertation takes issue with this view.
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# Acronyms

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<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>AFTA</td>
<td>Asia Free Trade Area</td>
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<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
</tr>
<tr>
<td>BTA</td>
<td>Bilateral Trade Agreement (between Vietnam and the US)</td>
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<tr>
<td>CHC</td>
<td>Community Health Centre</td>
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<tr>
<td>CIEM</td>
<td>Central Institute of Economic Management</td>
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<tr>
<td>CPRGS</td>
<td>Comprehensive Poverty Reduction and Growth Strategy</td>
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<tr>
<td>CPV CC</td>
<td>Communist Party of Vietnam – Central Committee</td>
</tr>
<tr>
<td>CPV</td>
<td>Communist Party of Vietnam</td>
</tr>
<tr>
<td>CRES</td>
<td>Centre for Natural Resources and Environmental Studies</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development (UK)</td>
</tr>
<tr>
<td>EIU</td>
<td>Economist Intelligence Unit</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIE</td>
<td>Foreign Invested Enterprise</td>
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<tr>
<td>GSO</td>
<td>General Statistics Office</td>
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<tr>
<td>HCFP</td>
<td>Health Care Fund for the Poor</td>
</tr>
<tr>
<td>HCMC</td>
<td>Ho Chi Minh City</td>
</tr>
<tr>
<td>HCMCYU</td>
<td>Ho Chi Minh Communist Youth Union</td>
</tr>
<tr>
<td>HCMNPA</td>
<td>Ho Chi Minh National Political Academy</td>
</tr>
<tr>
<td>HEPR</td>
<td>Hunger Eradication and Poverty Reduction (Program)</td>
</tr>
<tr>
<td>ICARD</td>
<td>International Centre for Agricultural and Rural Development</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MARD</td>
<td>Ministry of Agriculture and Rural Development</td>
</tr>
<tr>
<td>MISPA</td>
<td>Mobilisation of Information to the Service of Agricultural Policy Formulation</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MOLISA</td>
<td>Ministry of Labour, Industry and Social Affairs</td>
</tr>
<tr>
<td>MPI</td>
<td>Ministry of Planning and Investment</td>
</tr>
<tr>
<td>NASCO</td>
<td>Northern Airlines Services Company</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>NCAW</td>
<td>National Committee for the Advancement of Women in Vietnam</td>
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<td>SFE</td>
<td>State Forest Enterprise</td>
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<tr>
<td>SOE</td>
<td>State-Owned Enterprise</td>
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<tr>
<td>SRV</td>
<td>Socialist Republic of Vietnam</td>
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<tr>
<td>TCCS</td>
<td>Tap Chi Cong San (Communist Review)</td>
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<tr>
<td>TNC</td>
<td>Transnational Corporation</td>
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<tr>
<td>TU</td>
<td>Trade Union</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>UNICEF</td>
<td>United Nations Children's Fund</td>
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<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organisation</td>
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<tr>
<td>VASS</td>
<td>Vietnam Academy of Social Sciences</td>
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<tr>
<td>VCC</td>
<td>Vietnam Cotton Corporation</td>
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<tr>
<td>VET</td>
<td>Vietnam Economic Times</td>
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<td>VFA</td>
<td>Vietnam Farmers' Association</td>
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<td>VFF</td>
<td>Vietnam Fatherland Front</td>
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<tr>
<td>VGCL</td>
<td>Vietnam General Confederation of Labour</td>
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<tr>
<td>VIR</td>
<td>Vietnam Investment Review</td>
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<tr>
<td>VLSS</td>
<td>Vietnam Living Standards Survey</td>
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<tr>
<td>VNA</td>
<td>Vietnam News Agency</td>
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<tr>
<td>VNCC</td>
<td>Vietnam National Cement Corporation</td>
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<tr>
<td>VVU</td>
<td>Vietnam Veteran's Union</td>
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<tr>
<td>VWWU</td>
<td>Vietnamese Women's Union</td>
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<tr>
<td>VYF</td>
<td>Vietnam Youth Federation</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WC</td>
<td>Workers' Congress</td>
</tr>
<tr>
<td>WF</td>
<td>Welfare Fund</td>
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<tr>
<td>WHO</td>
<td>World Health Organisation</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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<tr>
<td>YU</td>
<td>Youth Union (Ho Chi Minh Communist Youth Union)</td>
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Introduction

Vietnam has opened its previously state-controlled economy to market forces and the private sector since 1986. The ruling Communist Party (CPV) claims "the transitional development to socialism" involves bypassing the establishment of the dominating position of capitalist production relations and superstructure, but acquiring and inheriting the achievements recorded by humanity under the capitalist regime ... that requires a long period of transition with many transitional stages and forms of socio-economic organisation."  

As the economic basis has not yet been laid for socialism, the current system is "a multi-sectoral market economy with a socialist orientation."

This thesis of a long "transition to socialism" – and whether it really is a transition to socialism or to capitalism, as most of the "transition debate" assumes – is not new in Marxist theory, and the CPV's claims – whatever the reality of them – stand on a rich tradition of Marxist thought. Chapter One of this dissertation will overview this theoretical background to the transition to socialism debate.

This thesis will look at what elements make up this "socialist orientation" in theory and practice during this "transition." Chapter Two will survey the extensive debate within the CPV, revealing sharply differing views on the meaning of socialist orientation and its application to a range of issues. However, it will also show that there was a general "Doi Moi consensus model" of socialist orientation. Two of the most important planks of this model were the "leading role of the state-owned economy" (though there was much variation about what this means) and the view that economic progress must lead to social progress "at every step of the way."

This dissertation approaches the CPV debate as by and large a genuine one about socialist theory and practice as would be inevitable in any long transition period. This does not mean, however, that the leaders pushing certain views are not influenced by the

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social environment. A number of schools of thought attempt to explain the party debate in terms of either rival institutional elites within the party (military, party apparatus, government administration), regional loyalties, and/or individual power bases. While these theories provide much useful background, they have the tendency to assume discussion is limited to the elite, though their popular bases and clientelist networks may play some role. My starting point assumes a greater role for popular voice and pressure on political tendencies within the CPV, consistent with the ‘state-society’ approach. ‘Society’, however, is divided into classes, including those that made the revolution and those that are potentially hostile. Gainsborough looks at the influences of various social classes on state actions, providing a useful background regarding the underlying pressures on the party debate. He claims that, at that juncture (2002), none of the major classes were in an exclusively strong position vis-à-vis each other or the state, a useful starting point for understanding the Doi Moi consensus.

This approach necessitates dispensing with the labels “conservative” and “reformer”, which are often applied to what are considered to be two broad political tendencies in the CPV discussion. In reality, the discussion is far more complex than a clash between two groups, and many cadres incorporate various aspects of differing tendencies. Moreover, these terms are heavily value-laden: “reform” is considered self-evidently good, pushed by “younger” and “educated” people, and it means any tendency towards more market and capitalism. Any resistance to it can only be “conservative,” that is, backward looking, often from ageing soldiers or corrupt elements.

Stern, for example, claimed “young officials” had hoped the 8th Congress would “clear the way for unfettered reform, loosen some of the limits that had been imposed on the

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market mechanism, private capitalism, and foreign economic activities, and cut through the ideological trappings to allow rapid development." Ryan claims "managers of state-owned companies find influential allies in the military and security apparatus, which see growing economic power in private hands as a threat to the authority of the Communist Party," explaining "the party's preference for a socialist-oriented market economy." The Financial Times sees progress "hindered by vested interests from the state-controlled past" including "a vast, inefficient and deeply corrupt state sector," while The Economist believes socialist orientation shows "the older generation of war veterans in the party's senior ranks has not yet been displaced by younger, more liberal and often foreign-educated members from below."

To talk about two broad wings schematically, I prefer the labels "socialist-oriented" and "market-oriented," showing the greater degree of emphasis placed on either of the two aspects of the 'socialist-oriented market economy' by different cadres. Chapter Two will further introduce a number of sub-categories.

Certain left analysts, while using class categories, nevertheless mainly see the influence of dominant social classes on the party debate, due to their view that Doi Moi Vietnam has restored capitalism outright and the CPV's 'socialist' banner is merely a cover for a bureaucratic elite to maintain its rule with no content. The debate is merely between two wings of the elite over which road to take to outright capitalism. Greenfield dismisses CPV claims that it has discovered immutable Marxist laws on the necessary role of the market, divorced from its tendency under capitalism to create inequality and private accumulation of surplus. Instead the enthusiasm for the market is merely an ideological justification for the cadres' participation in the capitalist economy. Both see "market socialism as inherently contradictory, Kolko ridiculing the idea that a society based on social solidarity can be built using blatant avariciousness as the road to development.

While both make valuable contributions to understanding the negative impacts of the market, they tend to see capitalist restoration fully victorious in party, state and society from the onset of Doi Moi. Greenfield believes “the crushing of working class struggle and repression of the labour movement” is necessary to drive through this restoration, the trade unions acting as an agent of management, while the Labour Law effectively “criminalise(s)” strikes.\(^\text{11}\) The peasants, according to Kolko, are abandoned to “a world like that idealised by laissez-faire economists over a century ago,” in a land policy allowing “no compromise between total control and total freedom.”\(^\text{12}\) Greenfield believes the collapse of cooperatives “saw the appropriation of land and its accumulation in private hands,” as advocated by “new right intellectuals” who wanted to end the “constraints on the labour market” imposed by the “autarchic household economy (which) has inhibited the commodification of the rural workforce.”\(^\text{13}\)

This ‘finality’ thesis is derived from definitive views of the pre-1986 set-up. Kolko, approaching the issue from an ‘anti-authoritarian’ socialist point of view, believes the allegedly “Leninist” concept of an authoritarian elite divorced from the masses was the inherent problem.\(^\text{14}\) The political elite needed the masses to defeat imperialism, but when it came to ruling in peace the masses became a hindrance. Once this elite decided to switch to capitalism there were few social restraints on it. For Greenfield, Vietnam’s party-state was already a ruling class, pursuing capitalist “efficiency” against the working class to “appropriate the surplus.” The difference between before and after Doi Moi merely regarded their methods and degrees of success.\(^\text{15}\)

Yet both give examples showing the situation is far from final. Kolko claims “the ultimate constraint on the Politburo is that the army could never call upon its peasant soldiers to shoot other peasants”; and he notes that despite being technically illegal, strikes “have become more frequent and evoke increasing sympathy in the official press.

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\(^\text{12}\) Kolko, 1997 op cit, p. 91.

\(^\text{13}\) Greenfield, 1994, op cit, p. 209.

\(^\text{14}\) Kolko, 1997 op cit, p. 68. I would insist that this is an incorrect term, alleged to mean rule by a self-proclaimed vanguard Party without input from the masses. Thus has no connection to anything Lenin advocated.

Above all, no prosecutions have been reported.” He also speaks of “a great many” of the people he knew who “were remarkable and astonishingly brave people, incapable of playing lightly with their deepest ethical commitments, devoted to socialism defined broadly as a moral and equitable system” and who “remain a substantial share of the party.”16 Greenfield discusses the conflict within the Vietnamese trade union movement over its role, and he notes the critical views expressed in CPV theoretical journals on this issue, stressing “there are political interests within the VGCL which support a radical transformation of the trade unions in the direction of a genuine workers movement.” Ideas about their social and ownership rights remain “amongst second and third generation workers,” are “embedded in the popular consciousness,” and here “the state runs up against its own socialist rhetoric.”17

These aspects are not simply about the strength or weakness of workers and peasants at a particular point in struggle, but about sections of the ruling party, the party-controlled media, the army, the official trade unions, and the collective consciousness of workers, pointing to a deeply embedded ‘hegemony’ of socialist views through sections of the ruling party and state, which contradicts their more dramatic prognoses.

These issues regarding the current strength of the workers and peasants in struggle and the tendency of the state and party to accommodate rather than confront them, and the institutional basis for this within post-revolutionary Vietnam, will be examined in Chapter Three, which will assess the reality behind the rhetoric of socialist orientation. Chapter Three will also focus on the reality behind the stated welfare goals of this orientation and the insistence upon social progress “at every step of the way.” The restoration of capitalism thesis rests partly on the dire situation of the early 1990s as Vietnam experienced a systemic crisis when, in the midst of initial transition, its Soviet bloc trading partners collapsed. Kolko notes the crash in health and education conditions, and claims “undernourishment and poverty have remained essentially unchanged.” This is the mirror image of the views of those on the right who emphasise, outside of any context, the persistence of a level of poverty as evidence of the evils of “socialism” and the incomplete introduction of the supposed marvels of the market and capitalism.

16 Kolko, 1997 op cit, pp. 94, 117, 81.
Yet as Chapter Three will demonstrate, the crashing social indicators of the early 1990s were reversed, and Vietnam’s very high educational and health indicators, compared to countries at its economic level and of many at a higher level, are now widely noted. Poverty has since fallen at a rate the UNDP considers to be a world record, from 75 percent in 1988 to 16 percent in 2005.

These indicators of substance behind socialist orientation need to be set into the context of the post-Cold War world where the collapse of the Soviet bloc was alleged to mean that “socialism” had failed and free market capitalism would be the basis of the new world order, spreading across the “globalised” world, tearing down impediments to the free flow of goods and capital. By liberalising and privatising their economies and international economic relations, all countries would benefit from the growth and prosperity that capitalism was bringing. In this context Vietnam is being pressured to undergo ever more “reform” and “opening up” to gain these benefits.

Yet for many the benefits have proven an illusion. The former Soviet bloc countries that rushed towards capitalism experienced massive socio-economic breakdown and regression. One statistic exemplifying this is that life expectancy among Russian males fell from 64 years in the last year of ‘socialism’ to 58 years in 2003, “below the level of Bangladesh and 16 years below Cuba’s 74 years.”

According to the 2003 UN Human Development Report, 53 countries went backwards over the previous 10 years in terms of human development, half of them in Africa, a continent which is mired in extreme poverty “despite” two decades of carrying out neo-liberal economic prescriptions. Africa had grown by 36 percent from 1960-1980, but in

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19 Dibua, J.I., ‘Journey to Nowhere: Neo-Liberalism and Africa’s Development Crisis’, Comparative Studies of South Asia, Africa and the Middle East, Vol. XVIII, No. 2, 1998; Oxfam, Kicking Down the Door: How Upcoming WTO Talks Threaten Farmers in Poor Countries, Briefing Paper, April 2005. According to Oxfam, by 1984, “20 out of 28 sub-Saharan African countries undergoing structural adjustment had lifted restrictions on market participation, and the share of production marketed by state agencies had fallen to insignificant levels in most cases. The pattern was similar for IMF conditions: almost three-quarters of the countries covered in the 1997 review had restrictive trade regimes at the outset, but four years later the number had fallen to just one-fifth. The evidence from countries that bowed to the pressure to liberalise does not bode well,” p 27.
the following two decades of neo-liberalism, per capita income fell 15 percent.\textsuperscript{20} In Latin America, which followed neo-liberal prescriptions to the letter, economies grew by a total of only 11 percent over the two decade period of 1984-2004 (the economy shrank by 3 percent in the 1980s), compared to 80 percent in the previous 20 years. From 2000-2004, per capita GDP grew by 0.2 percent annually.\textsuperscript{21} Brazil and Argentina, top neo-liberal pupils, accounted for an enormous proportion of the Third World debt, leading to a dramatic collapse in Argentina in 2001. In south Asia, Pakistan, Bangladesh and Nepal are pictures of desperation, economic stagnation and appalling social indicators. India has experienced high economic growth, but it still has the largest number of poor in the world.

The most successful region has been east Asia. The NICs owe their success not to neo-liberalism but to strong state regulatory regimes and protectionism. Even this regulated capitalist development was seriously challenged, or temporarily yet dramatically collapsed, in the Asian crisis of 1997. Vietnam largely escaped this crisis, and "delivered by far the best performance in ASEAN during 1998" due to the strength of its "still protected and 'unreformed' economy."\textsuperscript{22}

Among the countries that have combined rapid economic growth and rapid poverty reduction most successfully have been China and Vietnam, countries officially committed to a 'socialist-oriented market economy'. A study conducted by the UNDP of fourteen Asian countries shows that over 20 years, poverty reduction in China, Vietnam and Laos was far and away superior to other countries in the region.\textsuperscript{23} While global

\textsuperscript{20} Global Trade Watch, \textit{Neo-liberalism - What's behind the Global Economy?} http://www.tradewatchoz.org/neoliberalism/.


\textsuperscript{23} Pasha, Hafiz A. and Palanivel, T. \textit{Pro-Poor Growth and Policies: The Asian Experience}, UNDP, Jagadanda Press, Katmandu, 2004. It shows poverty falling in Vietnam from 75 percent in 1988 to 32 percent in 2000, in Laos from 53 to 31 percent, and in China from 31 percent in 1978 to 3 percent today. The fall in India and Bangladesh was more modest, in Thailand and the Philippines a few percent, and in Malaysia, Indonesia, Sri Lanka, Nepal, Pakistan, Cambodia and Mongolia, poverty increased. While the claim that China's poverty rate was only 3 percent is hardly believable, it is widely acknowledged to have reduced poverty by 400 million people, and the indicators are useful as an overall comparison.
poverty fell from 1.45 billion to 1.1 billion over 1980-2000, when China is excluded, poverty rose from 845 million to 888 million.\textsuperscript{24}

As for Cuba, despite the major crisis in the 1990s following the collapse of its former east European bloc markets and an intensification of the US embargo, the 2003 UN Human Development Index put it ahead of Singapore (Cuba at 5 and Singapore at 6 among developing countries), with lower infant mortality than the US, and impressive First World level social indicators.\textsuperscript{25}

This summary is only indicative of a tendency, and is not intended as the last word on which countries are prospering. Nevertheless, the fact that Vietnam, China and Cuba, in different ways, stand out, suggests that “socialist orientation” may have real content. Vietnam’s relative success in social indicators may not be the result of unbridled capitalism and market forces but rather Doi Moi’s cautious approach to these forces. It is when Vietnam is compared with capitalist developing countries that its success is lauded, as Chapter Three will demonstrate. These countries with lower levels of human development do not lack markets and private sectors.

If this challenges the conclusions of the left analysts, who believe “capitalism” in Vietnam has brought about a grand decline in living standards, it likewise challenges other analysts who fundamentally accept the view that Vietnam’s success is due to the market and the private sector, not the moribund socialist skeleton and corrupt state-owned rust-belt as they see it. Thayer claimed the post-1997 downturn was due to “government favouritism for the 6000 inefficient and debt-ridden state-owned enterprises,” and its refusal to carry out privatisation. This would lead to a “bleak” future, “economic stagnation at best, economic crisis at worst.”\textsuperscript{26} Quan Xuan Dinh claimed “the insistence on the leading role of the state” was an “impediment to economic

\textsuperscript{24} However, while China reduced poverty by 400 million people, half of this occurred in one quarter of that period, the first half of the 1980s, before deeper economic reforms bit in, World Bank Vietnam, Press Release, \textit{Global Poverty Down By Half Since 1981 But Progress Uneven As Economic Growth Eludes Many Countries}, Washington, April 23, 2004.

\textsuperscript{25} Even the World Bank has commended Cuba’s health and education achievements, acknowledging that it had no relation to policies the Bank advocates, Healy, S, ‘Cuba: World Bank head praises achievements’, \textit{Green Left Weekly}, May 9, 2001.

development.”

Abuza blamed Le Kha Phieu’s refusal to carry out the advice of the World Bank to “scrap the inefficient SOE system and free up the private sector” for Vietnam “not cope(ing) with the (Asian) crisis well.” For these analysts, Vietnam remained “too socialist” despite Doi Moi.

The view is propounded year after year that continuous growth and poverty reduction are occurring ‘despite’ the ‘slowness of reform’. The Economic Intelligence Unit claimed that “despite” Vietnam’s “achievements in lowering poverty and maintaining robust rates of economic growth, there are concerns about its commitment to reform pledges.”

According to Ryan, “despite subsidies and other state favors, most public enterprises have performed poorly even under doi moi,” lamenting the lack of “full acceptance of domestic capitalism.”

While coming from the opposite angle, the ‘restoration of capitalism’ thesis shared the view that the state sector is moribund, which is why its continued existence is not evidence of socialism. These authors claimed, dramatically, that the state sector “will be eliminated” or “is slipping into oblivion.”

However, more recent scholarship has moved away from entirely negative stereotypes of SOE economic performance. Painter notes “the evidence for a relatively profitable sector of larger, strategic SOEs.” While Gainsborough details the negative aspects of certain commercialised SOE sectors in Ho Chi Minh City, he points out that SOEs have greatly

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30 Ryan, J, ‘Vietnam Goes Global: The government embraces capitalism, but so far only for small businesses’, YaleGlobal, Yale Center for the Study of Globalisation, December 15, 2005. Ryan was also former UNDP head in Vietnam. Another UNDP official, Jonathan Pincus, is surprised the party is “not embarrassed” about being committed to a leading role for the state sector, Kazmin, 2006. Though the anti-state rhetoric previously counterposed the hard-working small private owner to big SOEs, it now decries the fact that the private sector is small-scale, citing the need for a large capitalist class. According Kazmin, “the fledging private sector, though dynamic, remains small. There are almost no large private companies ... a potential obstacle to technological progress.” Kazmin quotes Pincus that “after 20 years of reform, you would expect to see some big private firms if there weren’t real obstacles.”

31 Kolko, op cit, p. 63.


propelled and largely dominated economic growth in that city.\textsuperscript{34} A World Bank expert explained that, off the record, the Bank now thinks its view of the 1997 crisis “was largely incorrect, SOEs partly led the way out of the crisis, there were never 60 percent in debt. With an SOE-dominated economy consistently growing at 7 percent, they must be doing something right.”\textsuperscript{35}

Fforde’s claim that Vietnam escaped the 1997 crisis due to the strength of its “unreformed economy,” a fact “spectacularly ignored” by the IMF and World Bank,\textsuperscript{36} is consistent with this view. The problem with blaming the post-1997 slowdown on a lack of ‘reform’ is that Vietnam did not crash like its capitalist neighbours. In the ‘Asia Crisis Mark II’ of 2001 Vietnam again had the highest growth in the region after China.

However, Fforde initially believed this was because underlying ‘reform’ had taken place, the good performance due to “the emergence of private interests from within the state sector.”\textsuperscript{37} His disagreement with the World Bank was that the latter did not see this underlying reform within the SOEs, due to ideological obsession with privatisation. These interests would begin leaving their SOE “shells” as the post-1997 reality increased the difficulty of getting ‘insider’ jobs, and as those approaching retirement desired “viable methods of transferring assets to their children.” Thus the “period of ‘primary accumulation’, with private profit making within SOEs, may be coming to an end.”\textsuperscript{38}

This correlates with Gainsborough’s study, which questioned the alleged contradiction between ‘clean’ and ‘corrupt’ capitalism. He disputes the usefulness of the term ‘reform’, because market reform has occurred within SOEs, which operate in a very market-driven way, despite ‘reform’ ideology’s preference for capital accumulation outside state patronage networks in imaginary ‘perfect’ market conditions.\textsuperscript{39}

\textsuperscript{35} World Bank SOE expert, Interview, Hanoi, October 2005.
\textsuperscript{36} Fforde, 1999, op cit.
\textsuperscript{38} Ibid.
\textsuperscript{39} Gainsborough, 2003, op cit.
However, since there was no “shift to accepting the logic of the situation,” Fforde thought the crisis was merely being postponed, the outlook remaining “bleak.” Yet, soon after, Fforde showed the escape from the crisis was also due to effective state management of credit, exports, imports and information supply to SOEs. As SOE performance improved, Fforde reached “the same conclusions as Greenfield” on the essentially capitalist nature of SOEs, though for him this was an argument for their positive economic performance. There remained a contradiction between “the large and rising share of the state sector” and “the rapid GDP growth,” which “could only be resolved” if SOEs were “not treated as state bodies.”

However, a year later, Fforde claimed there had been “no fundamental change in the basic structures of state-SOE relations” since Doi Moi. Even equitised SOEs remained “subject to the wider political and social intentions,” as equitisation allowed “for hemming the operation of the Law of Value in many ways, consistent with the continuing socialist direction.” While the Law of Value operates in Vietnam “to a far greater extent than in the early 1950s Soviet Russia ... there is no significant difference between the position taken by Stalin and that of the VCP.” However, “development performance was good,” so it is necessary to address the “paradox of the surprisingly positive developmental role played by that part of the economy labeled as ‘state’ ... an outcome almost unthinkable in other developing countries.”

The fact that the state sector has played a positive economic role will be explored in Chapter Four. This short chapter will overview the sector, its size in the economy, the pressures on it and its changing nature, challenging many of the anti-state stereotypes.

While the “restoration of capitalism” and the “still too much socialism” theses are found wanting, Beresford and Fforde make a case for Vietnam as a “market socialist” phenomenon, distinguishing between the definitive principles of socialism (public

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ownership of the means of production, central planning and distribution according to labour) and mere operational principles (including monopoly of foreign trade, state monopoly of the domestic circulation of goods, collective agriculture, direct planning of industry, state setting of most prices etc). Vietnam had only given up the operational principles, but not the definitive principles. It was working towards the same goals with new methods, allowing “a co-existence of central planning (suitably defined) and public ownership of the means of production with market-based domestic circulation of goods and market-based determination of industrial production,” meaning “the Law of Value is not antipathetic to socialism.”

Nevertheless, the concept of market socialism is problematic precisely because of “the Law of Value.” As Greenfield explains, this leads to labour also becoming a “commodity,” even in state enterprises, which is inconsistent with the workers’ designated role as “masters” under socialism. Pointing to the “effective economic ownership exercised” by SOE managers, he claims “reform” entails creating “the structures of power and control” of capitalist firms via “absolute managerial power” over labour and the redistribution of surplus. His research describes the drive by the state coal company to lay off thousands of miners in Quang Ninh 1999.

While the market has made inroads into the area of workers participation in SOEs, Chapter Five reviews the evidence and suggests much of the traditional structure of SOE management, including via the Workers’ Congress, the trade union and other mass organisations remains in some form. This includes site visits and discussions with workers in some large SOEs in the north. Even the Quang Ninh events were not ultimately as decisive as they appeared at the time. However, the drive to “equitise” SOEs challenges this management structure, and the ongoing struggle is decisive for maintaining any socialist-oriented state sector.

Nevertheless, even if workers maintain a degree of participation in many state enterprises, the broader question of the state economy’s relation to socialist orientation remains. How can enterprises that operate based on this Law of Value perform as organs of society, prioritising social needs over the needs of enterprise profit making which the market dictates? Mandel succinctly writes that pursuit of profit leads to enterprises basing their priorities on “the inequality of incomes and resources,” meaning, for example, “Luxury apartments will be built before low-cost housing.” This has a familiar ring to it, as such towers for the rich keep going up in Vietnam, even though state companies still play a very prominent role in the construction industry.

Moreover, as state sector workers are a small and relatively privileged minority within underdeveloped Vietnam, with its large peasant and informal sector population, Beresford points out that their quasi-socialist managerial role in SOEs may make them partners with management in a “corporatisation” of SOEs, which “effectively privatise” social wealth while the poorer sectors of society are left behind.

This very important issue raises the question of the connection between the two main planks of socialist orientation in the view of the CPV: the “structural” aspect of a dominant state sector and the “objective” of rising welfare for all. As such, Chapters Six, Seven and Eight will deal with this decisive issue of the social role of the state economy, that is, its ‘out-of-enterprise’ role within the broader society. There is very little of this in the wider literature on Vietnamese SOEs, and thus this dissertation aims to add a substantial body of knowledge to the understanding of the Vietnamese state sector.

Research was conducted via interviews with some twenty five theoreticians, academics and other members of the CPV or mass organisations, along with a questionnaire for 150 further cadres, interviews with managerial, party or trade union staff of some 20 state companies, interviews with trade unionists, with cadres from the Vietnam General Confederation of Labour and other mass organisations, with economic experts and other officials involved in related areas, such as poverty alleviation, site visits to two major state companies involving discussions with unionists and workers, and analysis of

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research reports by state and party bodies, SOEs, trade unions, NGOs, international economic organisations and consultants, theoretical journals, and the mass media.

Information was often contradictory, requiring re-checking and further reading and interviewing for clarification. It became clear that at times when interviewees did not know exact answers to questions, they told me what they thought to be the truth. This often appeared to represent their view of what should be.

I have assembled a reasonably coherent picture of the operations of the state sector and its role within a socialist orientation and in relation to societal welfare. In general, the conclusions from the findings are cautiously positive about the overall role of the state sector within a socialist orientation. Since this dissertation is a study of socialist orientation, the word "positive" here means "in accordance with the stated aims of a socialist orientation," and does not imply a value judgment.

One possible problem is that as this dissertation searched for evidence to balance the largely negative portrayal of the Vietnamese state sector in the majority of analyses, my "cautiously positive" conclusions could have been reached due to the bias of my starting point. However, I have not approached this issue from the point of view that the negative analyses are wrong, but incomplete. Since negative descriptions of the state sector are widely available, they form the starting point, and hence are only restated here in summary form.

Partly, it is a question of extent: how do all the widely discussed negatives weigh up in relation to the positives, and do they impact on the socio-economic reality to the extent necessary for the state sector to be playing an overall negative role? The conclusion here is that, while extremely contradictory, and far from ideal, the state sector has, overall, played a socially dynamic and progressive role in Vietnam's successful 'Doi Moi consensus model', which dominated the political economy between the early 1990s and the middle of the first decade of this millennium. The apparent contradiction – in "orthodox" economics – between years of socio-economic and developmental progress, and a model based on a dominant state sector, is treated here as no contradiction.

Therefore, the discourse which posits this stubborn lingering of a powerful state sector, despite years of ideological offensive against it and significant legislative change, as due
to a “conservative” wing either attached to antiquated ideas removed from reality, or profiting from corrupt connections with a moribund state sector enhanced by its only “half-reformed” nature, is rejected. Rather, the insistence by socialist-oriented wing of the party on a leading role for the state sector reflects the real presence within society of the positive, if contradictory, role of that sector within the socio-economy, and of the social classes which benefit from its continued presence.

Changes, however, are happening fast, and by the middle of this decade are arguably burying the basic features of the Doi Moi consensus model, representing the ascendancy of the market-oriented wing of the CPV. The current economic crisis engulfing Vietnam is partially a result of this release of any controls over the free flow of the market. This is further reflected in the underlying socio-economic processes, as the market commodifies everything and eats away at the social solidarity that necessarily underlies a project as conscious as the development or even retention of socialism, replacing it with a bland economic pragmatism and rampant commercialism and individualism. This is not meant to imply that the ascendant market-oriented wing of the party are all conscious proponents of capitalism or representatives of the rising elite – like their opponents, most are honest socialists, but they see no alternative to a greater amount of capitalism in the mixed economy in order to raise the productive forces.

Nor is it meant to imply that the CPV has not attempted to continue promoting solidarity and socialist ideals – the question of how to do that is a difficult one. While many valid criticisms of the CPV in this regard can be made, the ultimate problem remains the relative isolation of Vietnam’s experiment in a poor country within a capitalist world of which it is necessarily a part.

The following theoretical background will highlight this ultimate conflict, within the “transition” phase, between the necessary use of market mechanisms and the question of socialist consciousness.
Chapter 1
Theoretical Background: A Vietnamese NEP?

The Concept of “transition” to socialism

As the CPV claims to be a Marxist party with a trajectory towards socialism, this theoretical background focuses on Marxist and socialist thought, particularly in relation to the market. While there may be a valid debate to be had about Vietnam’s relation to the ‘NIC’ model, and to the debate between advocates of a more state-managed kind of capitalism\(^1\) and neo-liberalism, these issues will not be the focus.

“Socialism” is a system where “the major means of production and distribution are owned, managed, and controlled by the government, by an association of workers, or the community as a whole,” or where “the means of production are collectively owned and operated by the community as a whole to advance the interests of all.”\(^2\)

These definitions accord with the Marxist vision the CPV claims to be its future goal, but at present it claims to be running merely a society “in transition to socialism,” appropriate for an underdeveloped country. During this stage, the productive forces will be raised with the aid of the market and capitalist sectors, until conditions are laid for a socialist society. The “socialist orientation” forms a bridge to the future goal.

These ideas can be understood in terms of Marxist theory of transition to socialism and Lenin’s version of it in relation to underdeveloped countries. Marx and Engels envisaged socialist revolution in industrially advanced countries, where capitalism had laid the groundwork by raising the productive forces. Socialism could not be built through equal sharing of scarcity; an underdeveloped country could not jump to socialism, before going through a stage of capitalist development.\(^3\)

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\(^3\) “Mankind always sets itself only such tasks as it can solve ... it will always be found that the tasks themselves arise only when the material conditions of its solution already exist or are at least in the process of formation” Marx, K, and Engels, F, ‘A Contribution to the Critique of Political Economy’, Preface, 1859, *Collected Works*, Vol. 16.
Engels explains that capitalist industry ‘socialises’ production, as large numbers work in the same factory to produce for vast numbers of people. This however stands in contradiction to individual ownership under capitalism. This contradiction can be resolved by the working classes taking collective ownership of these ‘socialised’ industries. Capitalist industry differs from individual production, where the peasant or craftsman produces enough to feed themselves, or for small markets, mostly with their own labour.⁴

Even in advanced capitalist countries, there would be a transition. The first phase, where the working class majority seizes power, is both the most advanced form of democracy, and a ‘dictatorship’ of this majority to prevent the former ruling class violently re-taking power.⁵ Once secure, this state will enter the “lower stage of communism” (or “socialism”). At the end of this process, “when class distinctions have disappeared, and all production is concentrated in the hands of a vast association,” the “higher stage of communism” will come into being.⁶

The new society would suffer “prolonged birth-pangs.”⁷ Bourgeois inheritances such as the market would remain, but not dominate. The dominant principle would be “to each according to their work,” where remuneration is still based on principles of “commodity production.”⁸ This would later evolve into the principle of “from each according to their ability, to each according to their needs,” when the market withered away as goods and services became abundant.

However, while this economic basis is necessary, it is not sufficient: Marx believed socialism was the first time human beings would “consciously” mould their society.⁹ Nevertheless, this was not assured. The workers’ degree of consciousness of their assigned role often lags behind the economic ripeness for socialism. Communists must

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⁵ Marx and Engels’ most thorough description of how a ‘dictatorship of the proletariat’ would be the most radical form of direct democracy is contained in their description of the Paris Commune, ‘The Civil War in France’, 1871, Collected Works, Vol. 22.
⁹ Marx and Engels, 1848, op cit.
promote this consciousness,\textsuperscript{10} avoiding both the ‘rightist’ error of holding back workers by arguing economic conditions are not yet ripe, and the ‘leftist’ or ‘voluntarist’ error of pushing workers into social relations more advanced than the level of productive forces.

**Lenin on the Russian revolution and the NEP**

These issues confronted Lenin in Russia, a partially industrialised but still economically backward country. Lenin believed that “imperialism” – the expansion of major capitalist powers into Africa, Asia, Latin America and Russia – was spurring a distorted and uneven form of global capitalism that benefited the imperialist centres, not local capitalism. The struggle against imperialism is one of the “tasks” of these backward countries’ “bourgeois-democratic revolutions,” alongside radical land reform.

However, the weak local bourgeoisie was attached by “a thousand strings” to foreign capital and pre-capitalist ruling classes, and feared the popular masses. Therefore, the working class – which had emerged with great confidence in 1905 – would lead Russia’s “bourgeois-democratic revolution,” allied to the peasants. While “socialist tasks” were not on the immediate agenda, a “revolutionary democratic” state of workers and peasants would divide feudal land among the peasants and carry out other democratic tasks.\textsuperscript{11}

Workers would manage production in capitalist-owned factories, and only gradually nationalise them, beginning with strategic sectors; peasants and petty producers would develop the productive forces of a petty-capitalist nature. Differentiation would arise between an agricultural bourgeoisie and the poor peasants. As the workers grew in confidence and consciousness, they would ally with the poor peasants and carry out a socialist revolution. Between the first and second revolutions, there was no ‘Chinese wall’ but a series of ‘uninterrupted’ revolutionary developments.

The Mensheviks accused Lenin of “leftist” errors, of advocating proletarian revolution in a backward country. However, Lenin believed the democratic revolution in Russia would


itself trigger socialist revolution in Europe, and it was only with the aid of socialist states in “a number of advanced countries” that socialism could be built in Russia.\textsuperscript{12}

Following the October 1917 revolution, peasants divided up the landed estates; there were no attacks on peasant capitalism; only banks and a small amount of industry were nationalised, and workers’ control was instituted in capitalist factories. Lenin opposed faster nationalisation, as the workers had to first gain the ability to run enterprises.\textsuperscript{13}

Lenin called this ‘state capitalism’, meaning state-directed private capitalism and voluntary cooperation of petty producers, but it included elements of peasant property, small commodity production, private capitalism, and socialism, which were “intermingled,”\textsuperscript{14} like the CPV’s “multi-sectoral market economy with socialist orientation.” However, the onset of civil war and invasion by 14 western powers in Autumn 1918 forced an unplanned move to “War Communism,” when most of the economy was taken over.

Marx’s theory referred to industrialised countries and assumed almost complete state ownership, thus little time was given to any specific role for state ownership. It would produce and distribute society’s needs, its surplus would belong to the whole community, and production would be planned to satisfy social needs. There was little contradiction between workers making decisions over their wages and conditions, and the greater needs of society, as most people were workers or their relatives.

However, in underdeveloped Russia, there was a medium-sized private sector, agriculture dominated the economy, the majority of people were peasants, and social needs were more varied, so prioritising needs to be fulfilled by the small state sector was necessary.

The priority social need in 1917 was also the top economic need, to repair and rebuild the country. The basic political need was the ‘worker-peasant alliance’, meaning state sector workers needed to produce for the needs of the non-worker majority.


\textsuperscript{13} Lenin, V.I., 1918 (A), op cit.

\textsuperscript{14} Ibid.
Chapter 1: Theoretical Background: A Vietnamese NEP?

The first task for state sector workers was to produce goods "to recompense the peasants by properly organised exchange." Peasants can only gradually move "from individual, disunited, petty commodity production to large-scale social production." This will "be delayed and complicated by hasty and incautious administrative and legislative measures" but accelerated by providing assistance to enable the peasant "to effect an immense improvement in his whole farming technique." Thus, just after the revolution, despite military needs, Lenin ordered the Munition Works to stop "all expenditure on the naval construction programme," and reallocate the corresponding sums to useful work, especially "the production of farm implements and machines, and the building and repair of locomotives." A second role for the state sector was to enable workers to "take account of and control the production and distribution of products." In fact, "widespread, general, universal accounting and control is the essence of socialist transformation."

However, appealing to workers' collective self-interest was insufficient, as the peasant and other 'pre-capitalist' majority were poorer than the workers. Some workers' collectives showed "syndicalist tendencies" and "regional favouritism," so workers' control was partially limited by individual responsibility of managers. "Collegiate management" by workers is "essential", but when "warehouses filled with goods are under lock and key while the peasants are demanding, and justly demanding, commodity exchange, and are refusing to surrender grain in exchange for devaluated paper notes, we must know what member of what particular collegiate board is guilty of red tape."

This situation required harnessing social solidarity, or "moral incentives," among state sector workers. Lenin hailed "workers at state factories, who collect fuel, raw materials and food, or try to arrange a proper distribution of manufactured goods among the

19 Lenin, V.I., Speech To The Second All-Russia Congress Of Economic Councils, December 25, 1918 (B), Collected Works, Vol. 28, pp. 375-381.
peasants and to deliver them with their own transport facilities. That is socialism."20

Indeed, socialism can employ moral "competition" on a massive scale: "All communes - factories, villages, consumers' societies, and committees of supplies - must compete with each other" to see who can ensure "everyone to have bread; everyone to have sound footwear and good clothing; everyone to have warm dwellings. Where has most been done to raise the productivity of labour, to build good new houses for the poor, to regularly provide a bottle of milk for every child of every poor family?"21

In all three aspects of the socialist role for state enterprise – state priorities, workers' control and its limitations, and moral incentives – the key question was social solidarity between workers and peasants.

The New Economic Policy (NEP) of 1921-28 was introduced when the wars ended. It appeared a 'retreat' due to the intervening, unintended phase of 'War Communism', but was in fact a continuation of the early post-revolution 'state capitalism' strategy. Seizure of peasant surpluses was replaced by a tax in kind, peasants able to sell everything else on the market; small traders were allowed to fill the gaps not covered by the state; small and medium private manufacturing was allowed. Lenin believed "a whole historical epoch" was necessary to organise the basis for socialism.22 The NEP formed the theoretical basis for 'Doi Moi'.23

The state did not relinquish ownership of the 'commanding heights' of the economy. But the NEP signalled that material incentives would play a larger role, given the country's exhaustion, so state enterprises "will to a large extent be put on a commercial basis."24

21 Lenin, 1917 (B), op cit.
There could be no social advances with a ruined economy, so getting the economy moving by any means was the top social priority.

However, this would result in an “inevitable rise of narrow departmental interests and excessive departmental zeal” in SOEs. There would be “a certain conflict of interests ... between the masses of workers and the directors and managers of the state enterprises, or the government departments in charge of them.” Trade unions must “protect the interests of the working people, to facilitate as far as possible the improvement of their standard of living, and constantly correct the blunders and excesses of business organisations.” They were also “a school for training the whole mass of workers, and eventually all working people, in the art of managing socialist industry.”

Outside the state sector, petty capitalism “is essential for the broad masses of the peasantry. We must organise things in such a way as to make possible the customary operation of capitalist economy and capitalist exchange, because it is essential for the people.” However, the danger was that “small production engenders capitalism and the bourgeoisie continuously.” The task was to direct it into “state capitalism,” and to “hedge it about with restrictions to ensure its transformation into socialism.”

This involved promoting a collective rather than individual consciousness among petty producers, through “a network of producers’ and consumers’ communes, which conscientiously keep account of their production and consumption.” It was necessary to find forms that were “the simplest, easiest and most acceptable to the peasant” so that “every small peasant could take part.” Voluntary cooperatives combined “private commercial interest, with state supervision and control of this interest, that degree of its subordination to the common interests.”

The need for industry, trade and technology – prerequisites for socialism – meant, in the absence of socialist revolutions in the west, economic treaties with capitalist countries.

25 Ibid.
27 Lenin, V.I., ‘Left-Wing Communism, An Infantile Disorder’, 1920 (B), Collected Works, Vol. 31, Chapter II.
30 Lenin 1923, op cit.
The growth of productive forces will further connect the economy to the world, putting the revolution to a test, "by the international market to which we are subordinated."  

The discussion in the 1920s centred on how to preserve this alliance between workers and peasants, and the role of state industry in this. Keeping the prices of industrial goods produced by SOEs low was essential for peasants being willing to sell grain to the state for workers, and for exports to raise capital. However, this meant sacrifice from workers, because lower prices meant lower wages. Development of industry and new technology would produce more goods and so ultimately reduce real prices. However, for the state to raise the necessary investment for this meant either a degree of sacrifice by workers, or paying peasants lower than market prices for grain. Balancing between the needs of workers, peasants and the state underlay the rich debates.

Trotsky, Bukharin, Preobrazhensky and Stalin all held that the expansion of the state sector at the expense of the private sector would create socialism and "squeeze out" the market, despite differences of degree. The regulatory role of the state sector and its role in producing machinery and consumer goods were emphasised, but we see little of Lenin’s caveats on its socialist nature. The urgent needs of rebuilding and developing the productive forces dominated.

Bukharin was more ‘pro-peasant’, and gave most emphasis to the market. He believed the ‘socialist’ sector would squeeze out the market, but this would take a long time and could not be rushed administratively. He advocated voluntary cooperatives, believing they should show their superiority in the market over the kulaks (rich peasants), but opposed administrative measures against the latter. He put little stress on industry, believing socialism could develop at "a snail’s pace" on a "wretched industrial level." This meant less “squeezing” of the peasants was necessary to raise investment funds, but it contradicted his desire for cheap industrial goods for the peasants.

31 Lenin, V.I., ‘Eleventh Congress of the RCP (B)’, 1922 (D), Collected Works, Vol. 33, pp. 276-77.  
34 Bukharin accused the Left Opposition of wanting to “pump over excessively” from the peasants, which would be “economically irrational and politically impermissible,” but said his position “in no way renounces this pumping over, but we calculate much more soberly,” Danilov, op cit.
At the other extreme, Preobrazhensky believed the rapid development of heavy industry was vital. He advocated state industry “exploit” the peasants via “unequal exchange,” to advance “socialist primitive accumulation.”\textsuperscript{35} In stressing economic growth to a degree that attacked the peasants’ living standards (until industry turned them into workers), he was solidifying an overemphasis on economic structure at the expense of consciousness already evident due to the NEP, even if from an anti-NEP angle. If Bukharin overemphasised material incentives, Preobrazhensky did not counter this with moral incentives, but with an opposite form of economic pragmatism that could only be carried out administratively. Trotsky also believed the development of industry was crucial. However, he emphasised light industry in order to get cheap goods to the peasants, a sharp contrast to ‘unequal exchange’.\textsuperscript{36} While sacrifice from workers and peasants was inevitable, controlled concessions to foreign capital and machinery imports could soften it.\textsuperscript{37} However, this would lead to an alliance between the peasants and international capital if state industry did not play its crucial role in producing cheap goods.

These debates were wrestling with the fine line between the necessity of elements of capitalism and socialist orientation, with the state sector as key. The similarity to the line being walked by the CPV is significant. The CPV also believes the growth of productive forces means the Vietnamese economy will become more, not less, connected to world market, putting the revolution to a test.\textsuperscript{38} While Doi Moi is two decades’ old, the brevity of the NEP makes it difficult to study how that socialist oriented mixed market economy could maintain a socialist orientation, especially as the top priority was to lift the country from the shambles left by war and economic collapse. However, Lenin’s caveats about the socialist nature of the state sector, and the NEP debates, provide useful background to the CPV’s debates.


\textsuperscript{38} Paraphrasing Lenin, 1922 (D), op cit.
‘Actually existing socialism’ and the cult of the state sector

The destruction of the NEP with Stalin’s forced collectivization led to the classic ‘model’ of ‘bureaucratic state socialism’ that dominated until 1989. The state sector and agricultural collectives were fully dominant. Their role was to produce and distribute according to the state’s economic plan; most inputs and outputs were dealt through the SOEs and collectives according to administrative orders at controlled prices. The surplus went to the state to expand the social wage in the form of education, health and welfare and to develop industry.

As this full socialisation occurred in underdeveloped economies before the working class was large or literate enough to control management, a huge administrative apparatus, with material privileges, developed to manage the economy, snuffing out the essence of Marxist conceptions of communism as a society run by “the associated producers.”

Central planning carried out by an elite distorted priorities. The over-development of heavy industry at the expense of consumer goods and agriculture was typical, due to the concerns of elite planners removed from the everyday people, a desire to build ‘socialism in one country’, and military needs in the face of western hostility.

This ended the worker-peasant alliance in favour of ‘unequal exchange’. The needs of economic development took absolute precedence. While great social gains were made, the balance of what was taken from the peasantry and what was returned was skewed, while consumer goods were scarce, amid space and nuclear projects.

Industrialisation and collectivisation was initially driven by a mixture of administrative force and ‘voluntaristic’ morale. However, as living standards crashed, morale ceased to be a driver. By the mid 1930s, Stalin made new concessions to peasant plots, from which over-plan surplus could be sold on the market, and material incentives appeared in industry in the form of wage differentials. In 1952, Stalin claimed that aspects of the market and the law of value still operated in the Soviet economy.39

This model of administrative planning with minor market mechanisms and material incentives became accepted as socialism by the pro-Soviet Communist movement.

Despite its material poverty, pre-Doi Moi Vietnam regarded itself to be “socialist,” on account of the state-owned structure. However, the Marxist vision of socialism as an industrially advanced society, where the state is ‘withering away’, stands in stark contrast to the sharing of poverty presided over by an undemocratic ruling elite.

However, if not socialist, what these states were is a debated topic. One view regarded them to be ‘state-capitalist’.\(^{40}\) Sweezy argued they were neither capitalist nor socialist, but a “new type” of ruling class was in power.\(^{41}\) The ‘deformed workers’ state’ thesis of Trotsky and Mandel – proposing a semi-socialist economic base saddled by a ‘petty-bourgeois’ bureaucracy, with workers having significant social power though excluded from political power – helps better explain the contradictory aspects of these states.\(^{42}\) Doi Moi can thus be seen as a move from one form of “transitional” economy to another.

In the 1930s, the USSR opened trade relations with the West. However, the greater control over its national economy allowed for a partial escape from the world capitalist economy, for the USSR and for socialist and non-socialist states allied to it, for the entire period until 1989. The USSR’s rapid development of productive forces inspired non-socialist countries to adjust their internal “structures” (developing state sectors and state regulation of national capitalism), and improve their position in the world market via changes within the international economic “structures” through trade protection, import-substituting industrialisation (ISI) and regional integration.\(^{43}\)

In the 1930s and 1940s, several Latin American states (Brazil, Mexico and Argentina), adopted these methods, loosely associated with the ‘structuralist” school.\(^{44}\) States like Nasser’s Egypt pursued similar paths in the 1950s and 1960s, taking advantage of the

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\(^{44}\) The ideas of Mihail Manoilescu, first expounded in 1929, were influential on this school, Love, J, *Crafting the Third World: Theorizing Underdevelopment in Romania and Brazil*, Stanford University Press, 1996. Other theorists of ‘structuralism’ included Raul Prebisch and Celso Furtado in the 1950s.
Cold War to improve their bargaining position with the West via developing links with the Soviet bloc. As the local bourgeoisie was often too weak to carry out this program, the state sector was in many cases so dominant they used the title “socialist,” though the states had arisen via coups led by the modernising middle classes. The state sector played a developmental role, but also consciously incubated a local bourgeoisie via the state. 45

Many of these regimes were overthrown by their military in alliance with imperialist interests, supported by the local bourgeoisie once it had developed some strength. 46 In other cases, as the emerging capitalist elite became more comfortable, it threw off the restraints of its state benefactor, as in Egypt under Sadat. Privatisations were carried out where the elite grabbed the assets. The ease with which this occurred indicates the mere existence of a dominant state sector was not enough to define socialist development. Others maintained strong state sectors next to the brutally deregulated private economy, largely as organs of the mafia funneling state assets into private empires. 47

During perestroika, Aleksei Khiva of the USSR Academy of Sciences condemned Soviet support for this road. As in some countries “there was hardly any working class” he asks why “petty bourgeois and radical bourgeois sections of the population” would “strive for socialism?” He explains “it is wrong to consider the public sector in developing countries historically and invariably more progressive” because it is often “poorly managed with incompetent, corrupt technocrats in charge, and it has little in common with social property.” Many state enterprises are “in the hands of private business; they provide

46 For example, Peron in Argentina in 1955, Goulart in Brazil in 1964, Sukarno in Indonesia in 1965. According to Gunder Frank, the Brazilian junta of 1964, supported by the national bourgeoisie, “handed over the Brazilian economy to the Americans, lock, stock and barrel,” Randall and Theobald, p. 136.
47 The Brazilian junta of 1964-84 was spoken of “as a country of bras, referring to the 560 state companies which had become such a powerful economic force,” Randall and Theobald, p. 98. For the concurrent domination by foreign capital, environmental criminality and horrendous exploitation and repression of workers in Brazil, despite maintaining the state sector of the previous progressive regime, see Lernoux, P, Cry of the People: The Struggle for Human Rights in Latin America and the Catholic Church in Conflict with US Policy, Penguin Books, 1980, p. 248. Even the former Saigon regime had significant sized state sectors, Kolko, G, Anatomy of War, Unwin Paperbacks, 1987, pp. 90, 219-20.
technocrats with cushy jobs and are hatcheries of a bureaucratic bourgeoisie, models of mismanagement and objects of plunder."\textsuperscript{48}

While Vietnam has, unlike these models, carried out a social revolution, this discussion indicates that merely showing that Vietnam has a dominant state sector is not sufficient to prove a socialist orientation.

**The Left Answer: Dependency theory, ‘self-reliance’ and moral incentives**

The deficiencies and lack of dynamism of the Soviet model, combined with the crisis of state-dominated bourgeois regimes in the third world, led to a search for alternatives to “shake up” the top-down, administrative model. The alternatives looked in two opposite directions: one towards less market, withdrawal from the world economy and moral incentives, the other towards more market, global integration and material incentives.

The first tendency was inspired by Communist-led movements in China, Cuba and Vietnam, which held out the possibility that socialism could be built in poor peasant societies via popular “mobilisation,” as the works of Fidel Castro, Che Guevara, Ho Chi Minh and Mao Tse Tung suggested.

Guevara asks, with capitalist competition abolished, “what can serve as the driving force of economic development?” The material incentives the USSR relied on cannot bring results because “the law of value does not have free play.” For example, the state “must guarantee that the population receives a range of products at set prices,” which thus “lose their link with capitalist value.” These capitalist features thus lack capitalism’s dynamism.\textsuperscript{49}

This creates pressure to give enterprises “more and more independence in the struggle for a free market,” and the state “begins to be transformed into a guardian of capitalist relationships.”\textsuperscript{50} Visiting Yugoslavia in 1961, while pleased with the “freedom of discussion,” Guevara also thought it “seemed dangerous, because competition among


\textsuperscript{50} Ibid.
enterprises dedicated to producing the same article may introduce factors that distort what the socialist spirit should presumably be.\textsuperscript{51}

This concept of "socialist spirit" was key to the Cuban critique of both bureaucratic state socialism and the market alternative. The incentives must relate to the society being built; it was a "pipe-dream" that socialism can be achieved "with the help of the dull instruments left to us by capitalism (the commodity as the economic cell, profitability, individual material interest as a lever, etc)." While the NEP had been necessary "at a moment when the survival of workers' power depended on the efficiency of economic management," it left a legacy, "that identified economic rationality with social rationality.\textsuperscript{52} If economic pragmatism is persisted with, "the economic foundation that has been laid has done its work of undermining the development of consciousness.\textsuperscript{53}

To shake up administrative state socialism required an "instrument for mobilising the masses" which "must be moral in character," without neglecting some material incentives "especially of a social character.\textsuperscript{54} While "market relationships" persist during transition, "to build communism it is necessary, simultaneous with the new material foundations, to build the new man.\textsuperscript{55}

Maoist China launched into a more voluntaristic application of moral incentives and "mobilisation" in the Great Leap Forward and the Cultural Revolution. In claiming to be constructing communism in a poor rural country via "self-reliance," the Maoists downplayed the primacy of productive forces. The limited market concessions in Soviet bloc countries were criticised. Mao opposed Stalin's view that the law of value in any way still operated.\textsuperscript{56}

"Self-reliance" influenced neo-Marxist thought. The theory that 'unequal exchange' between the 'core' and 'periphery' nations retards the development of the latter was initially an elaboration of the mechanics behind imperialism, which Lenin and other

\textsuperscript{52} Ibid, p. 96-98, 105.
\textsuperscript{53} Guevara, E. C, Socialism and Man, Pathfinder, New York, 1968.
\textsuperscript{54} Ibid, p. 7-8.
\textsuperscript{55} Tablada, op cit, p. 136.
Marxists had analysed. However, dependency theorists like Andre Gunder Frank believed unequal exchange was now the most important means of capital accumulation, shifting the axis of struggle to that between rich and poor nations rather than classes. All countries were part of the world system, with national governments and ruling classes part of a great pyramid of ‘dependency’.  

While it was necessary to struggle against these “dependent” local bourgeoisies and go all the way to socialism, this was not enough; even regimes arising from popular revolutions would remain part of “world capitalism” as long as they remained ‘linked’ to it. While this suggested a rigid economic determinism, dependency theorists countered this with a similarly extreme voluntarism: revolutionary states must “de-link” from world capitalism, reversing Marxist views that no real development could occur in poor countries alone.

This stems from a subtle difference between Lenin’s view that imperialism led to backward development (ie, relative underdevelopment) of the periphery, and the dependency view that it led to backwards development, or “the development of underdevelopment.” In the former case, engagement with the world market by a revolutionary government on its own terms may lead to development. While both agree that socialism is impossible in poor states linked to world capitalism, in the Leninist view a socialist orientation is. In the latter case, without a total break, even this is impossible.

Since the countries “de-linking” were poor peasant countries, and since concessions to the market would re-link their economies to the world system, the self-reliant road to socialism necessitated moral incentives and “mobilisation.” While the Soviet bloc

60 Another subtle difference is that while Lenin believed imperialism led to distorted and backward capitalist development in the periphery, this underdevelopment was due to this lack of enough capitalism; by contrast, Dependency theorists believed since the world system was capitalist, capitalism itself led to underdevelopment (Spiro and Hart). This difference is partly semantic (since the latter defined capitalism as equivalent to the world system, rather than a particular social formation), but not entirely, as the Leninist paradigm allowed for the kind of combined capitalist and socialist development of an NEP or a Doi Moi.
maintained trading relations with the capitalist world-system,\textsuperscript{61} Bettleheim argued that China "proves that a low level of development of the productive forces is no obstacle to a socialist transformation of social relations."\textsuperscript{62}

However, it is unclear how much "moral incentive" Chinese peasants felt as their living standards crashed.\textsuperscript{63} The Cultural Revolution, "rather than empowering working people by strengthening their collective organisation, wore them out with constant campaigns orchestrated from above, leaving them less motivated by social or moral appeals."\textsuperscript{64}

In reality, China had been forced into "self-reliance" when the western embargo was supplemented by the cut off of all Soviet technical assistance in 1958. After Nixon's visit to Beijing in 1971, the Cultural Revolution faded and "was followed by a reassertion of hierarchical party control both in production and at all levels of society."\textsuperscript{65} The turn by the Chinese leadership to a new market-oriented economic policy in the late 1970s betrayed the hopes of the New Left about this massive experiment in 'de-linking'.

Cuba applied a mixture of moral and material incentives. A small private sector using market mechanisms was maintained through the 1960s. Cuba inherited an economy with a larger working class and smaller peasantry, and a greater socialisation of labour achieved by monopoly capital, compared with the predominance of pre-capitalist elements in Vietnam, and did not experience devastating war. This enabled it to build its health, education and welfare systems to world-class levels, thereby having material examples of what can be achieved via moral incentives.

The US embargo forced Cuba out of part of the world market, but Cuba's social accomplishments cannot be divorced from its participation in the Soviet-led trade bloc on a non-market basis, without the years of war experienced by Vietnam. The failure of some "voluntarist errors" led to a pragmatic policy in the 1970s based on Soviet-style administrative planning with minor market mechanisms, but supplemented by a grass-

\textsuperscript{61} Frank, op cit.
\textsuperscript{62} Bettleheim, op cit, p. 62.
\textsuperscript{63} Despite the peasant origins of the Chinese revolution, China followed the classic Stalinist unequal exchange strategy -- "whereas the gross value of industrial output increased tenfold from 1952 to 1975, agricultural output grew only twofold," Hart-Landsberg, M and Burkett, P, 'China and Socialism', \textit{Monthly Review}, July-August 2004, Ch. 2, p 3.
\textsuperscript{64} Ibid, Ch. 2, p. 4.
\textsuperscript{65} Ibid, Ch. 2, p. 4.
roots ‘Peoples’ Power’ system and continued prioritization of moral incentives. In the year that Vietnam launched Doi Moi, Cuba launched ‘Rectification’, an opposite strategy of attack on Soviet-style administrative socialism, featuring a ‘return to Che’, moral incentives and the volunteer spirit.

While mobilisation and moral incentives were important in Vietnam’s war effort, and in “Ho Chi Minh thought,” the CPV also put a high stress on science and technology and rejected purist Maoist “barefoot science” and “self-reliance.” A high prioritisation of moral incentives was less possible in Vietnam. The massive destruction inherited from that war created a greater need for material incentives and global economic links. At the end of the war, it issued foreign investment legislation and began receiving a little. This was cut off when Vietnam’s intervention in Cambodia in 1978 led to international embargo. This involuntary ‘de-linking’, lasting till 1989, was disastrous for Vietnam.

Yet the overwhelming emphasis on material incentives, the market, efficiency and economic growth in today’s Vietnam leads to the question of whether this other aspect, of creating a society based on social solidarity, has been critically undermined.

The end of illusions in Maoism, and the catastrophic ‘de-linking’ carried out by the Khmer Rouge in the 1970s, led Frank to believe socialist change was no more possible via de-linking from the world-system than by being part of it. ‘World-systems’ theory reflected this school’s ultra-deterministic rather than its ultra-voluntaristic tendency. According to Wallerstein, “there are no socialist systems in the world economy any more than there are feudal systems because there is only one world system ... and it is by definition capitalist.” The Russian Revolution “clearly was not” a socialist revolution, but the most successful effort “to pushback pan-European dominance.”

There is little place in this theory for any socialist orientation in Vietnam. Moreover, the view that the state could only be a cog within world capitalism makes it difficult to fit in

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68 Frank, op cit.
any state-led development. Claiming the nature of the struggle should reflect the future goal, Wallerstein sees the anti-globalisation movement, with its anti-hierarchical methods and decentralised actions, as an example for building a future socialist world-system.71

The market alternative and market socialism

The opposite critique of the state socialist systems came from those who advocated more market and material incentives to act as the corrective to shake up bureaucratic planning.

Yugoslavia’s ‘market socialism’ acted as the opposite pole to the Maoist and Castroist alternatives. Titoism had begun differently in the 1950s, emphasising workers’ ‘self-management’ as the counterweight to bureaucracy. However, to give workers something to ‘self-manage’ meant allowing some of the surplus to stay with the workplace; this autonomous decision making required introducing ‘market mechanisms’ into the plan. However, the market did not dominate either central or local plans.

Other experiments with market mechanisms within the plan (without self-management) took place in the 1960s and 1970s in the USSR and Eastern Europe.72 The New Economic Mechanism in Hungary devolved a degree of decision-making power to state firms, which used market mechanisms and pricing over part of their production.

Where Guevara considered market reforms a return to capitalism,73 others thought they were too mild. According to Kornai, bureaucratic coordination and market mechanisms do not correct each other, but “tend to reinforce each other.”74 One reason was “soft budget constraints”: state enterprises were more autonomous in decision making, but not constrained by real market discipline, with no threat of bankruptcy and many prices still plan-determined.75 The contradictions between central planning, decentralised bureaucracy and the market created “a network of bureaucracies, each becoming more

72 These are termed “rationalizing reforms” by Naughton, B, Growing Out of the Plan, Cambridge University Press, 1995.
73 Tablada, op cit, p. 112.
75 Ibid, p. 140-142.
independent but preserving its privileges.” The material incentives favoured technocrats rather than workers, who had a negative view of associated price rises.

In 1965 Yugoslavia introduced full market socialism, the ‘self-managed’ enterprises competing with each other on an open market, challenging the idea of a national social plan. The central planning authority was abolished. Rapid inflation, the highest unemployment in Europe and wide social differentiation resulted, the market challenging any meaning for socialism, despite social ownership of enterprises.

In the late 1970s, Yugoslavia tried to re-take ‘social’ control, combining the market, workers’ control and community social planning. Enterprises came under the control not only of workers but of management boards from social sectors of the local community. The surplus of the enterprises was divided between wages and investment and the social needs of the community. This model of community management of state business may have provided lessons to countries like Vietnam, if it were not so short-lived. However, there was little sense of federation-wide planning. Local decision-making extended to irresponsibly borrowing abroad, leaving the central state with a huge debt. When the IMF and World Bank began using the central state in the 1980s to squeeze out the debt and drive through an austerity and economic liberalisation program, the system broke down.

However, market-socialist Yugoslavia had experienced very high growth for decades, and other global factors encouraged the market approach. As the East bloc economies began to stagnate in the 1970s, concurrent with the failure of various semi-autarkic experiments, the east Asian Newly Industrialising Countries (NICs) offered examples of rapid growth under capitalism. This led to a revival of neo-classical modernisation theory under the rubric of neo-liberal globalisation. All ‘walls’ to global ‘integration’ and ‘free trade’ had to come down along with all internal walls to the ‘free market’.

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77 Samary, C, Plan, Market and Democracy: The experience of the so-called socialist countries, International Institute for Research and Education, Amsterdam, 1988, p. 25. The most successful aspect of the Hungarian reform was not related to enterprises but to the greater autonomy and plan-market mix allowed to teams of collective farmers, making Hungarian shops relatively full of a variety of food compared to many parts of the East, ibid, p. 26.
In reality, the NICs had little relation to neo-liberalism. They were highly state-regulatory and protectionist with significant state sectors, where the state used its capital to build a national private sector. Their success involved the advantaged position deliberately provided them by the US, which needed examples of capitalist success during the Cold War. While pouring massive aid into these countries, the US allowed them to erect high trade barriers to protect local industry while opening the US market to their products.

Nevertheless, they were unquestionably capitalist, and far from ‘de-linking’, they achieved success via a high degree of global integration. Combined with the serious problems of state socialism, this led to the giant experiment in market socialism in China and later perestroika in the USSR.

Vietnam’s poverty following war and embargo initially led to some Doi Moi theoreticians praising the NICs as the new development model in place of the East bloc. Their far greater role for the market and global integration, yet combined with their state-regulation, meant they could be conceptualised as a model for the ‘market economy with state management’, despite the distinct origins of Vietnamese and Chinese market socialism in social revolution.

In its first decade of market reform (1978-92), the Chinese state maintained planned allocations and prices for part of the economy, while the private sector and part of SOE production operated on the market. CCP leaders asserted they aimed for the market to ‘grow out of the plan’. While more controlled than the ‘big bang’ transitions in Soviet bloc, this was more radical than the earlier reforms in these states: private and foreign sectors grew more openly and rapidly, and export orientation was far more radical. But official policy remained to build socialism, with the state sector and the ‘collectives’ strengthened by the market to enable them to better play their leading role.

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In 1992 the CCP announced it was building a “socialist market economy.” Allocative
planning and pricing were scrapped; SOEs were to become commercially oriented; a
stock exchange became active. At the CCP Congress of 1997, Party leader Jiang Zemin
announced that the majority of SOEs, even strategic enterprises, would be transformed
into joint-stock firms. By 2002, the state’s role in industrial output had shrunk to 20
percent. After 1997, 40 million state sector workers were laid off. In 2002, Zemin
announced the CCP represented “the advanced productive forces” rather than the
working class, and capitalists were invited to join. Many analysts have concluded that
China has ‘crossed the rubicon’ into fully capitalist development.81

Vietnam’s path to around 2004 was similar to China’s before 1992. However, some
aspects of Vietnam’s evolution proceeded in an opposite direction. Naughton claims both
China’s strategy and East European ‘big bang’ transitions involved “a sharp decline in
the government’s direct control over resources, as measured by budgetary revenues as a
share of GNP,” which was not “shared by (the earlier) rationalising reforms.”82 Doi Moi
also did not share this feature – budget revenues within GDP, the state share of GDP and
investment, and the role of SOEs in state finance all increased through 1992-2004. Till
2004, the equitisation program was well behind schedule, the stock exchange barely
moved, there had been no mass privatisation.83

In some respects, the NEP and Doi Moi are similar. Like under Doi Moi, the NEP state
sector increased its share in the economy; in China the state share has shrunk.84 The

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Register*, 1997; Cheng, E, ‘China: Is Capitalist Restoration Inevitable?’ *Links*, January-April 1999; Foley,
B, ‘From Situational Dialectics to Pseudo-Dialectics: Mao, Jiang and Capitalist Transition’, *Cultural

82 Naughton, op cit, pp. 18-19.

83 All this will be explored in Chapter 4.

84 Under the NEP, state and cooperative sectors in industry increased their share of total production from
76 to 79 percent in 1923-26, Trotsky, L, ‘Toward Capitalism or Socialism’, *The Challenge of the Left
rights of workers to organise and strike was recognised in the NEP,\textsuperscript{85} like in Vietnam, whereas in China, workers strikes are often severely repressed.\textsuperscript{86}

However, most market socialism has ended up in capitalism or something close to it. The problem of mixing socialism with the market has been widely discussed. In a debate in \textit{New Left Review}, Mandel argued that the market will be absent under socialism, and while present during the transition, it will need to gradually wither away. A system of "articulated self-management", where workers' and consumers' "self-management" replaces bureaucrats, and the "articulation" between these bodies replaces the localism of the Yugoslav system, was his model.\textsuperscript{87} Nove believed the market will always exist, but agreed that planning to avert its negatives is essential for transition to socialism.\textsuperscript{88}

While Nove may appear more realistic, some of Mandel's points seem cogent. The profit incentive in increasing technological application to industry leads to unemployment unless a growing public sector, not tied to the same incentives, can employ them. While it is utopian to believe you can foster "worldwide cooperative behaviour" without "basic material security and need satisfaction", it is equally utopian to believe you can foster "cooperation, solidarity and respect of universal ethical rules" if need satisfaction is provided mainly via "greed, private acquisitive drives, universal competition and strife."

Mandel claims when decentralised state firms operate on the market, even if run by workers, they are only "a variant of private ownership," because this is "no longer a planned or socialised economy." If enterprises "are free to determine their investment choices and priorities ... their incentive to do this is their right to keep their net revenue," implying a "model of development determined by profit. Socio-economic priorities are therefore determined by the inequality of incomes and resources ... Luxury apartments

will be built before low-cost housing. Colour televisions have priority over school textbooks. Clinics for the rich come before institutions of preventative medicine."\textsuperscript{89}

In this vein, Cheng claims that even before being decimated, Chinese SOEs had "operated as stand-alone production units," whereas what determines the socialist nature of SOEs is "their fundamental purpose of production and the extent to which they form an integral part of a growing planned sector geared towards meeting social needs."\textsuperscript{90}

Moreover, even such a non-socialist state sector cannot survive, because, as Hart-Landsberg and Burkett explain, "market socialism is an unstable formation whose internal logic tends to marginalise socialism in favour of the market and the full restoration of capitalism.\textsuperscript{91} As Kornai explains, a robust market mechanism can only work if SOE managers reap the material rewards of their entrepreneurial success, with the logic that they eventually be transformed into owners.\textsuperscript{92} When approaching retirement, the first round of Chinese SOE managers participating in the market economy "felt the need to restore private property so that their privileges could be passed on to (their) children."\textsuperscript{93}

The decimation of the Chinese state sector has led to "a qualitative move away from socialism," because while "having a strong state sector does not equate with socialism," its existence is a prerequisite, if utilised properly, "to implement social policies in a socialist direction.\textsuperscript{94}

Beresford makes the same point about the necessity of a state sector in Vietnam, where it has not been decimated.\textsuperscript{95} Thus Beresford and Fforde classify Vietnam as 'market socialist', distinguishing between the \textit{definitive} principles of socialism (public ownership of the means of production, central planning and distribution according to labour) and \textit{operational} principles (including monopoly of foreign trade, state monopoly of the

\textsuperscript{90} Cheng, \textit{op cit.}
\textsuperscript{91} Hart-Landsberg and Burkett, \textit{op cit.}
\textsuperscript{92} Kornai, \textit{op cit.}
\textsuperscript{93} Hart-Landsberg and Burkett, \textit{op cit.}
\textsuperscript{94} Cheng, \textit{op cit.}
domestic distribution, collective agriculture, direct planning of production, state determination of most prices). Vietnam had “only given up the operational principles, and was working towards the same goals with new methods.”96

Nevertheless, Beresford wrestles with the issue of the anti-social priorities of market allocation elsewhere,97 and both authors question the long-term viability of ‘market socialism’. Beresford makes the point that once a market-dominated “culture” is implanted, the next step is to argue that the entrepreneurial managers said to be responsible for wealth creation “deserve to privatis[e] the benefits,”98 while Fforde points to the desire of managers of marketised SOEs to “transfer[ing] assets to their children.”99

‘21st century socialism’

The ongoing revolution in Venezuela under Hugo Chavez, who claims to be building ‘21st Century Socialism’ in contrast to the failed models of the previous century, suggests ‘market socialism’ may not have the last word. ‘Chavezism’ mixes a ‘return to Che’ and moral incentives on the one hand, with a slower, less voluntaristic move towards socialism – preserving market and capitalist relations outside the growing state sector – on the other. Both are combined with grass-roots democracy, direct involvement of the masses in decision making, while also preserving bourgeois parliamentary institutions. The slowness of the process is related to the need to develop political consciousness, as working people must be really able to run political and economic institutions.

Chavez transformed the state oil company (PDVSA) from a commercially-oriented company to one playing a direct role in financing large-scale social programs,100 via the

98 Beresford 1993, p. 232. She sees this as is a fundamental step – despite the previous “corporatisation” of SOEs, this “does not yet imply the privatisation of assets … attempts to use state positions to accumulate priva[te] capital have been clearly identified as corrupt, and where possible, severely punished,” Beresford 2001, p. 227.
“missions,” which are implementing vast projects for health care, education and housing, “by devolving authority downwards to rank-and-file committees and councils.”

Increasing nationalisation – with compensation – of other strategic sectors is combined with setting up new state companies to compete with large private players.

The management form in the growing state sector is called “co-management,” meaning joint management by organs of the workers, the community and the state, to ensure social priorities. Lebowitz explains the difference between this and Yugoslav “self-management”:

“Self-management” demonstrated that you don’t need capitalists - that enterprises can be run by workers through workers councils ... but the focus of workers within each firm was on their own self-interest, their collective self-interest. What was missing was a sense of solidarity with society as a whole, a sense of responsibility to and responsibility for society ... Co-management implies a particular kind of partnership -- a partnership between the workers of an enterprise and society. Thus, it stresses that enterprises do not belong to the workers alone – they are meant to be operated in the interest of the whole society ... it is also meant to change the purpose of productive activity.

With the overriding economic pragmatism in Vietnam, the extent to which SOEs play a role in promoting ‘social efficiency’ and social solidarity rather than mere economic efficiency is to be explored. In Chapter 5, we will see there are similarities between Vietnam’s system of worker congresses and Co-management, and the chapters following will show that SOEs play a social role. However, compared to Vietnam’s current “equitisation” drive, the Venezuelan revolution points to a different kind of SOE reform. While Vietnam and Venezuela have developed a close relationship, and their economies show a similar mix of state and private, the fact they are moving in opposite directions suggests any ‘Bolivarian” influence on Vietnam is likely to be momentary.

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101 Riddel, op cit.
Chapter 2
The CPV debate:
Dispensing with Conservatives and Reformers

The CPV does not see Vietnam as “socialist” but undergoing a protracted period of “transition” to socialism, during which many forms of ownership will exist to help develop the productive forces to the level required to build a socialist society. At the outset of Doi Moi, the Soviet NEP was invoked as the model, and CPV cadre throughout the country were put through classes discussing its relevance to Vietnam. In the meantime, the CPV claims to follow a socialist orientation, but what this consists of is a matter of much debate. What I will call the ‘Doi Moi consensus’ on the main aspects of this orientation was early established in the time of General-Secretary Nguyen Van Linh, and its central feature was that public forms of ownership must predominate even during the transition, though they will only be completely dominant under a highly developed economy. But this consensus was early challenged by a minority of party leaders and experts who tended to blur the distinction between the socialist-oriented market economy and a fully capitalist market economy. These two major ideological tendencies later also sprouted a number of sub-tendencies. This chapter will focus on the discussion itself, assess the changing weight of these tendencies and propose new labels for them to replace the terminology based on the discourse of “conservative” and ‘reformer.”

Formation of the Doi Moi consensus model

Nguyen Van Linh explained that in underdeveloped conditions the state and collective sectors will be unable to meet all needs “for a long time to come.” Therefore elements of the market and capitalism are needed during the ‘transition’ to boost the growth of

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1 Stern, L, Renovating the Vietnamese Communist Party: Nguyen Van Linh and the Program for Organisational Reform 1987-91, ISEAS, Singapore, 1993, p. 84
2 According to Professor Dao The Tuan, Director of Research, Department of Agrarian Systems, Vietnam Agricultural Science Institute, Interview, August 2003.
productive forces, the prerequisite for "the vigorous growth of the socialist economy" to be victorious over capitalism.\(^3\)

However, this goal precluded the state sector getting too small or the private sector too large during the transition; the former must play a "leading role" throughout. In the early years of *Doi Moi*, there were few differences over this general direction.

Nguyen Van Linh is generally considered a ‘reformer’, as he led the break with the old system upon becoming General-Secretary at the 6\(^{\text{th}}\) Congress. However, what is striking is the absence of any coherent opposition to the general course of *Doi Moi* similar to the conservative ‘Ligachev faction’ in the USSR.\(^4\) Most of the CPV leadership was thus ‘reformist’ at that point.

However, Linh’s views, with their stress on aspects associated with the socialist orientation, would in the 1990s be labelled “conservative,” and had little resemblance to what was later advocated by ‘reformers’. By remaining loyal to the initial reform program, Linh became ‘conservative’ as the parameters of economic ‘reform’ became more radical.

Linh advocated that state enterprises should “control vital industries and trades” and be strengthened to enable “public ownership of all key production means.”\(^5\) They must “together with the collective economy, hold their decisive position in the national economy.”\(^6\) While his leadership recognised the private sector, Linh insisted that the state needs to control it and nudge it towards meeting social goals to avert the deleterious effects of spontaneous private development.\(^7\) Regarding “the small commodity production economy and private capitalist economy (small capitalists) in some branches of production and servicing,” we should “use them for transformation, and transform them for better use.” This note about “small capitalists” underlined his view of the limits to their growth. He thought the “household economy” must be encouraged “into various

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\(^3\) Stern 1993, p. 61, quoting Linh. Linh quotes Marx’s view that “an economic form does not disappear when it still has its production force and when there is no higher and effective form to substitute for it.”

\(^4\) Referring to the opposition by a section of the Soviet party to Mihail Gorbachev’s *Glasnost* and *Perestroika* programs, from the ‘conservative’ point of view of maintaining the old order largely intact.

\(^5\) Stern, pp. 157, 162-3


\(^7\) Stern, p. 61
forms of collective sectors.” In the debate over land ownership, Linh argued that the land “belongs to the entire people” and cannot be privatised, as this would lead to a “serious division of classes.”

Linh criticised those who advocated “letting all production bases decide which items to produce” as guided by the market. This “would erase the principled demarcation line between capitalism and socialism.” The mechanism replacing bureaucratic planning must still “take planning as the core” while changing its methods, and ensure “a harmonious combination between the interests of society, of the collective and of the working people.”

These views form what I will call the ‘Doi Moi Consensus’ that dominated Vietnam’s politico-economic direction from the 6th Congress until some years after the 9th Congress. They form basic planks of the “socialist orientation” that distinguished Vietnam’s form of “market economy.”

Referring to Linh and his views as ‘conservative’ is problematic, both given his origins as the founder of ‘reform’, and his early opinions on political reform. This raises the question of the inadequacy of terms such as ‘reformer’ and ‘conservative’, which developed a specific meaning in former Communist-ruled states. Initially, those who wanted to bring market mechanisms into the centrally-planned economies were ‘reformers’, while ‘conservatives’ were those resisting. However, once further steps are taken, this becomes absurd: advocating total market domination becomes ‘radical reform’, though 19th century laissez-faire capitalism is seen as conservative in the West; likewise, those accepting a degree of ‘market reform’ get labeled ‘conservatives’ if they resist a completely open market and advocate some degree of public ownership and protection of the poor, views resembling traditional ‘reformism’ in the West.

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8 Nguyen Van Linh, pp. 19-20
9 Stern, pp. 136-9, 142
10 Nguyen Van Linh, pp. 36-37
11 Ibid, pp. 20-21
12 See below pp. 53-54.
13 A further twist is that even in the West in the 1980s, advocates of the ‘new’ economic rationalism appropriated the language of ‘reform’. In the past, laws protecting workers rights to organise were called ‘reform’; now this denotes abolition of such rights. Market radicals consign socialism to the realm of ‘old ideas’, noting that Marx wrote in the 19th century – forgetting that Adam Smith wrote in the 18th century.
I propose to call the political tendency that Linh represented and the advocates of maintaining the ‘Doi Moi Consensus’ model – the so-called “conservatives” – the ‘Socialist-Orientation Tendency’ (SOT). The so-called “reformers” who aimed to replace this with a more drastically pro-market course I propose to call the Market-Orientation Tendency (MOT).

At the heart of the difference lies the concept of “transition.” Ha Huy Thanh and Bui Tat Thang from the Institute of Economics explain there are “two, concurrent, interlinked processes. One, a transition of mechanism – from centrally-planned economy to market economy; and two, a transition of social productive forces – from poverty and backwardness to a prosperous and modern society.”\(^{14}\) Yet Le Huu Nghia sees the opposite transition: the “two revolutions” of our time are related to “the process of transition from capitalism to socialism, and the process of transition from industrial civilisation to informatics civilisation.”\(^{15}\)

**7th Congress: Difficulties of defining socialist orientation**

The 7th Congress claimed that the CPV continues to hold that “the socialist path is the only correct path,” and listed six points defining this path: the working people as masters; a highly developed economy based on public ownership of the principal means of production; an advanced culture with a distinctive national identity; humans liberated from oppression, exploitation and injustice, working according to their capacity and receiving according to their work; equality, unity and cooperation among the various

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\(^{14}\) Ha Huy Thanh and Bui Tat Thang, ‘Socio-economic developments in industrialisation-modernisation process and some problems arising for economic theoretical work,’ *Social Sciences*, 3, 1999, p. 18. Thanh was deputy director of the Institute and Thang head of department. This does not mean they reject socialism – they stress that the ‘socialist-oriented market economy’ is without precedent. In an interview in Hanoi in December 2005, Ha Huy Thanh (then Associate Professor and Acting Director, Institute of Environment and Sustainable Development, Vietnam Academy of Social Sciences), expressed a pro-socialist and pro-state sector view. He claimed that Sweden was emerging as a model due to its social policy, which he says was lacking in the South Korean and Chinese roads. However, their view on “transition” is the root of many of the views in this debate of a far more anti-socialist nature.

\(^{15}\) Le Huu Nghia, ‘On the character and main content of our time’, *Social Sciences*, 3, 1999, p. 3. Nghia was then vice-director of the National Political Academy. Similarly, Nguyen Phu Trong says “the present era is absolutely not one of ‘transition from socialism to capitalism’ … but of transition from capitalism to socialism on a world scale,” Nguyen Phu Trong, ‘Dinh huong xa hoi chu nghia va con duong di len chu nghia xa hoi o nuoc ta’ (‘Socialist orientation and the path to socialism in our country’), *Tap Chi Cong San*, 5, 1996.
nationalities in the country; and friendship and cooperation with peoples of all countries.\textsuperscript{16}

This list indicates the problems of defining socialist orientation.\textsuperscript{17} The last two points would be claimed by most governments, and are difficult to conceive of as specifically socialist, regardless of the realities in many countries. Likewise, most countries would claim to have an “advanced culture with a distinctive national identity.”

The first point, “the working people as masters” is a socialist idea, but how it is to be achieved is elusive. It elaborates under “seven directions,” which add more practical tasks to the six points. Here it is claimed that the CPV endeavours to “build up a socialist state, a state of the people, by the people and for the people,” hardly an original socialist formulation, and how the CPV aims to achieve this is not explained. While it adds that “the alliance of the working class, peasantry and intelligentsia” is the foundation, again it is unclear how these classes practice their “mastery.”

The most concrete point is that the “highly developed economy” they aim for must be based on “public ownership of the principal means of production.” Thus the unleashing of the capitalist economy to help develop the economy is to be overcome in the long term. As for people working “according to their capacity” and receiving back “according to their work,” this is simply a statement of Marx’s view of the “first stage” of communist society. As a large part of the workforce was then moving from public to private enterprises, a significant part of the social product was not being distributed according to “work” in Marxist terms but according to profit.

Thus Vietnam was far from the socialist goal. The present stage was a “socialist-oriented mixed commodity economy operating according to the market system with state control.” However, the 7\textsuperscript{th} Congress documents do not specifically list the “socialist oriented” aspects, other than the vague six points and seven directions.


\textsuperscript{17} In fact, the document actually calls them six points defining “socialist society,” not mere socialist orientation, which even further underlines how vague and general these points are.
Most economies are “mixed economies” operating “according to the market system,” and most market economies utilise some degree of “state control.” The extent of market and state vary widely among capitalist countries themselves. The report claims “a market system under state management” using “laws, planning, policies and other instruments” is to be “the operational mechanism,” yet this sounds similar to how non-socialist states manage their economies.

Thus from 1991, a leading role for public ownership was the key aspect distinguishing Vietnam’s model. In the past, the CPV mistakenly “stood for early abolition of the mixed economy and early establishment of the pre-eminence of public ownership,” but now “socialist relations of production” would be gradually established “commensurate with the development of productive forces,” as the state and collective sectors became “the foundations of the national economy.”

The report stresses that the state-owned economy would “be consolidated and developed in key sectors and subsectors, to retain important enterprises, and to undertake activities that other economic sectors are not able to invest in or operate.” It would also function “as an instrument of macro-economic management of the State,” arguably adding something socialist to the “laws, planning and policies” used by the state.

While farming households were to remain “autonomous economic units,” the collective economy would operate in “the processes and fields that the member households are unable to operate in or do so with less efficiency.” Land was to remain “under the ownership of the entire people” and “must not be privatised, otherwise major class polarization would occur.”

The “individual economy” would not be “limited in business expansion,” and these small owners “may remain independent” but will “gradually embark on the cooperative path on the principles of voluntariness, democracy and mutual benefit.” The “private capitalist economy” was to operate only in sectors considered “beneficial to the well-being of the nation.”

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18 CPV A, p. 817.
19 ibid, p. 787
20 Ibid, p. 818
Discussion on the question of ownership and socialist orientation

A great deal of discussion of the questions of the state sector and of ownership of the means of production took place during the early 1990s. Once the CPV had accepted an element of capitalist ownership, the questions arose of how much could be consistent with socialist orientation, and what the new role would be for a reduced state-owned sector.

According to leading CPV theoretician Le Huu Nghia, the CPV had mistakenly "regarded public ownership to be the aim in itself" rather than the means to achieve socialism, and had "identified the relations of production with property relations." This led to the mistaken view that simply extending state ownership into more areas could lead to socialism.

Now the CPV understood that the dominance of public ownership had been more superficial than real, imposed before the requisite development of productive forces. As such the state economy was often unable to carry out its assigned mission of transiting to socialism. But did this mean that having a large proportion of public ownership no longer mattered, or rather that public ownership should be reformed so as to better achieve its aims? Moreover, as many CPV theoreticians now claimed the aims of socialism were more important than the ownership form, but whether these aims were primarily social or primarily economic was also disputed.

Nghia believed that public ownership had to play the leading role but undergo reform to enable it to attain the aims of socialism, though this did not require public ownership everywhere. By concentrating on transforming property relations in production, the CPV had neglected management and distribution. Therefore, "we couldn’t consolidate

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22 Le Huu Nghia, op cit, p. 15
socialist property,” because production relations are merely “one aspect of many new relations.” While they were the “basis” of all others, they must “express themselves through the medium of relations of management and distribution” or become “deformed”. Proper management and distribution relations will enable socialist property to be transformed “from merely something recognised by law to something having real content,” thus allowing public ownership to play its assigned socialist role.23

Vu Tuan Anh from the Vietnam Academy of Social Sciences noted that rapid privatisation in former East European countries “has not brought about remarkable results.” Privatisation is “not the only solution,” and many weaknesses such as technological backwardness, labour redundancy and unsuitable management mechanisms “can be overcome … without touching upon ownership.” This can include scope for the private sector elsewhere in the economy, decentralization of economic decision making, and abolishing restrictions on trade and capital flows within the country.24

He believed the state sector should continue to dominate a number of areas “to achieve social targets,” namely “branches which mobilise a large amount of capital” and are significant for economic growth, such as “basic material exploitation and processing and high-tech,” large-scale infrastructure, public utilities, institutions the state uses to “regulate economic performance or abolish private sector monopoly” such as banks and large-scale trade, and enterprises that generate great budget revenue.

Tuan Anh’s list here is larger than in the 7th Congress report, which merely said the state economy had to “concentrate energies on consolidating and developing key enterprises, efficient enterprises, and those of great significance to the national economy,” and areas that “other sectors are not able or interested in investing in.”25

Meanwhile however, a number of CPV theoreticians opposed aspects of the Doi Moi consensus. Thanh Son wrote in the party journal that “whatever system of property guarantees the realisation of the goals (of socialism) is the one we will apply.” He

explains that “national income” is more important than “the means of production.” A socialist government “only needs to control some basic means of production ... and allow every individual and every economic component to use any means to make business and production.” Despite this free-wheeling business environment, taxation would allow the government to “guarantee social equality and limit the level of wealth allowed to individuals.” Thus ownership is irrelevant: if capitalism with a good tax system can create ‘prosperity’ and ‘equality’, the “socialist state” should promote it.

A similar view was expressed by Do Duc Dinh from the Institute of World Economy. He approvingly noted that the NICs had reduced the state sector once it had completed its assigned role of helping build the national private sector, and then handed its assets over to the latter. A strong state sector was only applicable while the economy remained backward, before there was sufficient private capital to build the larger sections of the economy; as the NICs had achieved this, they could dispense with the state sector. As public ownership was now recognised as a mere instrument, “we should use it only when necessary and advantageous;” thus Dinh agreed that “in present conditions” in Vietnam, when the private sector was still weak, “it is right to define the leading role of the state sector,” as long as it is not developed “into a widespread system throughout the whole country.” This view is the polar opposite of the Doi Moi consensus that economic development should lead to greater socialisation, and that the private sector must be unleashed now precisely because of the country’s underdevelopment.

Further, in the NICs, the state often has a ‘controlling share’ of an enterprise without a majority of capital; in South Korea, a 10 percent state share characterises a firm as “public,” and Dinh advocated Vietnam’s ‘state sector’ adopt that model. Vietnam “cannot stand aside from the common trend that most developing countries follow,” he concludes.

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26 Thanh Son, op cit, p. 23.
28 ibid, p. 59
29 ibid, p. 62. However, see below for the quite radical change of opinion by Do Duc Dinh on these issues by the early 2000’s
These views, standing outside the Doi Moi consensus and opposed to the clearest aspect of socialist orientation at the 7th Congress and thereafter, typify the Market Orientation Tendency. Most in the MOT school of thought have a social democratic orientation, rather than a neo-liberal one. Classical social-democracies often maintained state ownership over leading banks, public utilities, and public services, while most of the economy was private, and used tax to promote social security. I propose to call those advocating reducing the state sector to these basics a Social-Democratic sub-tendency within the MOT.

Dinh’s approval of privatisation in traditionally state-interventionist models could arguably be called neo-liberalism; yet he points out that western social-democracies were also abandoning their state sectors, making such distinctions difficult. Later, a more distinctly neo-liberal sub-tendency manifested itself on the fringes of the MOT as will be discussed below.

Regarding objectives, there was also a subtle difference between those emphasising economic ‘efficiency’ and those who also advocated the social goals of public ownership. Dinh focused entirely on the need for the state sector to be economically efficient. CPV theoretician Huynh Tu wrote in the party journal that only “effectiveness and economic efficiency determine the leading role of the public sector.”

By contrast, Vu Tuan Anh included “socio-economic function” as a key criterion, believing the state uses its enterprises “to intervene in the economy and to achieve social targets.” Even SOEs that “make little profit” or “suffer losses” are often “necessary to the economy and life.” Indeed, the state must sometimes “establish” new SOEs to meet the needs of society and “implement its socio-economic policy,” and “subsidise” those involved in “non-profit generating activities” to enable them to fulfill “essential socio-economic functions.” Similarly, Dao The Tuan, director of the National Institute of Agronomic Sciences, polemicised against the cult of economic growth and claimed that

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30 Huynh Tu, op cit.
31 Vu Tuan Anh, op cit, p. 24, 20. My emphasis, since “subsidy” has been considered virtually a swear word since the onset of Doi Moi.
while the goal of socialism is "social equity" rather than "public ownership," the latter is "one measure to ensure that equity."32

Other early debates

This leads into the more general debate about economic growth and social equity. The 7th Congress report states that "economic development places man in the central position, combining economic development with social justice and progress."33

Many believed that despite the rhetoric, the "human element" was being left behind by the cult of economic growth. The Fourth Plenum in 1993 noted that health, education and culture had deteriorated. Do Muoi stated that the first priority of development must be accorded to human beings and not to increases of GDP "as in the past."34

Whether Vietnam does this in practice will be looked at in the following chapter. However, the claim itself went against prevailing neo-liberal wisdom. Dao The Tuan criticised the view that there exists "a contradiction between economic growth and social equity" and that "in the first stage of economic development, inequity will increase." On the contrary, "in some countries, social equity is achieved right in the first stage of development, while in others, it remains a distant target" even at a high level of development.35

Tuan put the stress on agriculture in explaining this, because agricultural development must be coupled with issues of land ownership, rural job-generation, credits to farmers, appropriate prices for farm products and "investment in the human strategy."

This leads to the question of land ownership. When collectivisation ended in 1988, land was re-divided among the peasants, based on the land reform of the 1950s. The

32 Dao The Tuan, 'Economic growth and social equality', Social Sciences, No. 2, 1993, p 8. Dao The Tuan is not someone easily dismissed as a traditional 'conservative', but his strong stress on the social puts him at odds with the economic rationalism of the market orienters. He is thus an example of the problems of using terms such as "conservative" and 'reformer."

33 CPV A, p. 786.


35 Dao The Tuan, op cit.
household was declared the main unit of production. This is widely seen as a strength of Vietnam’s system, and part of what gave the country a huge economic boost at the time. Nevertheless, having millions of tiny peasant holdings was not the ultimate goal, as it would be difficult for them to fully escape poverty, or increase technological application. Market orienters advocated full land privatisation, to allow the development of large farms through poor peasants selling up. Following the 1988 reforms, some advocated allowing more “efficient” farmers to get the best land.\textsuperscript{36} This stoked peasant resistance,\textsuperscript{37} and rural delegates at the 7th Party Congress of 1991 opposed these moves. Many of these delegates also advocated the return of some kind of cooperative organisation,\textsuperscript{38} the alternative route to ‘economies of scale’ preferred by socialist orienters.

A third view was that of Nguyen Thai Nguyen, who claimed the small household was not necessarily less efficient.\textsuperscript{39} In Vietnam, the petty peasant economy “does not give birth to the capitalist mode of production”, he affirms. The household economy must develop to reach “the level of goods production”, after which cooperation will begin to develop due to need.

The 1993 Land Law laid to rest ideas of privatisation, proclaiming that land belongs to “the whole people” but is available to land users as long-term, renewable and inheritable leases. Responding to the peasant movement, the law enacted a highly egalitarian land distribution.\textsuperscript{40} This clarified the land question within the Doi Moi consensus, but it has been a target of advocates of a “land market” within the CPV ever since.


\textsuperscript{38} Ngo Vinh Long, op cit, pp. 191-3.

\textsuperscript{39} Nguyen Thai Nguyen, ‘Peasant household economy: Some issues concerning theory and practice’, \textit{Social Sciences}, No. 2, 1992, pp. 28-37. Nguyen cited examples around the world to back his case. He writes that to date “we have not found the way to socialise step by step the peasant household economy,” but not because peasants inevitably oppose cooperatisation. This “is the very socialism in the countryside of our country, not something else.” Nguyen was in the CPV Central Committee’s Commission for Agriculture.

\textsuperscript{40} "This policy encountered resistance at the local level … by 1993 most communities in northern Vietnam had divided almost all of their fields on an egalitarian basis among villagers, regardless of gender and age," Luong and Unger, op cit, pp. 124-5, 145.
A similar contradiction existed between workers’ alleged role as “masters,” and the advocacy of a “labour market” by some CPV theoreticians.\(^41\) This was reflected in large numbers of strikes and a broad discussion in the labour movement,\(^42\) leading to the promulgation of the Labour Code in 1994. The Labour Code allows the right to strike, collective bargaining and spontaneous formation of unions – at variance with the laws in China.\(^43\) While Greenfield claims the restrictions on strikes criminalise them,\(^44\) none of the hundreds of strikes “follow(ed) proper legal procedures” but none were suppressed and there were “no reports of retribution.”\(^45\) The Labour Code and this practice were thus further landmarks in establishing the socialist orientation.\(^46\)

**The disconnect between political and economic ‘reform’**

Another issue was the extent of political reform. Linh’s heyday years were characterised by a quasi-democratic opening, party anti-corruption campaigns, and activating unions, mass organisations and the media. Despite a common view that political and economic ‘reform’ go hand in hand,\(^47\) Linh viewed such quasi-democratic ‘mobilisation’ as a

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\(^{41}\) Greenfield quotes economists Vo Dai Luoc et al (*Vietnam’s Industrial Development Policy in the Course of Renovation*, Social Science Publishing House, 1994), that the logic of the market under Doi Moi extends to ‘factor’ markets, such as labour, land and capital markets, which as yet have not been fully developed, constituting “one of the principle obstacles to the shift of Vietnam to a market economy.” He also quotes economists Nguyen Tuong Lai and Nguyen Thanh Bang (‘A development policy for human resources within the socio-economic strategy of Vietnam up to the year 2000’, in Per Ronnas and Orjan Sjoberg (Eds), *Socio-Economic Development in Vietnam*, Swedish International Development Agency, Stockholm, 1991) claiming that “the labour force is also a commodity,” Greenfield, G, *From Class to Commodity: Workers and Capitalist Industrialisation in Vietnam*, PhD, UNSW, 2000.

\(^{42}\) Some of this discussion was in ‘Y kien voi Dai Hoi Cong Doan Toan Quoc lan thu 7’ (‘Opinions at the 7th National Trade Union Congress’), opinions from a range of unionists from around the country, in *Lao Dong & Cong Doan*, No’s 9 and 10, 1993, also Nguyen Hai Huu, ‘Van de dinh cong trong doanh nghiep’ (‘The problem of strikes in enterprises), *Lao Dong & Cong Doan*, No. 5, 1994.


\(^{46}\) Regarding workers in state enterprises, where their role as “masters” was supposedly expressed, and how this conflicts with “labour market” discourse, this will be dealt with in Chapter 5.

\(^{47}\) This historical amnesia avoids the ‘Pinochet model’, where a ruthless dictatorship was required precisely to drive through a neo-liberal economic program, by crushing the resistance of the masses whose interests suffer in the process. Pinochet’s regime was hardly an exception in the Third World, but rather the rule until some countries began democratic openings in the mid-1980s.
guarantee of socialist orientation, by checking “from below” those among the elite who would use the market to enrich themselves and develop capitalism.

He appealed to workers and trade unions “to be active and dynamic” in “protecting the working people’s interests and participating in the management, control and supervision of state management organs” and in “struggle against the negative forces of management.” SOE autonomy under Doi Moi gives “greater powers to the chief,” but this “cannot be separated from collective mastery,” which the CPV must “foster and give full play to.” The “collective mastery of the labour collectives” in SOEs must be ensured.

He similarly appealed to the media to “motivate the public to actively take part in this fight” against “corrupt or degenerate” party officials. He called on artistic and cultural workers to “expose bad examples and practices” and “arouse wide contempt for them,” because while “during its struggle for power, the party kept close contact with the masses,” once holding power “it may easily lose touch with the people, oppress them and steal from them.”

Following the Tiananmen Square massacre and the collapse of governments in Eastern Europe in 1989, the brakes were put on political reform. A consensus emerged that “too much” democracy could lead to the collapse of socialism, so economic reform must take precedence. Maintaining the CPV’s monopoly on power, rejection of a multi-party system, and a ‘red line’ against intellectual dissidents and the media when criticism challenges the CPV’s legitimacy, have been the guiding principles of both socialist- and market-oriented leaders.

There is no evidence whatsoever for the view of many analysts that political and economic ‘reformers’ implicitly fall into the same camp. This is important to understand from the outset, because the idea that the Socialist-Orienters are merely hardened ideologues or corrupt elements correlates with the view that they can only hold back economic “reform” by anti-democratic means, something this thesis argues against. To

48 Stern, p. 43
49 Nguyen Van Linh, p. 76
50 Ibid, p. 16.
51 Ibid., p. 21.
52 Ibid., pp. 57, 103-104
the extent some differences may exist concerning degrees of political reform or "grassroots democracy," they bear no relation to the differences over political economy, and they vary across both major tendencies. Indeed, Linh’s early promotion of grassroots democracy was conceptually tied to an “economic conservative” view.

Under the subsequent CPV general-secretaries Do Muoi, Le Kha Phieu and Nong Duc Manh, and prime ministers Vo Van Kiet, Phan Van Khai and Nguyen Tan Dung, many restrictions have been placed on the media and dissidents have been prosecuted. Since the former three appear more socialist-oriented and the latter three more market-oriented, the terms “conservative” and “reformer” are sometimes used to suggest the former are more anti-democratic and use the security apparatus to block imaginary politically liberal tendencies among the latter. In reality, there is no evidence that these market-oriented prime ministers were any more politically liberal than the general-secretaries or that the latter were any more responsible for the anti-democratic measures.

Indeed, one could just as easily draw the opposite conclusion from some public statements. On January 2 1999, prime minister and Market Orientier Khai stated “We're not going to undertake political reform in the same way that other countries have because it could easily lead to the collapse of the political and economic system in Vietnam.” The next day, general-secretary and Socialist Orientier Phieu stated that “along with bureaucracy and red tape comes the lack of democracy. When people speak out they are immediately persecuted.” Those who condemn the party for corruption should not suffer for it. Before the 10th Congress, Phieu called for “a new Doi Moi for democracy” to complement the economic Doi Moi; similarly, Market Orientier Le Dang Doanh called

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53 See for example Zachary Abuza, ‘The Vietnamese press under Do Muoi and Le Kha Phieu, Dien Dan Viet (Viet Forum), http://www.vietforum.org/Vietforum_EN/Vision Vis07.htm. While Abuza uses the names of the CPV leaders, he does not imply that the concurrent prime ministers held a different view.
56 Mitton, R, ‘Telegraphing Change’, Asia Week, Vol.25, No. 4, January 29, 1999. On the following day, CPV veteran General Tran Do was expelled, for going public to the world with his vocal criticisms. At face value, once could conclude that Phieu was softer than Khai on this issue. I am not concluding this, merely pointing to the strong lack of evidence for the opposite scenario.
57 Le Kha Phieu (A), ‘Tao buc dot pha moi trong xay dung dang’ (‘Take steps for a rapid renewed offensive in party building’), Tuoi Tre, April 17, 2006; Tran Dinh Thanh Lam, ‘Party ignores calls to reel in corruption’, Inter Press Service, April 27, 2006. Similar statements were made by military veterans Vo
for “transparency, a counterbalance of power, a real voice of the people” to fight corruption. Yet after the Congress, Market Orienter Khai demanded that “press agencies and people involved in writing and publishing untrue information” about PMU18 “and other corruption scandals” be “seriously sanctioned.”

Moreover, as it is widely agreed that pro-market reform sped ahead both after the 9th Congress of 2001 and the 10th Congress of 2006, this could suggest a contradiction between political and economic reform, as there have been no signs of political opening up since then. Indeed, to push through full-scale ‘economic reform’ may require a confrontation with popular opposition to its negative impacts on the masses.

**Discussion on socialist orientation leading to the 8th Congress**

In the first half of the 1990s, the impressive growth of the state sector and the huge inflow of foreign capital blunted the differences within the party. State sector advocates saw foreign investment going into joint ventures with SOEs, enabling them to benefit, while boosting tax revenues and enabling the state to recentralise revenues. Privatisers had few grounds to complain about SOE ‘inefficiency’ given their startling performance. Unbridled growth, ‘industrialisation and modernisation’, united mechanical Marxist and World Bank strategies.

In the lead-up to the 8th Congress in 1996 the issue of ‘socialist-orientation’ was grappled with. Party theoretician Nguyen Van Oanh stressed that socialist orientation is not merely “a symbiosis between capitalism and socialism,” but the development of “socialist elements” in the current underdeveloped society, until through various stages “the elements of socialism, like young shoots, gradually take shape, develop and come to perfection to attain the goal of socialism.” Socialism is not only the goal but is also

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Nguyen Giap, ‘Kiem diem vu PMU18 va bao cao dai hoi X’ (Reviewing the PMU18 case and the report to the 10th Congress’), *Tuoi Tre*, April 13, 2006, and Chu Huy Man, Interview, ‘Khong dam nhin thang su that hu hong’, (‘Dare not look straight at the truth is corrupt’), *Tuoi Tre*, April 15, 2006. Giap said scandals such as PMU18 reveal the “bureaucracy, non-democracy and corruption that have frozen the leading role of the Party and the management of the State and the supervision of the people.


Khai was quoted by the Capital Security newspaper as saying with regard to “corruption at PMU18 and other corruption cases” that “many newspapers violated the law when publishing untrue information or violated citizens’ private lives, causing great concern,” ‘Vietnam leader calls for punishment of media which misreported corruption scandal’, *Associated Press Worldstream*, Hanoi, May 11, 2006. PMU18 was a huge corruption scandal in the Transport Ministry which broke in 2006 just before the 10th Congress.
"present from the beginning of this orientation as its component factors." These "young shoots" include "the leadership of the CPV", "the state of the working people" and holding the "key economic bases of the national economy."\(^{60}\)

Another leading theoretician, Nguyen Khac Hien, listed the "fundamental aspects" distinguishing the "market economy with socialist orientation" from the "capitalist market economy":\(^{61}\)

- While both have diverse forms of ownership, the socialist-oriented variety has public ownership of the key means of production as its basis.

- Although the capitalist state regulates, intervenes and uses plans, these "are not an underlying tendency," and "cannot prevent negative aspects of the market mechanism," whereas the Vietnamese government "carries out vigorous and active interference (by plans, policies, laws and economic might) to regulate, direct and restrict the negative aspects of the market."

- Under capitalism, distribution is carried out primarily "for the benefit of the capitalists." In Vietnam, there are many forms of distribution, chiefly "according to labour and production efficiency" but also based on the contribution of resources, the production results of enterprises, and social welfare," along with policies to protect "the interests of the workers."

- Finally, while many capitalist countries use social policies to "soothe the working people's struggle, capitalism cannot solve its basic contradictions." In Vietnam, the market develops "on the basis of limiting exploitation" and alleviating poverty, economic growth must be "associated with social progress" and gaps in living standards must be narrowed. Hien also asserts that "capitalism came into existence by deprivation, initial accumulation and plunder," whereas socialist orientation requires that "right from the beginning, when economic development has not yet attained a high level, care has to be taken for the social policy."

\(^{60}\) Nguyen Van Oanh, 'Ve khai niem Dinh Huong Xa Hoi Chu Nghia' (Regarding the concept of Socialist Orientation'), \(Tap Chi Cong San\), 4, 1996, pp.16-19.

\(^{61}\) Nguyen Khac Hien, 'Kinh te thi truong va dinh huong xa hoi chu nghia co doi lap nhau khong?' ('Are market economy and socialist orientation in opposition to each other'), \(Tap Chi Cong San\), 4, 1996, pp. 12-15.
Hien also claims the leadership of the CPV is “the most decisive factor guaranteeing the socialist orientation of the market economy.”

Hien’s aspects 2, 3 and 4 are debatable as to how different they are in a capitalist market economy, and how much they accord with reality in Vietnam. This will be measured in the following chapter. However, once again the pre-eminence of public ownership is the most clearly measurable aspect.

This issue of the state sector led to strong differences in the lead-up to the 1996 8th Congress. On one side, the draft political report, influenced by SOT politics, advocated that the party strive for the state and collective sectors to “constitute the foundation of the economy, accounting for about 60 percent of GDP by 2020.” Kolko writes “since the present figure is about 37 percent, this would require a great deal more state ownership … in effect, a total policy reversal.” However, this is an exaggeration, because 60 percent was the target for the combined state and collective economy, requiring a big rise in the share of the tiny collective economy.

This provoked a harsh reaction from the Market Orienters and international lenders. From the other end of the spectrum, prime minister Vo Van Kiet released a ‘secret’ letter advocating the state sector be restricted to “selected areas” but not dominant, that only

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64 Kolko, op cit, p. 137.

65 Given that in 2005 it was reported that the “collective economy” (ie, both agricultural and industrial cooperatives) accounts for 10 or even 15 percent of GDP (eg, Nhan Dan, October 24, 2005), when added to the state economy’s 40 percent share, it could be said that by 2005 the 60 percent target was not that far off. My point here is both to posit that the ‘conservative’ target was thus more reasonable, and the ‘reformer’ outcry more unreasonable, than might otherwise be thought. However, that does not necessarily mean accepting these claims about the current size of the collective economy.

66 According to Kolko, op cit, p. 137, the World Bank “was ‘sharply critical of the target.’ Kolko also claims the army newspaper openly accused the IMF and World Bank of undermining socialism.
national interests (and not the struggle between socialism and capitalism) should define international relations, and that the CPV “defer” the socialist objective.\(^67\)

Subtle differences can even be discerned from publicly expressed views. Party chief Do Muoi asserted “socialist society” is one “owned by the working people” with “a highly developed economy based on ... the public ownership of major means of production.” By contrast, Kiet claimed the strategic goal was “creating material infrastructure, diversified wealth and intellectual property for the country’s socialist-oriented development.” Kiet merely noted that “within the context” of “equality among different types of economic ownership” and “legal enrichment,” the state sector must “take the leading role in paving the way for the national economy, to explore new products and new markets, and to promote the development of the whole economy.”\(^68\)

The changing parameters of “reform” were exemplified when Nguyen Van Linh, once seen as Kiet’s mentor, voted with “conservative” opposition to Kiet at the Congress.\(^69\) Do Muoi allegedly played a conciliatory role between the two poles.\(^70\)

The outcome was a compromise within the Doi Moi consensus: Kiet’s recommendations were rejected, while the numerical target of 60 percent was dropped from the final report. The consensus was strengthened by the declared goal of completing Vietnam’s “basic industrialisation” by 2020; developing the productive forces was still primary, and could unite both those inspired by World Bank views or orthodox Marxism.

The Congress report drew up a list of major points defining “the socialist orientation in building a multi-sector economy,” which for the most part are the same as the above list drawn up by Hien.\(^71\) However, it added the eminently socialist point “to establish, consolidate and enhance the status of workers as masters in social production.”

\(^{67}\) Quan Xuan Dinh, op cit, p. 381.


\(^{70}\) Stern, 1997, op cit.

\(^{71}\) Namely that the state and cooperative sectors “gradually become the foundation”, that distribution takes many forms, including social welfare, and that state management of the market enhances its positive role while “overcoming, preventing and checking its negative effects,” via “laws, plans, mechanisms, policies,
While it did not list Hien’s ‘social policies’ as a separate point, it mandated that economic growth be “closely associated with social progress and equity.” More generally, the new consensus push to raise the productive forces was balanced by a very strong “social” commitment, including with regards to SOEs. Expanding the rationale for the leading role of the state sector, it mandated that SOEs must “serve as a lever for rapid economic growth and settlement of social issues; serve as a material force for the state to perform its macro-level regulatory and managerial function; and lay the foundations for the new social regime.” In addition, they must form “the economic, scientific-technological and cultural-social centre in agriculture, forestry and fishery, especially in mountain areas, islands and areas of ethnic minorities.”

Meanwhile, “the return on capital” was deemed only “one of the main criteria” to judge the performance of state “business enterprises,” while “the actual implementation of social policies” was deemed “the main criterion” for “public-interest enterprises.”

The areas where the state sector should dominate included “social and economic infrastructures, financial system, banking, insurance, important production, trade and service establishments, and … national defence and security,” a longer list than at the previous congress.

This strong social emphasis was combined with a continued reticence about accepting the term “market economy,” implying rule by the market over society’s basic decisions. The Political Report said Vietnam was a “multi-sector commodity economy operating along the market mechanism with the strengthening of state management along socialist lines.”

Commodity production was declared “not opposed to socialism,” but an achievement of civilization, “existing objectively” and “necessary for the building of socialism and even

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72 ibid, p. 971
73 ibid, p. 971
74 The preferred term, “commodity economy,” was understood to imply the simpler view that goods production and sale were generally to be based on supply and demand rationale.
75 CPV B, p. 956, my emphasis.
after socialism is built.” However, the negative aspects of the market economy, which must be struggled against “resolutely,” were declared “contradictory to the nature of socialism.” Even the positive aspects of “market management” were to be utilised only to serve the “objectives of socialist construction” but “not to deviate to the capitalist path.”

A new leadership troika was elected in 1997, consisting of General-Secretary Le Kha Phieu, president Tran Duc Luong and prime minister Phan Van Khai. The previous troika – Party leader Do Muoi, president Le Duc Anh, and prime minister Vo Van Kiet – were assigned the role of special “advisors.”

**Effects of the double shock of 1997**

Despite the apparent consensus outcome of the Congress, the contradictions between the strong social emphasis and the push for clearer recognition of the “market economy” remained just below the surface.

More dramatically, within a year the new consensus suffered a massive double shock in 1997 – the Asian economic crisis and the peasant uprising in Thai Binh.

Both events raised concerns with the 1990s model. While the economy had been dynamic, inequalities had grown, and many of the new rich had made corrupt fortunes. It was the era of the Vietnamese oligarch, such as Minh Phung and Le Van Kiem. The success of the market had given rise to a bland economic pragmatism.

The crisis led to pressure for change from several directions. On one side, the IMF, World Bank and international lenders blamed the crisis on the state economy and the limitations on full market development; they demanded Vietnam launch a “New Doi Moi”, featuring the elimination of the state sector and massive trade liberalisation, claiming that if Vietnam did not adopt their program, it would fall into crisis. This was reflected in a new confidence of market fundamentalist views among sectors of the CPV, which however was not the dominant reaction.

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76 ibid, p. 973. Notably, the last phrase, “and even after socialism is built,” was not in the draft.
On the other side, state sector advocates pointed out that the crisis, originating in capitalist countries, only bruised state-dominated Vietnam in comparison, so socialist tendencies were also strengthened. This correlated, to some extent, with a different pressure: to respond to the peasant uprising by translating the social rhetoric of the 8th Congress into reality, and doing something about the inequalities engendered by the market. Given the depth of what was clearly a capitalist crisis, this left reaction was the dominant one, giving a new lease of life to the ideas of the Socialist-Orientation Tendency

**Renewal of socialist thought**

Do Duc Dinh, who had earlier advocated some of the most radical Market Orientation positions, asserts that “the experience of 1997 was a ‘sea change’ in the thinking of many around the world, in particular in Vietnam,” including his own.78 Explaining the reasons for this change, Dinh said that the strength of the state sector was key in saving Vietnam from the fate of its neighbours, and the crisis made clear that “we should not over-rely on ‘external sources’ of finance, but must build internal strength.”79

Secondly, this ‘sea change’ “reflected a change in the objective reality.” In 1990, the state sector represented a much larger part of the economy, and 70-80 percent of SOEs were losing money, whereas the 6000 SOEs now represent 40 percent of the economy and only one fifth lose money.

Third, as the collapse of the USSR showed that Vietnam had been wrong to copy the Russian model, Dinh said he and others learnt not to copy any models, including the disastrous new Russian model of rapid privatisation “and those offered by the IMF and World Bank.”

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79 Dinh also claimed that Vietnam does not take much indirect investment, which was largely responsible for 1997, contrasting this with South Korea, where indirect investment at one point was 90 percent of FDI.
Finally, in 1990, people were focused on Vietnam, but have since looked elsewhere – Duc in particular at East Africa and Latin America. Compared to the devastating results of their rapid privatisation and liberalisation, Vietnam’s careful strategy looks better.

However, within the Socialist Orientation Tendency there are different emphases. I see two: ‘Market Socialist’ and ‘Left Socialist’. Most cadres exhibit a mixture of views that do not neatly lend themselves to these categories. The two emphases reflect, importantly, different pressures on the political leadership. The present CPV leadership around Nong Duc Manh and some leading theoreticians appear to straddle these two poles.

Dinh’s views exemplified certain Left-Socialist aspects. Firstly, opposing the obsession with “economic growth,” Dinh said Vietnam’s slower growth than China’s and India’s was a good thing: in those countries, very rapid growth led to faster growth in inequality than in Vietnam, and in India, growth has produced very little progress in poverty reduction, health or education. Very rapid growth "leads to inequality, instability and bubbles," in his opinion.

Secondly, Dinh strongly approves of Vietnam maintaining “elements of state planning” alongside the market, and the large role of the state sector “remains central” to using these elements. One of Vietnam’s strengths is the state sector’s rise to 40 percent of GDP after the initial crash around 1990. In contrast to the growing consensus on the importance of the stock exchange, he said its slow growth “is a good thing, otherwise you get 1997, when billions fled countries in one day.”

Not everyone who has a heavy social emphasis necessarily puts the same emphasis on the state sector. What unites these two aspects conceptually is the view that the market is

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80 Just to emphasise, this should not be taken to mean that Dinh is in every respect a ‘Left-Socialist’, but that many of the views he put forward in his interview reflect Left-Socialist thinking. I would emphasise that the term ‘Left-Socialist’ represents a pole within the Doi Moi consensus, which includes development of the market in general, with all the restrictions they advocate. The term should not be confused with any theoretical construct of a ‘hard-socialist’ advocating pre-Doi Moi ‘socialism’ – no-one in Vietnamese political and theoretical circles advocates this. For example, in a paper on enterprises in the Mekong sub-region, Dinh advocates ‘stronger development of the market economy’ and ‘stronger liberalisation of trade and investment’ in that region, Do Duc Dinh, ‘Enterprises development in Mekong Region – Some lessons in South-South cooperation’, *Vietnam Economic Review*, No. 9, 2005.

81 In 1991 Dinh had approvingly written of the success of NIC economies such as South Korea, where despite a strong state role in economy, the state sector was only 10 percent of GDP. He now repeats this figure, but as a negative for South Korea, which was not able to withstand 1997.

82 This was rather prophetic: this interview in 2005 was just before the 20-fold growth of the stock exchange in 2006-7, followed by its precipitous crash in 2008.
not all important – its growth, like economic growth in general, can be slowed to make way for social progress, or to enable the state sector to play its role, including in planning and social policy.

Market socialism as a variant of socialist orientation

However, among those who saw a strong state sector as beneficial, there were different stresses. One trend emerging from both the ‘industrialisation and modernisation’ drive and the 1997 crisis gave renewed emphasis to both the completion of the market economy and the enhancement of the leading role of the state sector, arguing for more market, efficiency and growth but based on opposite considerations from the MOT.

Nguyen Khac Hien – who had eloquently listed the major planks of socialist orientation before the 8th Congress – also asserted that “the market and market economy are the common achievement of human civilisation” which “came into existence before capitalism, and continue to exist in and after capitalism.” However, this strongly pro-market statement is tempered by his view that “consolidating public ownership” was a key aim of socialist orientation; indeed it is a major aim of the state’s regulation of the market. Thus, the argument about public ownership as goal or mere instrument comes full circle: for Hien it is a goal, and the market an instrument to achieve it. Hien’s view heralds the emergence of a sub-tendency within the Socialist Orientation Tendency which I propose to call ‘Market Socialist’, which believes the development of a socialist society dominated by public ownership can be achieved via the market.

This converges with a view that the public economy must play the leading role, but precisely in order to do this, it must focus on economic efficiency. Deputy Finance Minister Tao Huu Phung explained that the Asian crisis resulted when large loans were combined with “irrational investment,” plus creditors continually “extending deadlines for their debtors” and “the close-knit relationship between major financial organisations and the government.” While the MOT sees these aspects (with parallels in Vietnam) as ‘crony-capitalist’, thus requiring a more pure capitalism, Phung said SOEs needed to be “renewed in order to enhance their role and activity effect.” SOEs needed to be more

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market-driven to enhance their role, including that of helping “focus on mobilising domestic resources.”

At a theoretical level, Duong Ba Phuong and Nguyen Minh Khai argue that the “market economy” is the very mark of a “developed country”, just as a “barter economy” marked an earlier stage of development. The market economy goes through several stages, and that in western countries today is the highest stage. Therefore, Vietnam “must move its entire national economy into the market economy.” However, this modern stage of the market economy, even in capitalist countries, requires state involvement in the economy, and the more it develops, the more state it needs. This includes the state economy, the “visible hand” regulating the economy. In fact, the leading role of the state economy “guarantees the development orientation of the market economy.”

Similarly, Nguyen Ngoc Quang argues that the “modern market economy” is a crucial step towards “overcoming the weaknesses of the free market”, and “the role of state property in the economy is indispensable in the development of the modern market economy.”

These analysts share the stress on “completing” the market economy with the MOT, but hold a radically opposite view on the state economy – like the SOT, they forcefully advocate its leading role. Conceptually, the difference between Market Socialist and Left Socialist poles revolves around differing emphases on whether the development of the market economy is more important than defending social policy against the negative effects of the market and unbridled growth.

This could reach into subtle differences over equitisation: its market-driven nature could be more appealing to Market Socialists – but only to the extent that equitisation is seen as a means to strengthen the state economy, rather than a road to privatisation – a separate argument looked at below. Quang, for example, argues that the “expansion and

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86 Nguyen Ngoc Quang, ‘Vai tro kinh te cua Nha nuoc va kha nang dinh huong su phat trine nen kinh te thi truong o nuoc ta’ (‘The role of the state economy and the capacity and orientation of the development of the market economy in our country’), Nghien Cuu Kinh Te, No. 215, 4, 1996.
development of mixed economic forms ... cannot be underestimated in the development of the market economy.”

Market orientation as an opposition to socialist orientation

The Market-Orientation Tendency – the most coherent opposition to the Doi Moi consensus – can be traced back to the attempt by its mentor, Vo Van Kiet, to dump the socialist orientation in 1996. While the rise in the efficiency of the state economy had formed the basis on which Market Socialist conceptions could emerge, for the MOT this growth of the state sector was itself a problem. In 1996, leading economic adviser Le Dang Doanh warned that the expansion of the state sector “poses a serious problem.” While conceding that many SOEs were profitable, this very profitability restricted the private sector’s development, which was an end in itself. Doanh defined the “leading role of the state” – rather than the state economy – as setting “a framework and policy environment in which the private sector can operate,” but suggested it should not be “actively involved in production.”

Their views then took off in the opposite direction to the oft-labelled ‘conservative’ and ‘populist’ reaction to the 1997 crises. In agreement with the new international diktat, they saw the Asian crisis as evidence of the need to demolish the state sector. Although the crisis originated in capitalist countries, they argued the problem was not capitalism, but “crony capitalism,” such as banks handing out credit based on personal connections. While elsewhere the recipients of bank largesse and “Asian ways” were private businesses, in Vietnam SOEs took their place.

Their main views can be summarised in the following points: The first is that the role of the state should be reduced to a minimum. For example, Le Minh Quan from the Political Academy advocated “the minimisation of direct intervention of the state” whose role is “to promote a development orientation, to create a safe legal environment for the production process and competition between economic sectors by increasingly perfecting the legal system,” to “ensure equality of all economic sectors” and “play the role of an

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87 Ibid.
89 For western academic views in general agreement with this view, see for example, Thayer, 2000, op cit, pp. 312-313; Quan Xuan Dinh, op cit, pp. 363-4; Abuza, 2002, op cit, pp. 127-9.
arbitrator to settle economic disputes fairly, reasonably and legally," respecting the views of both “businesses as well as labourers.”

Nguyen Cuc asserted that “state intervention should be decreased to a minimum” and should aim to create “favourable conditions for production-business activities,” maintain stability “so that investors and producers have confidence” and issue policies and laws to develop “a civil and market society.” This became the basis of “administrative reform,” the purpose of which, Kiet summed up, is “serving people and creating favourable conditions for business, and reinforcing integration into the world community.”

Secondly, members of this tendency believe the state sector is by definition inefficient and therefore inappropriate to developing a market economy and economic growth. Most advocate sweeping privatisation, abolishing any link between socialist orientation – to the extent that some still formally advocate it – and the question of ownership. For example, Interviewee 9 saw the state sector as an impediment due to its unreformable inefficiency. In his opinion, the government should privatise 70 percent of firms which it “doesn’t need,” equitise 20 percent with a 51 percent state stake and keep only 10 percent, based on their importance for the state’s ability to regulate the economy.

Similarly, Nguyen Minh Tu, a senior researcher at CIEM, argued the state should be involved in business “as little as possible” and only in fields which “the private sector cannot take part in,” either because the scale of investment needed is too large for the

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90 Le Minh Quan, ‘On the necessity to build a socialist law-governed state in Vietnam,’ Social Sciences, 5, 1997, p. 30. Quan was a member of the Political Science Institute of the National Political Academy.
94 Sometimes the phrase such as the state economy is a “chief mover” of “industrialisation and modernisation” among “all economic sectors” is attached at the end of a treatise with little substance, as an apparent concession to orthodoxy, for example, Vu Hien, ‘Cuc dien moi va dinh huong di len cua dat nuoc’ (‘New context and the orientation of our country’), Tap Chi Cong San, 4, 1996, pp. 20-24, and then prime minister, Vo Van Kiet, ‘A look back at the guidance and operation of the government’, Social Sciences, 5, 1997, pp. 3-14.
95 Interviewee 9, March 2005. The deputy editor of the Youth Union’s Thanh Nien said that state enterprises were a “catastrophe” and that the state should just own a ‘few public services’, such as electricity and railways. There was no way of reforming state enterprises, because private enterprise is simply more efficient than public enterprise, Interview, Hanoi, June 2005.
private sector’s current capacities, or in “socio-economic infrastructure and public welfare.”

Their third major plank is that the market, not the state, should be the primary regulator. Nguyen Cuc believed that “a perfect market, both in terms of labour capacity and capital, can be created.” Le Dang Doanh had early advocated building a “long-term capital market, stock market, labour market and real estate market,” and many years later still complained that the stock exchange was “irrelevantly small,” that most equitisations have only been of small SOEs, that even most of these have not listed on the stock exchange, that the state sector is still dominant, that “FDI attraction has been modest” and that “there is no level playing field for the domestic private sector.” For Doanh and others, “completing” the market economy is essential for economic growth. Interviewee 9 elaborates that “Vietnam is not yet even a real market economy, let alone a socialist-oriented one, and the talk of socialist orientation is in a form that limits the development of the market, still within the thinking of ‘socialism’, which holds back the market economy and economic development.”

Most market-orienters maintain enough social impulses and vague connection to “socialism” to be classified as social-democrats. Tu for example claims stronger “collective businesses” are necessary for farmers to protect their interests within the more complete market economy he advocates. For the same reason he stressed the need to “clarify” the role of trade unions and mass organisations, and to improve social security.

But the logic of the Market Orientation Tendency leads to conflicts with the very idea of socialist orientation. Tu is explicit that “when a country is less developed, it can’t have a

100 Interviewee 9, March 2005.
socialist orientation.” Regarding the future, Vietnam “still needs 10-20 years before we can really clarify where we are going and what the aim is, and whether it is only a wish.” Tu said the only aspects ensuring Vietnam took a “progressive” path were the leading role of the CPV and the idea that “development must improve the lives of the people.”

It is difficult to even have a “social” orientation at present. According to Tu, “if we worry about the so-called ‘social aspects’ due to alleged socialist orientation, we slow down development.” Some CIEM experts agree that socialist orientation, especially SOE policy, holds up market development.101 “If we use ‘subsidy methods’ to help the poor, we run the risk of creating an inefficient economy.”102 In general, economic growth and “efficiency” take precedence over social aspects.

Doanh implicitly preferred American-style to European-style capitalism: “Social welfare should be commensurate with the actual strength of the economy; it should not encourage reliance on state subsidies and should not entail too large expenditure. The experience of Sweden and France shows that a state with too high welfare may affect the economy’s competitiveness.”103 The view that the socialist orientation should be postponed was again put by Doanh to a meeting of CPV leaders in the process of planning the 10th Congress. This resulted in his removal as head of CIEM, while maintaining a high economic advisory post with the government.104

Other voices within this tendency advocate a neo-liberal view clashing with the very spirit of socialist orientation. Calling for “renovating” our thinking about the state, Vu Thanh Son writes that “the bureaucratic machinery must be replaced by an entrepreneurial authority.” He maintains “the state should not directly supply public goods and services” but “see to it” that they are supplied by using state resources to impel the private sector “to use its resources to serve public objectives.” He is explicit that “public goods and services” includes basic education, health and infrastructure,

102 Pham Hoang Ha, Central Institute of Economic Management, Interview, Hanoi, September 2005.
104 Interview with retired official who still plays an advisory role in the government, Hanoi, June 2005.
which he labels “impure public goods and services.” Only “pure public goods and services,” such as registration papers and passports, should be provided by the state.\textsuperscript{105}

This concept was taken up by Bui Dai Dung, a researcher at the Prime Minister’s Research Commission. Maintaining that a “strong negative relationship” exists between government spending and GDP growth, he asks how the “illogical situation” can be explained that government expenditures keep growing. He explains that, due to “wrong signals” sent to the government from “interest groups”, “expenditures for impure public goods (including education and health) increase faster than for pure public goods,” for Dung encompassing only the military and some major infrastructure. To arrest this “failure,” governments should “give up providing impure public goods” and transfer them “to the private sector via privatisation.”\textsuperscript{106}

While those advocating the state sector be restricted to public services, basic infrastructure and areas the private sector is not interested in can be described as Social-Democratic, the fringe advocating privatisation of even these areas represent a thoroughly Neo-Liberal ideology. Conceptually these represent two poles within the Market Orientation Tendency.

These differences also relate to social policy debates. Conceptually, a Social-Democrat would have greater concern for the social impacts of their policies. Even to reduce the state sector to only ‘social-democratic’ levels would require such a social upheaval that many Social-Democrats may want it carried through slowly and cautiously. By contrast, Ton Tich Qui, a researcher in the State Council for Stock Management, typifies a neo-liberal callousness regarding social impacts. Claiming Vietnamese workers “are given better treatment than in other countries” but “are never satisfied,” he called for 1.8 million workers to be laid off during equitisation, and believed one month’s salary would

\textsuperscript{105} Vu Thanh Son, Ho Chi Minh National Political Academy, ‘Some new approaches on state role in supply of public goods and services’, \textit{Vietnam Economic Review}, No. 10, 2005. He quotes the World Bank on this difference between “pure” and “impure” public goods.

suffice as redundancy pay. Though this strategy would cost $US660 million, "it is an advisable one."  

There may be a cross-over between these conceptual tendencies. While Nguyen Minh Tu describes a social-democratic view on the extent of the state sector, his attitudes to the effects of privatisation appear neo-liberal. He claims it is "impossible" for state firms to operate effectively, as "development theory and practice of the world economy have shown," and there is "no effective mechanism" for the "successful management of state business." Therefore, even if state assets are embezzled during equitisation, this loss "is not as great as that of preserving the previous state business management." There is no fundamental way of distinguishing the kind of market economy advocated by the Market Orientation Tendency from a fully capitalist economy, making the tendency more distinct than the broader SOT. While the views expressed by this tendency are in accord with those of many international organisations and think tanks, they currently represent a minority opinion among CPV theoreticians, academics, experts or officials.

**The tenure of Le Kha Phieu**

These conflicting schools of thought were reflected in the divisions among the CPV leadership in the period between the 8th and 9th Congresses, and beyond. While the tenure of secretary-general Le Kha Phieu was often disparaged in subjective terms, his rule is better analysed in straightforward political terms.

Phieu emerged as chief representative of a strengthened Socialist-Orientation Tendency. His tenure combined a slower and more cautious approach to economic reform, an upping of social policy in what has been called a ' populist' turn, and a turn to encouraging a degree of popular participation to fight the corrupt 'from below'. By

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107 Ton Tich Qui, 'Equitisation of State-Owned Enterprises', *Vietnam's Socio-Economic Development*, No. 14, Summer 1998. The fact that his concern is the alleged great cost of this meager redundancy pay he believes would suffice, not the meagerness of it, stands out sharply in an allegedly socialist publication.


109 Ibid. This view turns the moderate 'reformist' argument on its head: they claim that privatisation will help stop corruption, which they see as endemic to the state sector, Yet Tu, conceding that privatisation will itself lead to a surge in corruption, sees such theft as better than preserving state ownership.
sticking to the Doi Moi consensus, Phieu was widely dubbed a ‘conservative’ in this period when a ‘New Doi Moi’ was being demanded.

Phieu claimed that the leading role of the state economy “and concentrating efforts on its consolidation is completely correct,” and the “strategic goal” is for the state sector to “work with cooperatives to ensure the success of the socialist-oriented economy.” In fact, the state sector must play “an even more important role.”110 Equitisation of “a part of” state enterprises is one alternative for SOE problems, but “not the only solution.”111 Its purpose is not privatisation, and it can only be carried out “step by step.”112 It must strengthen, not weaken, the state economy, and facilitate workers’ “right of mastery through their ownership of shares.”113 Phieu opposed the obsession with economic growth. “We carry out reform … but at the same time, we achieve social justice. We do not seek growth at any cost, nor do we seek growth for the sake of growth, but for man.”114 At an international level, he believed the struggle between socialism and capitalism remained paramount.115

Even prime minister Phan Van Khai – a protégé of Kiet soon to emerge as leader of the Market Orientation Tendency – initially resisted the international diklat. Khai declared that developed countries and international financial bodies must not compel countries “already struggling” with the economic crisis “to adopt policies which could lead to domestic social and economic turmoil.”116 He also said that equitisation must proceed “carefully and with no rush,” with “no large-scale state sector redundancies and no social chaos.”117

Later Khai got tougher. He lashed out at state firms declaring “state monies” must no longer be used “to feed enterprises which have become a burden on the economy.” He

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111 Le Kha Phieu (D), Interview, Vietnam Economic Times, August 1997.
112 Le Kha Phieu (C), p. 52
113 Le Kha Phieu (E), ‘The Vietnamese working class in the industrialisation and modernisation of the country’, Vietnam Entering the 21st Century, p. 102.
114 Le Kha Phieu (C), p. 52.
115 Le Kha Phieu (B), pp. 187-90.
117 Vietnam Investment Review, January 4-11, 1999
declared that “the components of a market economy have not been established,” with the private sector “still being discriminated against and treated unequally.”\footnote{Ha Thang, ‘Frank words at the assembly’, \textit{Vietnam Investment Review}, November 22-28, 1999.}

Khai’s initial caution and Phieu’s flexibility were reflected in continuing gradual economic reform. The landmark reform of Khai’s tenure, the Enterprise Law of 2000, liberalised the setting up of private firms. There is no evidence that Phieu obstructed this; in his view, a private sector outside the state sector was different to privatising SOEs. A few hundred small SOEs were equitised, but this was well behind World Bank demands.\footnote{More details of this in Chapter 4 (pp 155-6, 159) and Chapter 5 (p. 218).}

The new leadership, after some hesitation, came out in support of the peasants’ grievances in Thai Binh, resulting in the disciplining of some 2000 cadres.\footnote{Kerkvliet, J.T., ‘An approach to analysing State-society relations in Vietnam’, \textit{Sojourn}, Volume 16, No.2, 2001, p. 267. According to one insider with a vast knowledge of the inner party discussion, Do Muoi initially advocated crushing the peasant revolt, but was overruled by the rest of the leadership.} Le Kha Phieu wrote regarding the

\dots lack of democracy in a number of communes in Thai Binh and other places, not a few cadres and party members with party and state responsibilities there had defects \dots but the party organisation and the authorities did not implement the struggle for self-criticism and criticism in time, nor seriously and strictly, the defective cadres did not admit their errors in front of the people, did not take determined measures to overcome the situation, on the contrary, they continued to be prejudiced and imperious and to clip the wings of the people who criticised them, so the social atmosphere became fully strained \dots No longer able to stand their rising feeling of hidden anger, many people went to complain to the top, but those at the top once again avoided the problem, passed the buck, or offered solutions late and unsatisfactorily.\footnote{Le Kha Phieu (F), ‘Phat huy quyen lam chu cua nhan dan, xay dung va thuc hien thiet ehe dan chu o co so’ (‘Bring into play the right of mastery of the people, build and effect democracy at the grass roots’), \textit{Tap Chi Cong San}, 3/2, 1998.}

Further in this tract, Phieu links the peasants’ actions with the need for more direct channels for the masses to control their political situation via the new Grass-Roots
Democracy decree, introduced in March 1998. This was followed by a raft of other ‘populist’ policies.\textsuperscript{122}

In early 1999 Phieu launched a vigorous drive against corruption. By all accounts, he was genuinely appalled by the moral degradation of party and state officials.\textsuperscript{123} His campaign appealed to party ranks to expose and denounce corrupt leaders, warning that everyone from the Politburo down could be investigated, aiming to catch “giant rats” rather than “little mice.”\textsuperscript{124} Phieu went beyond rhetoric to dump deputy prime minister Nguyen Xuan Loc for involvement in a land scandal, which also implicated other government leaders. However, Khai reinstated Loc a few months later in a high position in the Construction Ministry, aided by Do Muoi.\textsuperscript{125}

The Grass-Roots Democracy decree was extended to state enterprise workers in February 1999,\textsuperscript{126} recalling the aspect of socialist orientation regarding “enhancing the status of workers as masters.” Wages were boosted in 1999, a “demand stimulation policy” enacted, and a turn made to “mobilising internal resources.”

\textsuperscript{122} Other leaders also blamed party and state officials and justified the peasants’ actions. The strongest words were those of president Tran Duc Luong, who said the crisis “exposed shortcomings in the political system under the leadership of the party” and the “lack of democracy is driving party, state, political and social organisations away from the people”, and further, “our party and state recognise that the discontent of the people in these cases was right,” from Abuza, ‘Renovating Politics in Contemporary Vietnam, Lynne Rienner Publishers, Boulder/London 2001, p. 85.

\textsuperscript{123} Abuza 2002, op cit; Vu Kim Chung, ‘Vietnam’s Premier Close to Quitting in Corruption Fallout’, \textit{Reuters}, August 31, 2000, which claimed that “Vietnam watchers are unanimous in their assessment of Mr Phieu’s depth of concern about the party if graft is not tackled,” and quoted Phieu that “It is difficult to wipe out gangs of bureaucrats and party members involved in corruption and embezzlement. They cover for each other and trap good staff to squeeze money out of the state. If we are unable to stop them now, some immoral and unworthy individuals will climb to posts in party committees, even in the Central Committee. This is a [real] threat.” Plus a host of personal discussions, including many who otherwise opposed Phieu’s politics, including one very high-level contact, all indicated a belief that Phieu was genuine on this.


\textsuperscript{125} ‘Justice Seen to Be Done’, \textit{Vietnam Economic Times}, December 1999; Chanda, N, ‘The War Within,’ \textit{Far Eastern Economic Review}, May 4, 2000. In early 1999, Deputy Prime Minister Ngo Xuan Loc, a key ally of Khai, signed a deal allowing a private company to build a water park entertainment complex on Hanoi’s West Lake worth $14 million. The Hanoi People’s Committee headed by Hoang Van Nghien, the Ministry of Planning and Investment headed by Tran Xuan Gia and another Deputy Prime Minister Nguyen Cong Tan also signed documents approving finance. However, as soon as the investor got the go ahead, he put the land on the market for housing – at many times the price the former owners had been paid. Unofficial sources claim 60 officials were bribed to give the go ahead. The others implicated were also considered to be Khai allies. However, the fact that ‘reformer’ Khai was aided by ‘conservative’ Muoi in this episode casts doubt on the weight of alleged ideological motivations in these leadership struggles.

\textsuperscript{126} Decree 07/1999/ND-CP, Promulgating the Regulations on Exercising Democracy in State Enterprises, February 13, 1999.
The poverty alleviation program expanded dramatically. Of 21 trillion dong spent from 1992 to 2002, 9.6 trillion was spent in 1999-2000. The volume of subsidised rural credit doubled. The large SOEs were mandated to take part in the poverty program, recalling the 8th Congress on SOE non-economic roles. The army greatly expanded its health, education and development programs in remote regions, declared part of its new role by Phieu’s ally, Defense Minister Pham Van Tra. The budget allocation for agriculture and rural areas increased from 17 to 25 percent from 1998 to 1999.

A debate over land also indicated opposition to liberalisation. An attempt to extend land leases from 20 to 50 years and abolish ceilings on plot sizes failed to get Politburo backing in 1997, but was endorsed by the Central Committee, but then voted down in the National Assembly. Deputy Prime Minister Nguyen Tan Dung explained that “land accumulation is a process which is part of the development of agriculture.” Khai claimed “the farmland owners of Vietnam today are much different from the landlords of the past; we are making money for ourselves and for society.” Khai’s compromise bill in 2000 stressed farmers who cleared “wasteland” could get bigger plots.

For Phieu, “the concentration and accumulation of lands must be tightly controlled and managed by the state in keeping with economic restructuring, the gradual shift of manpower from agriculture to industry, trades, services and various forms of economic cooperative in agriculture.” It must not “occur spontaneously, causing peasants to lose land, to have no job and to be pauperized.”

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As “the household economy has its limitations, due to its small size, a shortage of capital, and a lack of specialization,” Phieu stressed “cooperation between households in many fields, such as irrigation, water drainage, guarantees for loans,” is essential. Cooperatives were the alternative to large farms for developing ‘economies of scale’.\(^{*}_{135}\) A new cooperative law was issued in 1998.

The political basis for the clashes during Phieu’s leadership are not clearly understood. Do Muoi allegedly led hard-line opposition to the Bilateral Trade Agreement with the US; according to one account, he came into conflict with Phieu due to the latter’s flexible view on the BTA.\(^{*}_{136}\) This is consistent with Muoi’s outright opposition to Phieu’s program of equitising small SOEs, which market-orienters believed was too slow.\(^{*}_{137}\) However, other accounts have Phieu more strongly opposed to the BTA and his opponents more conciliatory.\(^{*}_{138}\) Whatever the case, the fact that one third of the National Assembly voted against the BTA indicates the degree of contention.

The policy differences between Socialist-Orienter Phieu and Market-Orienter Khai form one axis of disagreement. However, the ‘Advisors’ – Do Muoi, Le Duc Anh and Vo Van Kiet – presented a united front against Phieu; while Kiet was the leading Market Orienter, the other two were widely labelled ‘conservatives’. Le Duc Anh played the key role in manoeuvring against Phieu, also undermining ‘sector’ interpretations – Anh and Phieu were both from the military.\(^{*}_{139}\)

Phieu tried to shrug off the weight of the ‘Advisors’, and campaigned for the removal of this institution; they reacted with a letter denouncing his leadership. Phieu turned the

\(^{135}\) Le Kha Phieu (D), op cit.

\(^{136}\) Abuza, 2002, op cit.

\(^{137}\) For example, according to a Hanoi-based diplomat, “When leaders were lamenting the slow pace of privatisation of state-owned enterprises, Muoi apparently said, ‘I don’t know why we need that program at all’.” Mitton, R, ’Telegraphing Change’, Asia Week, Vol.25, No. 4, January 29, 1999.

\(^{138}\) Nguyen Chi Trung, ‘Thuc chat tu dai hoi dang lan thu IX la van de gi?’ (‘Essence of problems at the 9th Party Congress’), Thong Luan, No. 176, 12/2003. According to this, Le Duc Anh led the drive against Phieu, but on the issue of the BTA, Phieu’s major ideological clash was with Kiet. It also has Nguyen Van Linh initially suggesting Phieu as the new General-Secretary when under discussion in 1997.

\(^{139}\) Other prominent leaders, including president Tran Duc Luong, and National Assembly Chairman Nong Duc Manh were apparently neutral in these conflicts.
tables on himself when he used his connections in the security apparatus to uncover allegedly corrupt dealings among leading Politburo and Central Committee members.  

Phieu was ousted at the 9th Congress in 2001. The chair of the National Assembly, Nong Duc Manh, who had not been involved in the anti-Phieu campaign, was chosen as a compromise. Initially turning down the position, Manh finally accepted on condition that the position of ‘Advisors’ be abolished.

9th Congress: Renewed consensus

The 9th Congress contained elements of both ‘market’ breakthrough and restatement of the ‘socialist’ position, depending on its interpretation by different tendencies.

On the one hand, the Political Report finally accepted the term “market economy,” defining Vietnam as a “market economy with a socialist orientation.” Leading CPV theoretician Le Huu Nghia called this “a breakthrough in the Party’s theoretical and ideological development.” Nguyen Phu Trong clarifies that the “commodity economy” accepted at the 8th Congress “did not yet mean ‘market economy’.”

The term “market economy with a socialist orientation” avoids the issue of whether the market is compatible with socialist society, because Vietnam is far from such a goal.

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140 They allegedly had envelopes containing the allegations placed on their desks at the beginning of a CC Plenum in early 2001.
141 According to Abuza, 2002, op cit. At his acceptance speech at the Congress, Manh, after the ritual commendation of the three Advisors’ important contributions, singled out Phieu as having “taken drastic measures against corruption. He always perseveres with the revolutionary stand and follows a modest lifestyle. He remains close to the people and listens to their opinions.” Manh expressed the wish that the three advisers would continue making “contributions” but that Phieu would continue making “precious contributions,” Nong Duc Manh, Speech to close the 9th Party Congress on 22 April 2001, 9th National Congress Documents, The Gioi Publishers, Hanoi, 2001.
143 Le Huu Nghia, ‘Vai tro lanh dao Dang Cong san va quan ly cua nha nuoc trong qua trinh phat trien kinh te thi truong dinh huong xa hoi chu nghia o Viet Nam’ (‘The role of the Communist Party’s leadership and state management in the development of the socialist oriented market economy in Vietnam’), Tap Chi Cong San, 31/11, 2003; Nguyen Phu Trong, ‘Kin giang vui trong qua trinh thuc hien phat trien kinh te thi truong dinh huong xa hoi chu nghia o Viet Nam: Quan niem va giai phap phat trien’ (‘The socialist oriented market economy in Vietnam: Concepts and solutions for development’), Tap Chi Cong San, 31/11, 2003. Trong was head of the CPV Theoretical Council, and since 2006 the Chair of the National Assembly; Nghia is the former rector of the National Political Academy and now Editor-in-Chief of Tap Chi Cong San.
144 While Trong stresses the great leap from “commodity economy” to “market economy,” his attempt to evoke Marx can only find reference to the former, claiming “Marx criticised the ordinary economic school for considering the commodity economy as capitalism. Marx said “...commodity production and circulation are phenomena of different modes of production.”
Perhaps the market is merely compatible with the transition stage. However, leading theoreticians Trong and Nghia claim the market and socialism are compatible. For Nghia “the question is how to integrate these entities so that they generate melodious music, not shrilling sounds to the ears.”

However, Trong explains the “negative effects of the market economy” include “purely running after profit, fierce competition, over-exploitation and stratification,” aspects clearly incompatible with socialism. Nghia’s list includes “the psychology of preferring money over ethical values,” “advocating a pragmatic and selfish lifestyle” and “the denigration of human values,” requiring “persistent struggle against capitalist ideology.” Therefore, without party and state management “there can be no socialist oriented market economy,” because “the market economy tends to spontaneously develop toward capitalism.”

Despite acceptance of the term “market economy,” the Congress affirmed the socialist goal and made the clearest statement to date about the nature of the long transition period which:

involves bypassing the establishment of the dominating position of capitalist production relations and superstructure, but acquiring and inheriting the achievements recorded by mankind under the capitalist regime ... requires many transitional stages and ... many forms of ownership of the means of production, many different economic sectors, classes and social strata ... there inevitably remain class contradictions and class struggle.

The goal of socialism was dependent on further development but explicit:

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145 This thus differs from the claim of the Chinese CP that it is building a “socialist market economy.”
146 Nghia also makes the confusing claim that Vietnamese society “is not a pure socialist market economy” because though they “share the same principles, they are different in level of development.” Nghia is saying that with more economic development, the possibility exists of a fully ‘socialist market economy’ (since at this low level of development it cannot be fully socialist); neither he nor Trong make any reference to the Chinese variety, which is more developed yet less socialist. Both claim the Vietnamese experience is “unprecedented.” However, during my interviews, one of the more market-oriented interviewees referred to China’s ‘socialist market economy’ as a model which Vietnam has not yet reached.
149 CPV D, op cit.
Public ownership of the key means of production is the outcome of a developed economy with highly socialised, modern productive forces; it is to be established gradually and will hold absolute superiority once socialism has been built.\textsuperscript{150}

The report repeated the key points distinguishing a ‘socialist-oriented’ from a capitalist market economy: the leading role of the state sector, which “together with the collective sector” gradually becomes the foundation, the goal of socialism based on the “absolute superiority of public ownership,” state management via various means including “the state’s material forces,” and distribution based on labour, efficiency, contributions and social welfare.\textsuperscript{151}

It added as a key point that “economic growth should be closely associated with assured social progress and equality right in each development step,” but dropped the rather significant point from the 8\textsuperscript{th} Congress about enhancing “the status of workers as masters.”

The state economy was to promote its leading role “as an important material force and the instrument for state orientation and macro-regulation of the economy … to assume key positions, pioneer the application of scientific and technological advances, and set examples in productivity, quality, socio-economic efficiency and law compliance.” Thus the state economy maintained its economic and regulatory roles, but gone were the 8\textsuperscript{th} Congress references to social roles, making its role more in tune with the concept of “market economy.”

By contrast, the areas listed for the state economy to dominate were significantly extended beyond what the 8\textsuperscript{th} Congress indicated. Differences between the Draft Socio-Economic Development Strategy and the final version reveal a struggle on this matter that involved international pressure. The Draft calls for “establishing state-owned corporations strong enough to be the core players in large economic groups in petroleum, electricity, coal mining, airlines, railways, maritime transport, telecommunications, mechanical engineering, construction materials and some other

\textsuperscript{150} Ibid.
\textsuperscript{151} Ibid, pp. 1096-7, 1106.
essential products, fertilizers, banking, insurance and auditing."\textsuperscript{152} This drew the ire of the ‘Consultative Group’ (World Bank, Asian Development Bank and United Nations Development Programme), who claimed it was inconsistent with ‘equality’ between all economic sectors and WTO accession. Whether this policy was carried out by strengthening state ownership in these areas prior to opening them to competition with the private sector, or by excluding these areas from free competition, they would be strongly opposed.\textsuperscript{153} Another group of international consultants arrogantly informed the CPV that “in a market economy private enterprises normally play an important role” in these sectors, and that the state should not be involved in production but maintain macro-economic stability, build a legal and institutional framework, provide infrastructure and safeguard social justice and equal opportunity.\textsuperscript{154} At a meeting between the consultants and the Development Strategy Institute (under MPI), Le Dang Doanh from the Institute opposed the CPV draft, claiming “the remaining SOEs will mainly focus on the provision of public welfare/utilities and high-tech based businesses or areas that the private sector is not yet able to cover.”\textsuperscript{155}

The CPV Congress largely stuck to its guns, but adjusted the wording to allow for different interpretations. The list of areas remains – it even adds metallurgy and import-export – but the final document reads “to build state corporations sufficiently strong to operate as the core of major economic groups, competitive in both domestic and international markets, such as in petroleum … (remainder of the list).”\textsuperscript{156} This wording allows this list to appear to be the “markets” that state-dominated economic groups

\textsuperscript{152} Communist Party of Viet Nam, Central Committee, \textit{Socio-Economic Development Strategy 2001-2010} (Draft version for restricted use only), Hanoi, July 2000, p. 20, my emphasis.


\textsuperscript{154} Ministry of Planning and Investment (MPI), Development Strategy Institute (DSI, under MPI), United Nations Development Programme, with support from Australian Agency for International Development, the Government of Sweden and the United Nations Industrial Development Organisation (UNIDO), \textit{Proceedings from the Second Roundtable Consultation on the Ten-Year Socio-Economic Development Strategy 2001-2010}, November 2000, p. 5. Although described as a 'roundtable' between international and Vietnamese participants, the introduction makes clear that the summary, from where the above was quoted, was “the international advice provided" in the meetings between the DSI and "the international experts."

\textsuperscript{155} Ibid, p. 29, my emphasis.

should be “competitive” in, rather than the list of areas the groups must “be the core of,” but remains ambiguous enough.

In general, the strengthening of both the market economy and state ownership reflects the Market Socialist position, but likely due to this being the compromise position rather than the strength of this tendency. The importance the report attached to “intertwined and mixed business organisation with different ownership forms” and to “joint stock economic organisation,” within the context of an overwhelmingly dominant state sector, again arguably reflected this trend.

The “collective economic sector, of which cooperatives constitute the core” was also to play a key role. The “individual and small owner economy” plays its own important role, but “various forms of voluntary cooperatives are to be encouraged, to serve as satellites for enterprises or to grow bigger.” This is more voluntary-sounding than the 8th Congress formulation that they should be guided “in their own interests and for the sake of production development, to join in cooperatives voluntarily, or to work as satellites of state enterprises or cooperatives.”

The capitalist sector also plays a significant role. Again there is a difference with the draft, which states the capitalist economy “is encouraged without limits on scale in sectors that are beneficial for the people and the nation.” The final document reads “without limits in terms of scale in sectors, trades, fields and locations unprohibited by law.” It is unclear how socialist orientation applies. The report calls for the capitalist economy “to develop according to priority orientations set by the state”, and it “encourages” them to become shareholding firms and “sell shares to employees” cooperate with other sectors, and “establish a good relationship” with employees.

There is little concrete in this vaguely social-democratic wish-list.

**Leadership differences after the Congress**

Manh immediately made his mark as a firm supporter of the Doi Moi consensus. At the 3rd Central Committee Plenum after the 9th Congress, he declared “we cannot accept the view that state owned enterprises inevitably lead to low efficiency. These ideas are

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157 Ibid, p. 1239, my emphasis.
158 Ibid, p. 1104
prejudiced, short on objectivity … SOEs should constantly reform themselves … in order to fulfill their decisive role in maintaining the nation’s socialist track.”\textsuperscript{159} At the 5\textsuperscript{th} Plenum, Manh also called on the ‘collective economy’ to “expand in diversified forms” and together with the state economy become “a mainstay for the national economy.”\textsuperscript{160}

Referring to equitisation, Manh stated:

There are many ways to reform SOEs and application of foreign experiences without taking into account Vietnam specific conditions would not be successful. The process must be conducted in a specific and experimental manner … Vietnamese SOEs are driven by a socialist orientation, so the social impacts of economic operations must be taken into account.\textsuperscript{161}

In similar vein, the party newspaper \textit{Nhan Dan} rejected the “mistaken belief” that equitisation “alone” would spur growth.” Despite many examples of SOE mismanagement, others have shown “impressive achievements,” and most “large-scale corruption cases are concentrated in the private sector. The profit gains made by equitised firms stemmed from “tax exemption and under-appraisal of their properties,” while some “enjoy a monopoly regime” or remain “sheltered subsidiaries of a parent company.” In addition, a minority grabs most shares while the welfare fund is abolished. \textit{Nhan Dan} stressed that equitisation must strengthen, not weaken, state ownership, the rights of workers must not be violated and the enterprise party cell must remain.\textsuperscript{162}

The clear conditions on and reservations about equitisation made by Manh and \textit{Nhan Dan} point to the resistance to the process from Socialist Orientationists and a reason why implementation has been delayed despite increasingly radical legislation.

Meanwhile, Market Orientationists, entrepreneurial SOE managers, groups like the Vietnam Association of Financial Investors (VAFI) and the HCMC stock exchange, and

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  \item[160] Nong Duc Manh, opening address, Vietnamese Communist Party Central Committee 5th Plenum, February 2002. By contrast, the private sector merely plays an “important role,” according to Manh.
\end{itemize}
international 'donors' increased pressure to decimate the state sector. Apparently reflecting their clout was a new decree in mid 2002 that rejected, virtually word for word, Manh's 'specific and experimental manner'. The decree said the prime minister will no longer approve equitisations "on a case by case basis," but simply declare entire sectors open, where departments, provinces and people's committees could equitise at will; indeed, SOEs that "fall short of the equitisation requirements" would be punished. "The government will equitise all small SOE's despite their business performance," declared Truong Tan Sang, director of the Party Economic Commission, while Khai stressed "I will not accept any SOE suffering losses."

The breadth of difference on the core issue of the extent of the state sector can be gleaned from public statements during this period. Defending the Doi Moi consensus, Nhan Dan "unilaterally" rejected the Social Democratic argument that SOEs "should be restricted to essential industries like telecommunications, banking and finance, transport, natural resources, security and the public service," thereby making it clear that many were advocating such a restriction. By contrast, more radical Market Orientationists pushed for precisely even these areas to be sold off. In March 2004, Khai called for mass equitisations in power, aviation, banking, insurance and telecommunications. In April 2004, the Ministry of Finance declared "the state should hold a controlling stake" in "sectors related to security and defence," but "key industries such as electricity, banking, insurance, chemicals and telecommunications should be equitised." At the end of 2004, new SOE legislation caught up with these proposals, and the large state corporations, which cover all the strategic areas, were declared open for equitisation.

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166 'By June 2004 two big corporations will have been chosen to be privatised', Vinachem website, March 5, 2004.
167 'Limit State stake: MoF', VDC Media, April 19, 2004. Given that even in defence and security the state would hold only a "controlling stake," it is clear that in these other utilities and financial institutions, "equitised" means privatised outright.
Chapter 2: The CPV debate: Dispensing with Conservatives and Reformers

At the legislative level, this represents the abandonment of the ‘Doi Moi consensus’ model.

**How wide is support for the leading role for the state sector?**

While new legislation suggests market-orienters have gained the upper hand in the higher levels of bureaucracy and at the legislative level, the slowness of equitisation and the resilience of the state sector in practice suggest that the broader base of the party is strongly influenced by socialist oriented politics. This conclusion is backed by twenty five interviews I did with cadres from a range of organisations.  

Fourteen listed some kind of “leading role” for the state-owned economy as a key aspect of socialist orientation. Another five gave it a prominent place, or considered it necessary that it play a leading role (without listing it as a key aspect) as a tool to achieve the key aspects (eg, equity) they listed. Only four stated that the state-owned economy was either an impediment to their key question – developing a market economy – or irrelevant to socialist orientation.

Also indicative is a survey of 100 cadres from around the country attending the national Nguyen Ai Quoc Party School. Respondents were asked what constitutes socialist orientation. They answered by choosing from a list of 11 aspects, which can be divided into ‘structural’ aspects connected to ‘top-down’ control, ‘semi-structural’ aspects potentially connected to ‘mass involvement’, and social goals.

Of the three ‘structural’ aspects, the one with the most support – 85 ticks – was ‘a strong role of the state in regulating the economy and the private sector’. A close second with 82 was the ‘leading role of a strong state economic sector’. Third, with 77, was the ‘leading role of CPV’. The other two highest aspects were social goals. Ninety respondents chose ‘economic development must be combined with progress in social welfare and poverty reduction’ and 82 selected ‘guaranteeing quality health and

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169 About half of these were middle to high level theoretical cadres from the Ho Chi Minh National Political Academy, and the others from the Academy of Social Sciences, the Central Institute of Economic Management, the journal *Tap Chi Cong San* (Communist Review), the Vietnam General Confederation of Labour, the Ho Chi Minh Communist Youth Union, the Vietnam Women’s Union, and the Vietnam Farmers’ Association.

170 These were cadres who happened to be studying at the party school in Hanoi at that point in time, but as they came from many different parts of the country, their views are presumably broader than those of the interviewees, who were mostly Hanoi-based. The survey and results are attached as Appendix 2.
education for all regardless of income'. Significantly lower numbers chose any of the 'semi-structural' aspects.\footnote{For further discussion of these aspects, see pages 101-103 below.}

Of the two leading structural aspects, that relating to the state economic sector may be considered more specifically socialist. Slight differences can be detected in different emphases. Eight chose only state regulation, and 17 gave more emphasis to state regulation than both other aspects. Six chose only state regulation and leading CPV role, and 8 gave more emphasis to the CPV than other aspects. Twenty two gave more emphasis to a leading state sector role than either of the other two, and 5 gave it more emphasis than both others.\footnote{Respondents could indicate greater emphasis on one aspect by choosing only that aspect, or by stressing that one or another aspect was "particularly important" (an option on the survey). The figures above do not include those who gave emphasis to all three aspects equally.} Schematically, those giving greater emphasis to state regulation than the state sector or CPV may be more market oriented.

I did smaller surveys with people in the Central Institute of Economic Management (CIEM), the Academy of Social Sciences (VASS), the Vietnamese Women's Union (VWU), and the Vietnam General Confederation of Labour (VGCL).\footnote{Surveys were also given to some acquaintances in the Farmers' Association in Hanoi, but few were returned, not enough for a reasonable sample. The Ho Chi Minh Communist Youth Union at first agreed to take the survey, but after it had first gone to the 'control board', they reported back that some of the questions were 'inappropriate' for the youth.} The degree of support for a 'leading role for a strong state economic sector' was only 33 percent of CIEM respondents. But it was 50 percent of VASS respondents, 83 percent of the VWU respondents, and 93 percent of VGCL respondents. Although the number of people surveyed in each place was small,\footnote{They consisted of 12, 16, 12 and 15 respondents respectively.} they suggest that the differing views in the CPV debate are reflected with quite different emphases in leading social and economic bodies and mass organisations.

**What role should the state sector play?**

Among the policy makers and policy advisers I interviewed who advocate a leading role for the state sector, opinions vary as to what this meant. The majority of opinions reflect a mixture of views between the two poles of the Socialist Orientation Tendency.
Dinh’s view – that the state sector’s growth to 40 percent of GDP is one of Vietnam’s strengths – is now a relatively leftist position. Several respondents, notably interviewees 1, 2 and 7, categorised the state sector in the following manner:

- SOEs based on a natural monopoly (airlines, communications, railways, energy etc), and those related to information, security and public utilities

- “Less important but still important” SOEs “that should get real profit from investment”

- Unimportant small to medium SOEs, with backward technology, locally-controlled and in debt, 10-20 percent of the total

All believed the first group of SOEs must remain in 100 percent state hands, even if not profitable. They also agreed the last group can be equitised with state minorities or sold.

The subtle differences concern the second group, some 60 percent of SOEs. About half were profitable and another half breaking even or unprofitable. Interviewee 1 thought the state should concentrate only the profitable ones, and equitise the rest, whereas Interviewee 2 thought the state must put energy into making most of this group profitable. Interviewee 7 held the Left Socialist view that, even if they cannot be made profitable, most should be maintained with state majorities, because even in this group profit was not the only consideration.

The roles that many respondents said the state sector should fulfil included the following:

- Maintaining the key positions enabling the state to intervene in the economy, eg finance, banking, communications

- building major infrastructure

- controlling public services and utilities

- owning the land and natural resources

- being responsible for non-profit and low profit sectors, including investing in remote areas – sometimes they may have to accept negative profits

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175 Interviewee 1, December 2004; Interviewee 2, December 2004; Interviewee 7, February 2005. For explanation of this numbering system in relation to interviewees from the Ho Chi Minh National Political Academy and Tap Chi Cong San, see Note 2 in Appendix I, List of Interviewees and Informants.
ensuring economic stability (eg Vietnam avoided the 1997 crisis “because state economy is strong”)

leading in the development of science and technology

building “supporting industries” that require big capital (eg ship-building), to open the base for other industries

being a tool for state-led development, guiding and influencing other sectors towards the state’s development goals, via its own weight in the economy

being the main partner of FDI to direct it towards the state’s orientations

contributing a large share of state budget revenues, via holding major enterprises

controlling key products which influence the whole economy, eg power, oil, coal, steel, cement, fertiliser, machine manufacture, building materials, transport, communications

regulating prices of essential products via dominant ownership

Put together, we get an idea of how wide-ranging many CPV experts view the state’s leading role in the economy. Virtually all these experts with whom I talked endorse the first few points on the list; fewer indicated the more generalised role for SOEs in the later points. Schematically, those who only indicated the first few roles can be called Market Orientationists and those advocating most of the roles are Socialist Orientationists.

As to whether state enterprises should have ‘social roles’, around half explicitly said yes, giving examples such as helping to reduce poverty and providing subsidies to local farmers. While equitisation and changing SOE laws reduce SOE social roles, this reduction should be slow because, as one informant said, “we cannot simply put thousands of workers out onto the street.” A number of experts emphasised the idea

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176 For example, one respondent claimed that “if oil had been in private hands, prices would not have been kept down like last year.”

177 Several interviewees mentioned other roles for the state sector which were not representative, but sometimes of some interest, eg, controlling enterprises that make fast money, (eg tobacco and alcohol), “to distribute via social policy,” controlling tobacco, alcohol and pharmaceuticals, which “should not be left to the private sector due to potential abuse,” “promoting an independent economy,” developing management mechanisms to “enhance social responsibility, people’s capacity for self-governance and socialist values,” and helping maintain “party leadership and working class hegemony.”

178 This whole area will be explored in Chapters 6, 7 and 8.

179 Interviewee 2, December 2004.
that the "state economy" (state ownership of land, resources, state banks, state insurance, national food reserves) was broader than SOEs. However, interviewees interpreted this in different ways. For some, this meant SOEs were merely profit-making units paying tax to this state economy, while for others, both the broader state economy and SOEs play their social roles, which may at times mean SOE profits are negative.

Many spoke about the role of workers and unions in SOE management being an important socialist aspect. However, few respondents put increasing workers' participation as a means of reforming SOEs. The clearest exposition was by Ngo Huy Duc, who wrote that the effectiveness of the state sector includes "the ability to represent the workers' and society's interests," so SOEs "should be managed like any other democratic political organisation: where each worker has one vote to elect the board." Linking this workers' participation to SOE social roles, he thought this mechanism could "help educate and develop the social responsibility of people."

By contrast, Market Orientationists believed no SOE should be unprofitable. Pham Hoang Ha from CIEM gave three reasons for SOE inefficiency, none related to anything positive. The main factor he believed is the difficulty in sacking or retrenching workers in the state sector, as there are many institutions involved in decision-making, giving employees no incentive to work. Secondly, while only the state at present has the huge investment funds necessary to produce quality products, this does not guarantee long term efficiency. Thirdly, many SOE managers are mainly interested in holding their positions rather than making profit.

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181 Interviewee 1, December 2004.
182 Interviewee 7, February 2005, and, for some SOEs, even Interviewees 3 and 5, January 2005. While the latter two thought this applied more to 'public service' SOEs, Interviewee 7 claimed SOE profits were often low because, alongside factors such as corruption, many production SOEs produce products decided by the state for society's benefit, even if not very profitable, such as fertiliser. While a private firm may reinvest in more profitable areas, an SOE cannot do this until it has covered its basic obligations.
184 Clearly it is debatable whether the greater difficulty to sack workers in SOEs is not a positive thing, and not a 'social' aspect, but the interviewee did not see it that way, but just as an impediment to efficiency.
Equitisation: ‘Socialisation’ or privatisation?

Another important difference among those who believe state enterprises should continue to play the leading role was whether this includes equitised firms with a state majority. While some view equitisation as a passage to privatisation, others see it as a means for the state to better secure control, or believe it is a more genuinely ‘social’ form of enterprise than current SOEs. Regardless of the validity of these claims, the fact that many hold these views indicates a resilience of socialist beliefs even among many pushing equitisation.

Interviewee 4 claimed that in “capitalist” equitisation, “whoever has the biggest shares has veto power and dominates the board, thus 10 percent may be greater than 90 percent,” whereas in Vietnam’s “socialist-oriented” version, “majority votes make decisions, so 90 percent are always more powerful than 10 percent.”

Taking this one step further, Interviewee 1 stated that “if done correctly, every worker has a share, so in a sense it is really ‘socialised’, it brings about socialisation rather than ending it.” Phan Xuan Nam agreed it makes the state sector “more socialised” because “workers and all citizens have the right to buy the shares.”

Nguyen Ngoc Long invokes Marx to justify this view:

> Analysing the form of joint-stock company in the late 19th century, Marx thought here capital directly bears the form of social capital (capital of individuals directly rallying together) in opposition to private capital.

He then quotes Marx that this “is the abolition of capital as private property within the framework of the capitalist mode of production itself.” This relatively more “socialised” character of ownership complements what Marx called the increasing “socialisation” of productive forces, whereby large companies produce for vast sections of society, in contrast to small-scale “individual” ownership and production. However, as Long then

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185 Interview 4, January 2005.
186 Interviewee 1, December 2004; Phan Xuan Nam, Retired Professor, Economics Institute, Vietnam Academy of Social Sciences, Interview, October 2005.
shows, for Marx this increased ‘socialisation’ “increases the contradiction of capitalism, between the socialised character of the productive forces and the private ownership of the bourgeois ownership system.”188 Marx believed socialism was necessary to solve this contradiction by abolishing private ownership – contradicting the implication that going “backwards” from state property to private shareholding means the property is “really” socialised.

Nevertheless, the Political Report to the 10th National Congress says that the joint-stock economy leads to “socialisation of production, business and ownership,” and advocated it become a “common form of economic organisation.”189 This sweeping endorsement contradicted the view of both current and previous CPV General-Secretaries, Manh and Phieu, that equitisation is one way of reforming SOEs but not the only one, or not even the most important one, and not applicable to important SOEs.190

Even some convinced of the theoretical proposition “equitisation is socialisation” expressed social concerns about its reality – possibly explaining the slowness of equitisation despite the favourable legislative environment. Phan Xuan Nam said the number of shares one gets depends on one’s wealth, and “equitisation leads to privatisation if concentrated into few hands,” while Interviewee 1 noted that in Russia, “workers got a share, but were poor, so they sold them to the rich, and few people now own them.” Moreover, he agreed that equitisation was “not the only way,” because the key problem with SOE efficiency is not “ownership” but “management,” noting that in Russia, “SOEs were inefficient, they privatised them and the situation got worse.”191

Related to this question is the view put by Interviewee 11, that equitisation gives workers real ownership. Before Doi Moi, “workers did not feel connected with the SOEs,” but now “they feel more sense of ownership.” However, he took this a step further, revealing

188 Nguyen Ngoc Long, ibid, p. 11, paraphrasing Marx.
190 A point also made by a number of respondents, eg, Interviewee 7, February 2005, Interviewee 6, February 2005.
191 Phan Xuan Nam, Interview, op cit; Interviewee 1, December 2004.
the inherent dilemmas of this discourse, claiming “just as farmers feel more ownership of their land in the post-collective era, now workers can buy shares, or can even own their own firms; whoever has money can open a private firm, and create employment.”\(^{192}\)

Thus the debate over what constitutes workers' ownership can lead after a certain point to capitalism equalling socialism.

Chau Nhat Binh from the Vietnam General Confederation of Labour (VGCL) held the opposite view. He said it was “hard to see socialist orientation” as there was “no longer any opposition within the party to equitisation and a completely market-driven SOE policy.” Workers' shares are never powerful, and are lost when small minorities of shareholders launch 'coups-d'etat'. Before this occurs, the illusion that the shareholders' meeting is a new organ of ‘democracy' replacing the trade union and the workers' congress undermined these traditional organs.\(^{193}\)

Interviewee 9 put the most pro-privatisation position. There is “nothing other than equitisation to make SOEs efficient,” but the state’s retention of 51 percent of shares in important areas was detrimental to “competitiveness;” these enterprises “still operate like 100 percent SOEs.” Those in power can “choose who they want” and shares are mostly “in the hands of their relatives and friends.” However, he did not advocate more workers' shares to counter this, as such “scattered” ownership was equally a problem. The only answer to both problems was share trading through the stock exchange.\(^{194}\)

**Leading role of state sector: Temporary or fundamental?**

The further glaring difference among those advocating a strong state sector was whether this was only necessary due to the current weakness of the capitalist class (and to create the conditions for the capitalist class to take over in future) or was necessary to forestall the emergence of a stronger capitalist class. For example, Tran Tien Cuong from CIEM provided an example of how a Market Orientationist could temporarily advocate a strong state sector:

\(^{192}\) Interview 11, March 2005. He added that many workers forego such mastery by “still preferring to work in the state sector due to the psychology that it will give them more security and benefits.”

\(^{193}\) Chau Nhat Binh, International Department of the Vietnam General Confederation of Labour (VGCL), Interviews, May and November 2005. A full discussion of these issues is in Chapter 5.

\(^{194}\) Interviewee 9, March 2005.
Vietnam is a poor country – who has the money to invest in large industries? At this stage, private individuals don’t, only the state has. Maybe in 10 or 20 years time, people will have more money to do so themselves. Even now, equitisation allows people to invest in these areas: thus, state investment opens up a role for the private sector. The leading role of the state sector does not mean we keep these big industries forever.\(^{195}\)

A more moderate, Social-Democratic view was put by Interviewee 5.\(^{196}\) The state should “keep SOEs which produce key products and are important to the whole economy and sectors that the private sector *does not want to* invest in or *is not allowed to* invest in due to social or environmental concerns.” The idea that the state should mainly control what the private sector “does not want” implies private sector domination of whatever it “wants” is the natural situation. He added that “even if a socialist government *privatises* some sectors, if the private owners invest in the necessary areas to improve people’s livelihoods there is no conflict with socialist orientation.” Thus the role of a “socialist government” is to ensure that capitalist owners are socially-oriented.

More to the left, retired Interviewee 6 said the state economy “is responsible for economic growth which other sectors *cannot do*.” Vietnam avoiding the 1997 crisis due to the strength of the state sector, whereas even countries with *highly developed* private sectors were unable to avoid it, implying the state sector would always be necessary for economic stability regardless of the level of private sector development, a typically Market Socialist approach.\(^{197}\)

Another nuance was presented by Vu Tuan Anh. Explaining that the state economy should lead in new sectors (e.g. high tech) where the private sector does not have the capacity, he said “later the state can sell them to the private sector.” This is “because by that time the state must invest in *newer* technology, and sell the private sector the old stuff.” Thus state leadership meant always staying one step ahead of the private sector.\(^{198}\)

\(^{195}\) Tran Tien Cuong, Director, Department of Enterprise Reform and Development, Central Institute of Economic Management, Interview, September 2005.

\(^{196}\) Interviewee 5, January 2005. He noted that he had been trained by the UNDP and the World Bank.

\(^{197}\) Phan Xuan Nam, Interview, op cit.

\(^{198}\) Vu Tuan Anh, Professor, Economics Institute, Vietnam Academy of Social Sciences, Interview, March 2005.
A Left-Socialist position was put by Interviewee 7, who said the state economy must "hold important sectors which the state does not want other sectors to hold," meaning not only security, finance and public services, but also SOEs that create big profits for the state budget and products which influence the whole economy. Moreover, while the CPV accepts multiple ownership, "people's ownership is the basis" and key sectors "must always stay publicly owned and never privatised."Similarly, Ngo Huy Duc wrote that in a capitalist market economy, "the state does what the market can't do, but in a socialist-oriented market economy, the market does what the state can't do," and "possibly only temporarily." Duc also believes "many key elements of central planning should be retained in key sectors of the economy," and expressed the view that the state sector should be partly judged by the development of socialist values and related purposes.

However, in Duc's opinion, the state sector is not in practice doing this well, due to its economic weakness, and so its major present role remains promoting growth. The first reason is to overcome its weakness precisely to be able to carry out its non-market roles in the future. Secondly, regardless of socialist orientation, building the state sector's assets via SOE-led growth is good for society, as "it is all state property for the long term;" and another major role for a strong state sector is to help "overcome the main flaws of both the centrally planned system and the market economy." This mix of Left- and Market-Socialist views highlights the difficulties of classifying tendencies.

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199 Interviewee 7, February 2005.
200 Ngo Huy Duc, 'Is the leading role of the state sufficient, 2005, op cit. Given how unfashionable the term "central planning" has become, this is an unusually candid expression of a Left-Socialist view on the role of state ownership.
201 In his article (ibid), these purposes included maintaining party leadership and working class hegemony, while in discussion (Interview, September 2005) he further suggested the state sector should contribute to the party and mass organisations, provide subsidies to the poor and vulnerable groups, train unemployed workers, and orient production towards the values of socialism, by among other things involving and training workers in management decision making. Regarding the social value of giving money to the party, he added "whether we are convinced the party is a good or a bad thing, since it claims to be building socialism, then its existence is important to this task, and so contributing to it theoretically means making a necessary contribution to socialism."
202 Ngo Huy Duc, Deputy Director, Political Science Department, Ho Chi Minh National Political Academy, Interview, September 2005.
203 Ngo Huy Duc, 2005, op cit.
The capitalist class

Related to these discussions is the role of a large capitalist class. While most Vietnamese leaders laud the role of the private sector, they acknowledge the role of the specifically "capitalist" sector in more neutral tones. Indeed, until recently, Vietnam had few large capitalists due in considerable part to the leading role of the state sector: if it is to dominate all major areas of the economy, then these areas are effectively, if not legally, closed off to the private sector, which cannot become the "ruling class."

Although few interviewees claimed this was a specific role for the state sector, many stated that the private sector's small-scale nature was an aspect of socialist orientation. Tran Xuan Truong made this claim, and stated that while household businesses must operate on a larger scale to take advantage of global integration, they must do this by "link(ing) together, cooperat(ing)", and in doing so "they are still household economy." Nguyen Khac Thinh from the Tea Corporation thought "concentrating on small and medium firms" was an aspect of socialist orientation which he contrasted to the US, "where few people own much of the economy."

Interviewee 1 wanted "the capitalist class to develop more" but said that, given it only accounted for 3 percent of GDP in 2001, such growth represents "no danger" as "it will not be strong enough economically or politically to become the ruling class."

Interviewee 7 also claimed the capitalist class could not become the ruling class because the socialist state is based on workers and farmers who "fought wars against imperialism, so it is not easy for them to accept new bosses." Even if the capitalist class becomes stronger, "it will not be able to turn Vietnam into a capitalist country."

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204 Its key designated roles generally include contributing to economic growth and creating employment (including for workers "moving" from SOEs), while some interviewees (Interviewees 3 and 5) also thought important roles included creating "competitors for SOEs, thus making them more active, flexible and competitive," and "mobilising the wealth of society."

205 Tran Xuan Truong, 'Ban chat cua nen kinh te thi truong dinh huong xa hoi chu nghia o Viet Nam' ('The nature of the market economy with socialist orientation in Vietnam', Tap Chi Cong San, No. 20, October 2004); another piece stressing small and medium enterprises and traditional craft villages is Hoang Xuan Long, "On the contradiction between economic growth and social equity", Social Sciences, 4, 1997.

206 Nguyen Khac Thinh, Chief Secretary, Vietnam Tea Corporation, Interview, Hanoi, June 2005.

207 Interviewee 1, December 2004. For discussion on the actual size of the local and foreign capitalist classes, see Chapter 4, pp. 159-160.

208 Interviewee 7, February 2005.
Vu Tuan Anh put this in historical context. While the state in advanced capitalist countries now taxes business and redistributes wealth to other sectors of society, this took “centuries of development”; it did not happen during capitalism’s early development. Already Vietnam, “at this low stage of development” is “taxing private business and redistributing to [social] welfare”, making Vietnam’s capitalism different from the western capitalism during its rise and making capitalist growth in Vietnam safe. He warned, however, that this could come full circle. “If capital gets too big the ‘golden rule’ (‘he who has the gold makes the rules’) may apply,” but “we are nowhere near that now.”

Some informants justified a greater role for capitalism, claiming Vietnam’s capitalists are different to those in a capitalist economy. Their companies “must have trade unions and follow rules of state and party” and “must respect labour rights, follow social policy, and contribute to poverty reduction.” Moreover, “capitalists [in other countries] exist only for profits, but in Vietnam we don’t have that kind of capitalist, because ours are concerned with social aspects.”

Meanwhile, those advocating a large capitalist class have upped the ante. Vo Van Kiet claims more “multi-national companies” are crucial. Their presence attracts even more investors, leading to higher growth. Even most foreign capital is only “small and medium,” and to attract larger multi-nationals, Vietnam must also have its own large capitalists: “Vietnam has very few large investors with international reach and influence” who would be “a powerful influence on the attitudes of other governments.”

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209 Vu Tuan Anh, Interview, op cit.
210 Ha Huy Thanh, Associate Professor, Acting Director, Institute of Environment and Sustainable Development, Vietnam Academy of Social Sciences, Interview, October 2005.
211 Phan Xuan Nam, op cit, Interview, October 2005.
212 Interviewee 5, January 2005.
213 Le Anh Tu Packard made the case in one of Vietnam’s leading journals that “the essential locomotive” Vietnam needs is the “rapid expansion of the medium-to-large enterprise sector,” which she contrasted favourably not only with the state sector, but also with small-to-medium enterprises, ‘Employment growth and Vietnam’s monetary policy: Should the central bank target a stable and competitive real exchange rate?’, Vietnam’s Socio-Economic Development, Autumn 2005.
Kiet's strategy is not the only one among Market Orientationists. Interviewee 9 advocates equitisation precisely because he believes inefficient state enterprise is incapable of resisting foreign takeover under the WTO; strong national capitalism is necessary to resist this.\(^{216}\) SOEs must be open to domestic investors via equitisation or "otherwise the foreign firms will swallow them." While local capitalists could be just as ruthless as their foreign counterparts, "at least the money flow would stay in the country, and the state can control their operations better."\(^{217}\)

**Economic growth and social progress**

While the question of ownership is a major issue in nearly all discussion on socialist orientation, most interviewees also made reference to social objectives, using some formulation along the lines of "economic growth must be combined with social progress and/or social equity."\(^{218}\) In the survey of 100 cadres on socialist orientation discussed above, the highest score overall was for 'economic development must be combined with progress in social welfare and poverty reduction' (90). Next was 'guaranteeing quality health and education for all regardless of income', ticked by 82 respondents, while 72 chose 'reducing inequality'.

There was very little difference between those giving different 'structural' emphases regarding the objective 'economic growth combined with social progress', while only a *slightly* smaller proportion of those emphasising 'state regulation' chose the equality aspects, evidence that the majority of this tendency have a social-democratic outlook.\(^{219}\) However, a significantly smaller number of the state regulation group (64 percent) chose

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\(^{216}\) For example, he claims at present state banks hold 92 percent of credit and foreign banks cannot use Vietnamese currency, but by 2008, according to the BTA, the US can operate banks in Vietnam with full rights, "thus if Vietnamese banks are not reformed, meaning equitised, these foreign banks will take over," Interview 9, March 2005.

\(^{217}\) He gives an example of a foreign company, Metro Supermarket, which contracts farmers to sell their goods and pays them in 45 days, despite selling their goods in two weeks – Metro sets the prices and makes extra interest for three weeks. "This happens because the capabilities of domestic business are still weak. This is why we need to build the domestic economic forces more strongly before the foreign companies come in more fully."

\(^{218}\) Twelve specifically mentioned 'equity' or 'equality' as an objective of socialist orientation, but of course many who used terms such as 'social progress' may see this as incorporating equity. A number used the formulation 'social progress and equity'.

\(^{219}\) Over 80 percent of all three groups listed economic growth and social progress; the figure was 100 percent of those who gave more emphasis to the state economy than *both* other aspects, but this was only 5 cadres. For the two equality related questions, support was 68 and 72 percent of the state economy group, 62 and 75 percent of the CPV group and 58 and 70 percent of the state regulation group.
the free health and education aspect than among the other two groups (86 percent of the state economy group, and 87 percent of the CPV group), possibly indicating the neo-liberal pole within this tendency.

Among the 24 cadres from a range of state-party organisations, there were significant differences in how these concepts were expressed. Five put the view that economic growth must be combined with social progress at “every step of the way” or “from the very beginning.” Four said that, to the extent that inequality exists in the transition period, no-one must get poorer; the living standards of the poor must continually rise; inequality can only exist because richer people’s living standards rise at a faster rate. Some contrasted this with the early development of western capitalism when the poor were “dispossessed” or “impoverished.”

Vu Tuan Anh argued that “if everything goes to economic growth, for profit, social policy will suffer.” While in early Doi Moi it was necessary to boost economic motivation, now it “plays almost the entire role in people’s motivations.” Do Duc Dinh agreed, but said Vietnam’s emphasis on growth with equity and its diversion of significant funds to social sectors and poverty reduction results in slower growth than is possible, viewing this as positive.

Accepting that social policies rest on a certain level of economic development, Bui Dinh Thanh nevertheless points to several more developed economies with great poverty and inequality and a number of less developed countries “which settle social equality by mobilising people’s potential.” Noting Vietnam’s educational achievements, which “were highly appreciated by the world,” during the socialist period when the country was poor, he claims nowadays “it is us who are damaging that precious tradition.” Thus he stresses there is a role for the subjective factor in “jumping ahead.” Indeed, the economists’ argument can be reversed, as good social policies “create a motive force” for economic development.220

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220 Bui Dinh Thanh, ‘Some reflections on relations between economic growth and social development at the present stage’, Social Sciences, 5, 1997. He gives the example that “a factory or enterprise which goes bankrupt not only affects the economy, but also strongly impacts on political, psychological and sentimental aspects of a city.” The effects of allowing a bankruptcy go beyond the economist’s argument: it may lead to social instability, to people’s disenchantment with socialism and much else.
In contrast to Thanh’s Left-voluntarist view, Hoang Xuan Long believes the development of education and health-care “are limited to the achievement of the goal of economic growth.” This correlates with his social-democratic view that since “economic growth alone” cannot “solve poverty,” we must “find measures to restrict the antagonistic character” of economic growth and social equity. In similar vein, Interviewee 5 said that “livelihoods, employment, income, health and education must all develop in line with the productive forces.” While socialist orientation “prioritises economic development,” the aim is to “be able to prioritise social issues.”

Market Orienters made vaguer references to “improving people’s livelihoods” or “creating equal opportunity for all,” and claim that too much emphasis on social policy would adversely affect growth. In the lead-up to the 10th Congress, Le Dang Doanh and Kiet maintained that Vietnam’s 8.5 percent growth in 2005 was well below its potential and a sign of failure. Despite Vietnam having the second fastest growth in the region, after China, every year since 1998, Kiet claims “if our aim is merely for economic growth in the 2006-2010 period of 8 percent per annum … then the distance between ourselves and other countries in the region will gradually widen.”

**Leadership by the Communist Party and socialist democracy**

Two remaining aspects often raised are the leading role of the Communist Party and the expansion of socialist democracy. Nine interviewees put the former as a key aspect of socialist orientation, as do many other theoreticians. Nguyen Phu Trong writes that CPV leadership is of “decisive significance” as “no other organisations can assume this task”

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221 By “voluntarist” I mean his emphasis on the subjective factor, of “jumping ahead” of the objective conditions, as outlined in the previous paragraph. See page 18 in Chapter 1 re “voluntarism.”


223 Interviewee 9, March 2005.

224 Pham Hoang Ha, op cit.


except a party which is "a true representative and protector of the working class and labouring people and which strives for socialist and communist ideals."\textsuperscript{227}

It was difficult to get interviewees to expand on how CPV leadership is a guarantee of socialist orientation, shielded from the increasingly marketised socio-economic reality. Widely acknowledged large-scale corruption, for instance, calls into the question the idea that the mere existence of a party called Communist guarantees a certain orientation. Moreover, if a party member has relatives in private business and that member advocates privatisation, it is difficult to say that member’s motivation has no connection to ideological and material influences of his/her social-economic context. The idea that a party of select individuals can maintain an ideological and moral purity in isolation from their socio-economic reality violates Marxist understanding.

Some of these issues will be assessed in the following chapter, but to study a question as crucial as the role of the CPV would be another dissertation.

Socialist democracy is another aspect of socialist orientation often put by analysts. Doan Duy Thanh proposes to add the word ‘democratic’ to the vague national goal of “a prosperous people, a strong country and an equitable and civilised society”\textsuperscript{228} Duong Xuan Ngoc claims that realising socialist democracy is the “true essence of renovation.” Although adding that this should not be confused with “absolute democracy,” “anarchic democracy” or “political pluralism,” he does not explain what socialist democracy means to him.\textsuperscript{229}

The CPV says little about how Vietnam is democratic or what changes should be made to make it so. The 7th Congress denied that democracy is synonymous with multiple parties. It notes that in the former Saigon regime “there were dozens of political parties


\textsuperscript{228} Doan Duy Thanh, ‘Market economy and the operation of the market mechanism in Vietnam’, \textit{Vietnam Social Sciences}, 2 (76), 2000.

\textsuperscript{229} Duong Xuan Ngoc, ‘Social democratisation according to socialist orientation’, \textit{Vietnam Social Sciences}, 3 (53), 1996. Criticising “absolute democracy,” he claims it is necessary to learn “the lesson of the collapse of socialism in the former Soviet Union and Eastern Europe.”
and factions, but nobody would say there was much democracy." Yet the Congress did not explain how the current regime is more democratic.

All CPV Congresses have called for expanded socialist democracy. Calling it "the essence of renewing and perfecting the political system," the 7th Congress resolutions contained many pages of democratic changes. Yet the 8th Congress report implied little had changed over five years, claiming that many "party officials and committees fail to respect and properly exercise the principle of democratic centralism; bureaucratism, authoritarianism, departmentalism, local-mindedness, jealousy, abuse of power and individualism are present." The Congress called for "mechanisms for the people to exercise their right as master," both through their representatives and "directly, through various forms of self-governance, grass-roots conventions, rural understandings etc." The Grass-Roots Democracy decree of 1998 was the practical application of this, undoubtedly a positive step. However, the 9th Congress again assessed that democracy was often "violated" and many policies were again outlined, to build "a law-governed state," to decentralize authority, to "implement democracy at the grassroots, facilitating people's participation in social management, discussion and decision-making regarding major issues," to renew the operations of the Fatherland Front and so on.

To assess whether any of this became reality, and more generally, what degree of democracy may exist in Vietnam, is beyond the scope of this dissertation, but will be

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230 The observation is no doubt correct, but does not take into account that not many observers "would say there is much democracy" in the current Vietnamese regime either.

231 CPV A. It put much emphasis on "properly defining the relationship between party and state" to ensure that "the people exercise their powers through elected bodies" such as the National Assembly and the People's Councils. Regarding party members, it called for "the right to straightforward and free discussion, their right to criticize and question, within limits, activities of party organisations and party members at all levels." The situation had to be overcome where "Party committees violate the rights of party members while the latter remain passive." It was necessary to "exercise full democracy in party life, step up criticism and self-criticism in a straightforward and honest manner ... Retaliation against criticism is strictly forbidden." It advocated all kinds of measures from "building up and perfecting the legal system," to "reforming the state apparatus" to "renewing" the structures of the Fatherland Front to enable it and its constituent organisations to "really contribute to the implementation of democracy and defend the legitimate interests of the people," pp. 792, 885-87.

232 CPV B, p. 1002.


234 The resolution is scathing, claiming "the organisation for implementation of party resolutions, decisions and policies has been improper; discipline not rigorous. Arbitrariness, inadequate sense of organisation, discipline and responsibility, non-observance of party directives and resolutions and state laws and policies, dishonest reporting, and violations of the principle of democratic centralism have all made it difficult for a number of Party resolutions to enter practical life," CPV D, p. 1089, 1130.
touched on in the next chapter. However, the fact that democracy is at least restricted, and often "violated," is clear from the CPV’s continual confessions of failure.

**Mass involvement and socialist orientation**

Finally, a number of other "semi-structural" aspects of socialist orientation were listed in the cadre survey described above. Overall, they received less support than the major ‘structural’ or “objectives” aspects. Of the four aspects, the one receiving the largest support — 58 of the 100 cadres surveyed — was ‘strong trade unions to defend workers rights’. Half of the respondents chose ‘relative equality of agricultural land ownership’. Support for a ‘strong role for mass organisations’ was surprisingly low (39), while the lowest score (36) was for a ‘role for new democratic and voluntary agricultural cooperatives’.235 Some of these aspects were also raised by some interviewees, though less consistently.

While there are no evident differences between socialist- and market-oriented tendencies on the question of political democracy, these four elements could conceivably be linked to an appreciation for grass-roots quasi-democratic involvement in decision-making.236 Based on this, the replies in the cadre survey may indicate different views about such ‘mass involvement’.

Looking back to their replies regarding the ‘structural’ aspects of socialist orientation, of the 22 respondents who gave the state economic sector more emphasis compared either to state regulation or the CPV or both, 82 percent listed some or all the ‘mass involvement’ aspects. One-third listed all of them, while only 18 percent said any of them were unimportant. Four of the five who gave more emphasis to the state economy than both other aspects ticked some of the ‘mass involvement’ aspects, and two listed all of them. Similarly, of the eight respondents who emphasised the leading role of the CPV

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235 See Appendix 2.
236 An objection to this may be that trade unions, mass organisations and cooperatives are not necessarily democratic in practice or are controlled by the CPV. However, my assessment, in the next chapter, is more nuanced than this; while restrictions certainly do apply, in many respects these organisations do also represent the interests of their constituencies. In any case, when asking for the opinions of cadres, and evaluating them, it is most likely that cadres regard these organisations as democratic representatives of the grass-roots, whatever the reality.
ahead of state regulation and the state economy, six listed at least some 'mass involvement' aspects and two listed all.

By contrast, of the 17 who gave more emphasis to state regulation than to the state economy or the role of the CPV, only seven (41 percent) listed any ‘mass involvement’ aspects (including four who listed only one each), while eight (47 percent) said some of these aspects were unimportant and three said all of them were.237

The results reveal a difference between those who gave more emphasis to mere state regulation on one hand compared to those who emphasised either the state economic sector or the CPV. A much larger proportion of those emphasising the latter two aspects also chose some or all of the semi-structural/mass involvement aspects than of those who emphasised state regulation.

This could suggest some of those advocating a strong state sector may not conceive of it purely in elite terms, but as related to the unions and mass organisations that form part of the SOE structure. Similarly, many of those emphasising a leading CPV role may conceive of the CPV as a kind of 'mass organisation', like those which form its base. By contrast, many of those stressing only state regulation may be more elite focused. This may indicate an elite-style social-democratic view whereby a state regulates a free market to aid social progress, without much need for state sectors, socialist parties, mass involvement or issues of too much equality.238

Conclusions

At the onset of Doi Moi, a majority of CPV members largely agreed on major aspects of a socialist orientation in a market economy. These include the following: First, that the

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237 Another 10 respondents gave equal weighting to state regulation and the role of the CPV, ahead of the state economy. Overall, their profile falls between those who gave greater weight to one or the other. The remaining 43 gave equal weighting to all three aspects.

238 Some recent comments by Adam Fforde partially back my view of the elite nature of much of MOT and the wider popular base of SOT. Fforde claims the south is responsible for much of the domestic tax base, which "pays for the fiscal deficits of most northern and central provinces," creating a “viable equilibrium” which held “from the early 1990s until the mid 2000s, because the party structures maintained it.” Thus, party structures redistribute to poorer regions some of the profits made by the private and highly liberalised state economy of the south. However, the current “relative rise of the south” which “is obviously based upon money,” leads to foreign capital increasingly making “deals directly with large Vietnamese capital (mainly SOEs) without having to cope with control or restriction from state or party structures, which is what Kiet was trying to do in the 1990s, but failed,” “Vietnam politics and puzzles in mid 2007”, Aduki, March 2007, http://www.aduki.com.au/AF&A%20Vietnam%20Commentary_1_2007_pp.1-4.pdf
goal of socialism must be maintained, and must inform aspects of policy during the 'transition' phase; it is more than just a future ideal. Second, while all economic sectors are encouraged, the state sector plays the leading role, and the state and cooperative economies should increasingly form the basis of the future society. Third, while the role of the market is recognised, it does not have complete free play; the state manages it and intervenes to promote its positive and limit its negative aspects. Fourth, while inequality exists during the transition, it should not involve people getting poorer, though some will get wealthier than others more quickly. Economic growth must lead to social progress at every step of the way.

To these may be added several other points that are less often emphasised:

The leadership of the Communist Party is necessary. Second, the land is owned by the "whole people" and cannot be privatised, there is still an important role for cooperatives and the relative rural equality derived from the land reform. Third, there is an important role for mass organisations and popular 'mobilisation'. Fourth, the "working people" must achieve "mastery," and in the private sector the degree of exploitation should be limited. Finally, "socialist democracy" must be expanded, particularly grass-roots democracy, though this may be coupled with warnings against "abuse" of democracy.

There is much discussion among supporters of this Doi Moi consensus regarding the extent of the market, the extent of the state sector necessary for it to play a leading role, the nature of its leading role, the degree of expansion of the private sector, and the relative emphasis on social or economic concerns. However, by and large, the majority of the CPV can be classified as supporters a 'Socialist Orientation Tendency'.

Within that, there exist Market-Socialist and Left-Socialist poles. These are not hard and fast political groups, but tendencies of thought based on differences over extent. In practice, many leaders and theoreticians represent a mixture of these two poles.

A clear but significant minority rejects all major aspects of socialist orientation. I have conceptualised these leaders and theoreticians as the 'Market-Orientation Tendency'. Their views can be summarised as follows: First, the socialist orientation should either be dropped or postponed. If kept it should not actively inform policy because that holds up the fuller development of the market, which is necessary before one can even talk
about socialist orientation. Second, the state economy should not play the leading role. Either it is considered irredeemably inefficient, and/or it should only exist on an “equal” basis with other sectors. At most, it should only control public services, basic infrastructure and public utilities, and non-profit areas the private sector “does not want.” A fringe within this tendency would even privatise these areas. Third, the role of the state in the economy should be reduced to a minimum; free markets to regulate the economy. Too much state regulation hampers the full development of the market. A completely market-driven economy is necessary for higher economic growth. However, some state regulation is necessary to create clear laws and policies and a stable investment climate. Fourth, while economic growth should lead to improving living standards, growth is the priority. Too much attention to social policy may hamper market development and economic growth.

Regarding secondary issues, the Market-Orientation Tendency people often advocate privatisation of land or at least the full development of the “land market.” Many also emphasize large farms over cooperatives.

On the role of the CPV there is very little difference between two tendencies. Though the CPV could be conceptualised as part of the old socialist structure, this is not reflected in interviews or articles. Clearly they see a CPV moving in their direction as the most stable form of transition to the full market economy. There is no greater tendency to favour political reform; there may be just as much empirical evidence to suggest the opposite.

Within the Market-Orientation Tendency, we can distinguish, vaguely, between Social-Democratic and Neo-Liberal views. They differ in their degree of concern for the social impacts of transition and whether even the core areas of state ownership listed above should be privatised.

The CPV is often thought to be about evenly divided over matters having to do with the role of the state, of markets and the like. My research suggests the Market-Oriented Tendency represents about a quarter of the leadership and membership in 2005, though some leaders may advocate further pragmatic changes in relation to the market or

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239 As the research this assessment is based on was in 2005, it is unclear whether the quite radical changes in policy at the top since the 10th Congress in 2006 reflect a further growth of support for the basic ideas of the MOT throughout the base of the party.
equitisation, for example, without stepping outside the basic *Doi Moi* consensus. On the one hand, the legislative framework has become increasingly pro-market and pro-privatisation, to the point that by the 10th Congress the formal model based on the Doi Moi consensus had arguably been overthrown. On the other, actual economic ‘reform’ is often judged to be slow – certainly much behind the legislative framework – at least until the last few years.

These differences reflect the actual balance of forces within the CPV and its mass base, rather than simply bureaucratic obstruction of so-called ‘reformers’ or ‘ageing conservatives’. The Market-Orientation tendency may have gained the upper hand at higher decision-making levels, partly reflecting the higher levels of formal education, including in western universities, of many of its mostly younger adherents. But this dominance at those levels should not be assumed to reflect society as a whole. While at the outset of Doi Moi, the pressure of ‘society’ on state was for liberalisation (given the straight-jacket imposed by the old model), once liberalisation passed a certain point, the pressure of the same society has held it back, given its potentially negative impacts on the masses.

Overwhelmingly, the basic tenets of socialist orientation, as expressed by the leaders and theoreticians of the CPV’s majority tendency, revolve around a structural component – the leading role of the state economic sector – and an objectives component, the idea that economic growth must be tied to social progress “at every step of the process.” Other aspects of socialist orientation were either less prominently expressed by theoreticians (eg, the land questions), too broad to be useful in defining socialism (eg, ‘state management’ of the economy, which also features in social-democratic and

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240 This will be elaborated on in Chapter 4.
241 Gainsborough’s discussion of the weight of social classes within society, where he argues that at that juncture (2002), no major class was in an exclusively strong position vis-à-vis others or the state, is a good summary of the pressures from the below on the CPV, and another way of expressing this “balance of forces,” Gainsborough, M, ‘Political Change in Vietnam: In Search of the Middle Class Challenge to the State’, *Asian Survey*, Vol. XLII, No. 5, September-October 2002, pp. 694-702.
242 This is in reference to the ‘state-society’ approach, which looks at the informal pressure of ‘society’ on state decision-making, as noted in the Introduction, eg, Kerkvliet, B.J.T., ‘An approach to analysing State-society relations in Vietnam’, *Sojourn*, Volume 16, No.2, 2001. For example, Kerkvliet writes of the pressure by peasants to break out of the old collectives; yet the pressure is clearly not for full land privatisation; if anything, given the landlessness that would result, ‘society’ likely holds this back.
developmentalist states), or of such weight as requiring another dissertation (the role of the CPV).

The following chapter will discuss the validity of the claim of socialist orientation, particularly regarding the social objectives. This will be followed by a study of the state economic sector, in particular how its role correlates with the achievement of these social – and socialist – objectives. The idea that the various forces and actors within, and pressures upon, the state economic sector have some reflection in the political divisions among the leadership will be developed.
Chapter 3
Assessing Socialist Orientation:
Vietnam as “Development Model”? 

The basic tenets of socialist orientation, according to CPV leaders and theoreticians, revolve around a structural component - the leading role of the state sector - and an objectives component – that economic growth must be tied to social progress “at every step of the process.” This chapter will weigh up the validity of some of the claims to socialist orientation.

The purpose of discussing social objectives is to ascertain what substance there is to socialist orientation. A state-dominated economic structure alongside terrible poverty and inequality would not demonstrate socialist substance. If the system were private-sector dominated with such poverty and inequality, the talk of socialist orientation will appear mere rhetoric to justify a ‘socialist’ party maintaining power. Finally, if the system were private-sector dominated, but with rising social indicators and falling poverty, while this may demonstrate a social commitment, it would be an argument in favour of capitalism.

The critiques of the CPV concept of socialist orientation come from different directions. We will begin with the tendency to downplay Vietnam’s social successes. On the left, some believe that capitalism rules undiluted, any apparently non-capitalist elements being mere excuses for a corrupt elite to maintain power under a ‘socialist’ banner with no content. Rather than claim that capitalism has brought about Vietnam’s social successes, they see this capitalism as responsible for the continuing poverty and other social injustices. A right-wing mirror of this believes Vietnam is still too socialist. While the market has brought some social success, they believe the still high levels of poverty are due to the lack of radical economic “reform,” not moving fast enough towards capitalism.

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1 The opposite tendency, to play up Vietnam’s social success but attribute it all to the market, will be discussed beginning on page 115.
This dissertation agrees with the left that the existing social inequality and injustice is largely attributable to the market and capitalism. The view of the right will be shown below to not hold up when we compare Vietnam to capitalist countries. Yet such comparisons call into question the left’s view that Vietnam is fully capitalist. Despite the many injustices in the market, the discussion below suggests that the CPV’s attempt to walk the fine line between encouraging private investment and material incentives, and being swamped by capitalism’s profit-driven incentives, has been shaky but partially successful.

Social indicators

Vietnam has experienced some of the world’s highest economic growth, doubling its GDP in the 1990s. Its growth has been second only to China’s almost every year since the Asian crisis of 1997.

Many countries have experienced periods of rapid growth, but in Vietnam this was accompanied by a fall in poverty from 75 percent in the late 1980s to 28 percent in 2002, and 18 percent in 2006, one of the most rapid reductions in poverty on record in the developing world. A World Bank report claims Vietnam reduced “extreme poverty” from 51 percent in 1990 to 14 percent in 2002. Vietnam’s score on the UN’s Human Development Index (HDI) is 16 points better than its GDP per capita level. Whereas Guatemala’s 2003 purchasing power parity (PPP) was twice Vietnam’s, its HDI ranking of 117 was lower than Vietnam’s 108.

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3 The figure of 18.1 percent is from Vietnam’s General Statistics Office (Poor household rates by poverty line standard applied for period 2006-2010, 09/08/2005, http://www.gso.gov.vn/default_en.aspx?tabid=508&ItemID=2961), based on the Vietnamese poverty measure corresponding to World Bank standards. The number living on less than one dollar a day PPP fell from 50.8 percent in 1990 to 10.6 percent in 2004. However, those on less than two dollars PPP per day stand at 53.4 percent in 2004. Vietnam’s 2002 rate of one dollar PPP (13.6%) put it in a better position than China (16.1) and the Philippines (14.6), Joint Donor Report to the Vietnam Consultative Group Meeting, Vietnam Development Report 2004: Poverty, Hanoi, December 2003, p. 15.


While Vietnam’s take-off began after Doi Moi, the old socialist model claims pluses, even in conditions of war and embargo: educational and health indicators were already far better than would be expected for a poor and devastated country.\(^6\) Primary enrolment rates were 88 percent in the 1980s,\(^7\) and infant mortality fell from 160 per 1000 live births in 1960 to 45 in 1989.\(^8\) In 1980, life expectancy “exceeded that of the low income countries (excluding China and India) by 13 years, and its infant mortality rate was almost half that of the low-income countries.”\(^9\) Vietnam’s child immunization program was launched in 1982, coverage for measles rising from 39 to 87 percent in 1986-90.\(^{10}\)

With the onset of the market, Vietnam introduced user fees and private sector entry into health and education. Unlike in China, this blow against socialist fundamentals was arguably forced by necessity: Vietnam’s per capita GDP was only $110 in 1989, after a decade of war and embargo and the end of Soviet aid.\(^{11}\) The cooperative-based health care network collapsed. The resulting inequalities and the great difficulties that these indisputably market-oriented changes have caused the poor contradict the claim that the market has worked wonders.

Neither Vietnam’s nor China’s post-reform education and health systems can be called socialist, which implies that social control of the economy enables the state to direct sufficient resources at such basics of life so that access is not dependent on wealth. The stark inequalities and injustices in these areas are incompatible with socialist orientation. Even accepting the market and small fees, a socialist orientation would require the growth unleashed by “reform” to be coupled with strongly rising health and education spending, yet neither country spends above the developing country average.

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\(^6\) According to the UNDP *Human Development Report 2005*, even before its economic take-off, Vietnam’s key social indicators were “far higher than the average for countries at a similar income level,” ibid, p. 121.


\(^10\) Ibid, p. 45. It rose to 96 percent by 1996. In 1975, the number of people per health centre stood at 3,749 (compared to 68,400 in 1955), people per nurse at 512 (1,333), people per doctor at 3,816 (10,257), hospitals per 100,000 people at 3.17 (0.4), hospital beds per 100,000 people at 276 (105), pp. 137-138.

Cuba presents a socialist model of health and education, spending 6.1 percent of GDP on public health, compared to 2 percent in China and Vietnam, and 8.5 percent of GDP on education, compared to 2.1 percent in China and 4.4 percent in Vietnam.\(^{12}\) This is equivalent to the wealthiest western countries and well ahead of anywhere in the developing world. All health and every level of education are free. Cuba records adult literacy rates of 97 percent, life expectancy of 77, and an infant mortality rate of 7 – the same as the US.\(^{13}\) It has 590 doctors for every 100,000 people, the highest in the world,\(^{14}\) and 99 percent of births are performed in health facilities by skilled specialists.\(^{15}\)

Vietnam’s road is markedly different to Cuba’s, yet it stands out in its own way from most Third World capitalist countries. Vietnam is a ‘low income’ country ($US430 per capita GDP in 2002), but its education and health indicators are on a par with, or better than, ‘middle income’ countries such as Thailand ($2000 GDP per capita), China and the Philippines (around $1100), and far above those of countries with similar per capita GDP, such as Bangladesh, Pakistan, Kenya and Tanzania. The UNDP’s Millennium Goals report states that “some countries have registered an extraordinary rate of advance towards the MDGs, often from very low levels of income. Viet Nam is one.”\(^{16}\)

Primary enrolment rates initially fell from 88 percent in 1988 to 78 percent in 1993, but rose to 97.5 percent by 2003.\(^{17}\) By contrast, in China they fell from 97 to 93 percent between 1991 and 2001,\(^{18}\) and in “the East Asia and Pacific region” overall “net enrolment in primary education declined from 97 percent in 1991 to 92 percent in

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Chapter 3: Assessing Socialist Orientation: Vietnam as "Development Model"?

2001."19 Junior secondary enrolment in Vietnam shot up from 41.9 percent in 1994 to 80.6 percent in 2003.20

Vietnam’s literacy rate of 93 percent is close to that of Thailand, and much better than that of China, Indonesia and even Malaysia, which have literacy rates of around 85-87 percent.21 Average class sizes dropped from 30.4 to 23.1 in primary school, and 28.7 to 23.4 in lower secondary school, between 1998 and 2004.22

Health indicators are equally impressive, although Vietnam spends less on health than on education.23 The country has cut child mortality to 23 per 10,000 live births, and infant mortality to 19, lower than Thailand, China and the Philippines, and dramatically lower than India and Indonesia. The numbers in Bangladesh are 69 and 46, and in Pakistan, 103 and 81.24 Vietnam’s life expectancy of 71 is equivalent to wealthier China, Thailand and the Philippines, higher than in Indonesia and India, and a decade higher than the low-income country average. Maternal mortality stands at 130 cases per 100,000 births, well below the Philippines (200), Indonesia (310) or India (540).25

Comparing Vietnam to countries with similar per capita PPP, for example, Ghana, Guinea, Pakistan and Bangladesh, reveals how different a country it is. In 2002, the

20 Socialist Republic of Vietnam and World Bank, op cit, p. 10. Senior secondary enrolment has shown a more modest increase, from 12.7 through 25.7 to 36.6 percent, from 1994 through to 2003.
21 UNDP, 2003, op cit. This mask a bigger difference: China’s female literacy is only 78 percent (UNICEF, Information by Country, 2000); in Vietnam, female literacy, at 91 percent, is only a few points behind male, United Nations, Statistics Division, Millennium Indicators, 2003, op cit.
23 One source of this discrimination in spending appears to be the IMF and World Bank. A joint report by the government and international “donors”, led by the IMF and WB, calls for a “gradually increasing public education spending,” yet gives no such suggestion for health, but only advice on how to cut health services by “reducing the per capita number of hospital beds,” “further reducing public subsidies to hospitals, especially at provincial and central level,” and, “raising hospital fees to reduce its subsidies to hospitals,” Joint Report of the Government of Vietnam – Donor Working Group, op cit, pp. 66, 52, 55-56.
24 UNDP, Human Development Report 2005, http://hdr.undp.org/reports/global/2005/. Vietnam has overtaken China in child mortality. Between 1970 and 2003, China improved from 85 death per 1000 life births to 30 for infants and from 120 to 37 for the under-fives, while Vietnam progressed from 55 to 19 (infants) and from 87 to 23 (under-fives). Even much richer Thailand had only brought infant and child mortality down to 23 and 26 respectively, both higher than in Vietnam. In the Philippines, the figures were 36 and 27, and in Indonesia, 41 and 31.
figures for Vietnam followed by these countries for life expectancy were 68, 57, 47, 60 and 59; for adult literacy rates, 93, 71, 41, 43 and 41; for infant mortality (per 1000 births), 30, 58, 112, 85 and 54; for maternal mortality (per 100,000 births), 95, 210, 530, (no figure) and 350.26

In the 1990s, Vietnam eradicated polio, neo-natal tetanus and leprosy, and cut malaria fatalities by 97 percent, in a campaign praised by WHO as "a story to be shared."27 In 1997, it was one of only two countries in the world to meet WHO targets of diagnosing over 70 per cent of TB infections and curing over 85 per cent of patients; in 2004 it remained "the only high-burden country" to achieve this goal. While Vietnam diagnoses 85 percent of TB cases, Thailand manages 75 percent, the Philippines 58, India 47, China 33 and Indonesia 21 percent. Vietnam also has the highest cure rate at 93 percent.28

In 1999, Vietnam had "170 primary health clinics at the village level per million population, compared to 32 in Indonesia, 63 in China and 141 in Thailand." There was "a hospital bed for every 389 Vietnamese, compared to every 465 Chinese, 665 Thais, 910 Filipinos and 1,743 Indonesians."29 Nearly every of Vietnam’s 10,000 communes has a primary school and a commune health centre.30 While Vietnam’s 52 doctors per 100,000 people is far lower than Cuba’s 590, even this is higher than in Thailand (24) or

29 Satyajit Singh, ‘Vietnam shows the way to health with little wealth’, Asia Times on Line, April 10, 1999; these figures are consistent with those of the World Bank, World Development Indicators, 1999. The Joint Donor Group wrote “the only countries having a lower ratio of population to hospital beds than Vietnam (in the region) are Taiwan, Hong Kong, South Korea, Singapore and Sri Lanka, all of which have considerably higher GNP per capita than Vietnam,” Joint Report of the Government of Vietnam – Donor Working Group on Public Expenditure Review, op cit, p. 52. Current Vietnamese figures show 2.4 beds per 1000 people (192,300 beds), i.e. 416 people per bed, General Statistics Office, Hospital beds as of 31/12/2002 by management level and by province, Accessed April 2005, http://www.gso.gov.vn/default_en.aspx?tabid=474&mid=3&ItemID=1717.
30 Ibid shows 13,095 health establishments in the country, of which 10,396 are in villages; the Joint Donor Report says “96,604 health staff are working in 116,359 villages nationally, and only 1.4 percent of communes lack a medical station,” op cit, p. 16.
Indonesia (16). In 1999, Vietnam had the highest rate in the region for free child immunisation against six major infectious diseases.

While these indicators are not spread evenly among the population, such inequality is likely worse in countries where social inequality is sharper overall than in Vietnam. For example, the high maternal mortality in Vietnamese mountainous regions is equivalent to the national average in many poor countries, meaning the worst rates in these countries are much worse than in Vietnam.

Regarding overall inequality, the UN’s 2005 Human Development Report claimed that if the poorest 20 percent of Guatemalans had “the same share of income as the poorest 20 percent in Vietnam,” their average incomes would rise from $550 to $1560. While average income in Mexico is five times that of Vietnam, the poorest 10 percent of Mexicans share 1 percent of the income, while its richest 10 percent share 43.1 percent. Vietnam’s poorest 10 percent receive 3.2 percent of income and its richest 10 percent get 29.9 percent. Mexico’s Gini inequality coefficient is 54.6, while in Vietnam, it increased from 35.7 in 1990 to 37 in 2000.

Finally, Vietnam boasts a number of other outstanding points. In 1999, Vietnam won the UN Population Award for its population and family planning efforts, conducted at a grassroots level by the Women’s Union. Some 78.5 per cent of women aged 15-49 in Vietnam use contraceptives, one of the highest rates in the Third World. In 2005, Vietnam’s 27 percent female representation in the National Assembly was the highest in the world.

32 World Bank, World Development Indicators, 1999. Notably, it was ahead not only of Thailand, Malaysia, Indonesia and the Philippines, but also South Korea, Hong Kong and Singapore.
33 For example, one Health Ministry study (Ministry of Health (MOH), Research on Maternal Mortality in Vietnam 2000-2003, Hanoi, 2002) of 21 districts in the seven ecological regions of Vietnam indicated a MMR of 411 in Cao Bang in the northern mountains, compared to only 45-46 in Ha Tay (Red River Delta) and Binh Duong (Southeast). Such inequality is obviously unacceptable to socialist orientation. However, if 411 is the worst figure in one of the poorest regions in Vietnam, it is close to the national average for Bangladesh (380) and Peru (410), and far lower than the national figures in India (540), Haiti (680), Yemen (570) or Kenya (1000), World Bank, World Development Indicators, 2005, pp. 108-110.
35 Committee for Population, Family and Children / Population and Family Health Project (CPFC/PFHP), Vietnam: Demographic and Health Survey 2002, GSO, Hanoi, 2003; CIHP et al, op cit, p. 40-41. There is almost no difference in rural areas (78%), and use of modern methods stands at 56.7 percent.
the Asia-Pacific region and ranked number 18 in the world, 36 while ethnic minorities, some 13 percent of the population, have 17 percent of NA seats.

Vietnam presents a specific case. While Cuba combines a more fully socialist economic structure in a middle income country with social indicators rivalling the capitalist First World, Vietnam can arguably be seen as an example of a partially socialist economic structure in a low income country with social indicators rivalling middle income capitalist countries. 37 Therefore, despite many aspects irreconcilable with socialist orientation, these relatively good social indicators suggest there is much beyond rhetoric when the CPV stresses social objectives as part of socialist orientation.

Nevertheless, the challenges of maintaining a socialist orientation in a poor country within global capitalism are enormous. Drawing the line between incentives for private investment and crass displays of wealth is not easy. The commercial environment leads to corruption, individualism and acquisitiveness rising at the expense of the moral and collectivist incentives required for socialism. Despite relative social successes, ‘socialism’ looks distant given the rapid growth rate of a class with great wealth to lavish on big cars and mansions, while many remain desperately poor. While less unequal statistically than many countries, the inequalities appear stark. Containing this confident new capitalist class within any kind of socialist framework will be extremely challenging.

36 Inter-Parliamentary Union, Women in National Parliaments, February 2005, http://www.ipu.org/wmn-e/classif280205.htm. I found this figure when originally drafting the chapter in 2006, and I am keeping it here as my dissertation concerns the 1990-2005 period. However, the May 2009 figures show Vietnam’s position has dropped to number 34 in the world; nevertheless, this remains second highest in the region after east Timor, and actual female representation only dropped one percentage point, to 26 percent, in the new 2007 National Assembly, ibid, May 2009. http://www.ipu.org/wmn-e/classif310509.htm.

Despite its achievements, Vietnam remains poor. Some 19 percent of the population remains undernourished. Only 73 percent of Vietnamese have access to improved water sources, though this is a 20 percent leap since 1998. The rising inequalities show up as street children, prostitution, drug abuse and crime. While tremendous re-greening has healed many scars from the war, rapid growth leads to further environmental destruction. Despite the position of women described above, the market economy eats away at women’s equality, and domestic violence is rising. Ethnic minorities have free health and education, but their health and education situation is well below average.

The inequalities plaguing Vietnam must be set in context. The lack of US reconstruction aid has lasting legacies. Some 2 million people are affected by Agent Orange, resulting in a plague of cancers and horrific birth defects. Some 84,000 people have been killed by unexploded ordinance since the end of the war, 150,000 tons of which remains in fields and forests. The Hanoi-based NGO Resource Centre claims that some 10 per cent of the population – seven million people – are disabled.

What accounts for Vietnam’s accomplishments?

If the left and right analyses which downplay Vietnam’s social success are thus shown to be wanting, the opposite tendency is that of neo-liberal experts who accept that Vietnam has carried out massive poverty reduction and has high social indicators, but explain it as the result of the market and other pro-capitalist elements introduced since Doi Moi. Socialist orientation, in their view, is irrelevant.

However, the capitalist countries Vietnam compares with favourably above do not lack free markets and private sectors. Moreover, a problem with this view is that Vietnam has

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38 UNDP, *Human Development Report*, 2005, p. 8. Note however that even this figure does not look so low when compared to figures of 20 and 22 percent for richer Thailand and the Philippines respectively, p. 7.


40 These post-Doi Moi inequalities are well elaborated in FAO/UNDP, *Gender Differences in the Transitional Economy*, Hanoi, August 2002.

41 For example, the country’s World Bank representative, Ajay Chhibber, calls Vietnam a “poster child” of market reforms and of the “Washington Consensus,” boasting “free enterprise, free trade, sensible state finances and so on” while also achieving the UN’s Millennium Development Goals, quoted from Collins, P, ‘Half-way from rags to riches,’ *The Economist* (US), April 26, 2008, p. 4. This is ironic, given how fiercely the Bank was criticising Vietnam until recently for not carrying out this Washington Consensus, see Chapter 4, pp. 155-6.
made more social progress than ‘normal’ capitalist countries not only under “market socialism” since Doi Moi, but also under “state socialism,” as shown above. Furthermore, the latter occurred concurrently with decades of war, destruction and embargo until 1989, which would have greatly exaggerated the state of poverty under any social system.\textsuperscript{42}

Other analysts have a more nuanced view, emphasising that it is not simply the market, but also the successful “management” of the market and the CPV’s social commitment that have made Doi Moi successful. This is still often, though not always, within a pro-market critique, which sees little use in “socialist” elements.\textsuperscript{43}

In assessing factors leading to Vietnam’s social progress, we can first look at state social spending, from the viewpoint of whether Vietnam’s is a kind of “social-democracy.”\textsuperscript{44} That means a government based on a capitalist economy but with a commitment to taxing it to spend on social sectors, to make basic social goods and welfare equally available. In this scenario, there may arguably be no need for a second possible factor, a socialist economic structure.

Classical social-democracy exists in certain highly developed countries with the wealth to be able to distribute a significant proportion to social sectors (and the commitment to do so). No poor country looks anything like classical social democracy. Even a very socially committed government will still need to put a large proportion of investment into economic growth. Given the difficulties of underdeveloped countries achieving

\textsuperscript{42} Kolko, op cit, situates Vietnam’s pre-Doi Moi poverty in the context not only of the American war but also the Cambodian war and embargo of the 1980s, pp. 25-26. Van Arkadie and Mallon provide a breakdown of the massive fall, relative to the rest of Asia, that began in Vietnam with the onset of war around 1950 (when Vietnam’s per capita GDP was 80-85 percent that of South Korea and Thailand), then plunged more dramatically between 1960 and 1975, continuing as a much slighter but still clear relative decline during the Cambodian war of the 1980s. The new rise began about the time peace was established in 1989, Vietnam: A Transition Tiger, Asia pacific Press, ANU, 2003, pp. 4-5.


\textsuperscript{44} The term ‘social-democracy’ refers here only to socio-economic aspects, and does not imply anything about the question of political democracy.
‘socialism’ as discussed in Chapter 1, a poor country with a very high commitment to social spending, within a market economy, might be as ‘socialist-oriented’ as is possible. However, Vietnam does not spend more than average on health and education. Education and health spending began rising from the early 1990s, but only in recent years has the education budget begun to look high by regional standards – 4.4 percent of GDP by 2002 and 18 percent of the budget by 2005.45 State spending on health doubled in real terms in the 1990s, but then stagnated for years at about 1.7 percent of GDP. This was a lower proportion than many developing (albeit richer) countries, though even this placed Vietnam among the top five countries of the region in health spending.46 Health spending then rose to 2 percent of GDP by 2004, reaching the level of China and Thailand.47

However, countries with larger budgets may simply spend more on luxury health services. Vietnam’s better spread of primary health centers and hospital beds, the high level of child immunisation and the relative efficiency of its TB program, are examples noted above that suggest Vietnam has spread health spending more evenly than many, even with a lower budget.

Moreover, a ‘Social Protection’ budget accounts for 3.5 percent of GDP, so overall social spending is high, at some 10 percent of GDP or 35-40 percent of the budget.48

46 World Bank, Sida, Ausaid, Royal Netherlands Embassy, in cooperation with Vietnam Ministry of Health, Vietnam: Growing Healthy: A Review of Vietnam’s Health Sector, Hanoi May 2001, pp. 170-171. The report notes that “all of the countries spending a higher proportion of their GDP or total government expenditure on health have significantly higher levels of per capita GDP than Vietnam” (meaning Thailand, China and South Korea). Other countries with higher per capita GDP than Vietnam spent less on health.
47 Between 2003 and 2004, the health budget rose 34.8 percent, from 1.68 to 1.92 percent of GDP, and from 5.91 to 7.34 percent of the state budget, Ministry of Health, Planning and Finance Department, Health Statistics Yearbook 2004, p. 14. There was a 31 percent rise in state health spending per capita, from 127,000 VND to 167,000 VND. Health Minister Tran Thi Trung Chien stated she wants the health budget to rise to 3 percent of GDP by 2010, or some 12 percent of the budget, Viet Nam News, September 9, 2005.
This covers disaster relief, war-affected assistance, and, partially, poverty alleviation programs. The war affected category includes benefits to families of martyrs, disabled veterans, veterans who contracted a disease during service, heroic mothers, those who supported war effort in other ways – several million people – cushioning the effects of poverty within extended families and communities. The poverty programs include free education and health insurance for the poor, building schools, clinics, roads, clean water systems and infrastructure in remote areas, and delivering a large amount of subsidised, low interest credit to the poor.

Thus, the now high education budget, the steady improvement in the low health budget, and the addition of the social protection budget do indicate significant social spending. However, it is still hardly exceptional. Even the social protection budget probably falls short of covering the minimum extra need Vietnam has due to war.

An important issue is the small user fees for health and education introduced in 1989. While, officially, fee-paying does not involve primary school education or community health centres (CHCs), there can be no denying that the fees throughout all other levels most affect those least able to pay. However, to judge their relationship to Vietnam’s relatively good social indicators, it is necessary to summarise their extent and severity.

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49 These programs also get funds from departments, mass organisations, enterprises and international aid.
52 The Education Law reads “pupils at public primary schools are not required to pay tuition.” Other “contributions” are banned in all schools: “Apart from tuition and enrolment fees, learners’ and learners’ families are not required to make any other pecuniary contributions,” No. 38/2005/QH11, June 14, 2005. However, in practice, unofficial fees of $1-2 remain common even for primary schools, except for ethnic minorities and the very poor, based on my discussions with people from rural areas. The actual unofficial “fee” is very small; out-of-pocket spending is largely on uniforms, books, school tools, and unofficial “contributions.” For the poorest quintile, an average annual out-of-pocket spending per primary school child was 130,000 dong ($US 9), or 1.9 percent of household expenditure; two thirds were for uniforms and the like, while only 4700 dong (30 cents) was for “tuition fees,” UN Country Team – Vietnam, User Fees, Financial Autonomy and Access to Social Services in Viet Nam, Hanoi, 2005, p 25-26.
53 The fees were officially introduced for only the three higher levels (district, provincial and national) of public health, while Commune Health Centers officially remained free. However, all evidence suggests that while unofficial fees at CHC’s are very low, they have never been actually free.
Firstly, the cost of a simple hospital visit for consultation, examination or small health problems, ranges from 500 to 3000 VND (3c to 20c).\(^\text{54}\) The cost of delivery throughout rural areas is some 30,000 VND ($2).\(^\text{55}\) Secondly, not all health services are user-pays. Free services include reproductive services such as antenatal examinations, tetanus-tetoxoid shot, and contraception,\(^\text{56}\) treatment for target diseases, and child vaccinations.

Third, there are large exemptions from fee paying. The very poor were supposedly exempt from the outset, though in practice this undoubtedly varied greatly. A 1998 study indicated that 42 percent of public hospital users, and 82 percent of CHC users, reported “no out of pocket payments” (this was 90 percent for the poorest quintile).\(^\text{57}\)

Currently, fee exemption covers several categories:

- ethnic minorities, some 10 million people, or 12 percent of the population.
- people defined as "poor", who receive free health care cards under the Health Care Funds for the Poor (HCFP) program;\(^\text{58}\) this covered 11 million people, 13 percent of the population, in 2003, which was 84 percent of the target group (13 million people, 17 percent of the population).\(^\text{59}\)

\(^{54}\) World Bank, Sida et al, op cit, p. 166. The difference depends on hospital, from “first class” (2-3000 dong) to “fourth class and polyclinic” (500-1000 dong). This corresponds closely with my discussions with people from Ninh Binh and Ha Tay, who say it costs “about 2000 VND” (13c) to visit the doctor or the district hospital for a general check or “something small.” A report on North Central communes put the fees at 500 VND (3.5c) for a “simple examination” and 1500 VND (10c) for “referral to higher level health facilities,” Consultation of Investment in Health Promotion / Population and Development International / JSI Research and Training Institute (CIHP/PDI/JSI), Impact of Cairo POA: Gender, Women’s Empowerment and Reproductive Health in 4 Vietnamese Communities, 2002, p. 79. When I visited the district hospital in Bai Tu Long in June 2009 after an accident with a rusty nail in my scalp, I was charged nothing when nurses tended and bandaged the wound. A local with us claimed there was no fee for such simple procedures. The next day I went back for a tetanus shot, and was charged 30,000 dong ($2).

\(^{55}\) According to reports from foreign research teams, discussions with people from WHO and the Hanoi University of Public Health, and with individuals. In the fee schedule in World Bank, Sida et al., op cit, “delivery and two days after delivery” is said to cost from 3000 to 18,000 dong, depending on the type of hospital, p. 167. Also CIHP et al, op cit, puts the figure at 30,000 VND ($2) for delivery, p. 79.


\(^{58}\) Decision 139 in 2002 (139/2002/QD-TT) set up the Health Care Funds for the Poor (HCFP) program, to build on and coordinate existing targeted fee exemption policies.

\(^{59}\) Joint Donor Report to the Vietnam Consultative Group, Vietnam Development Report 2005: Governance, Hanoi, 2005. It is unclear to what extent this crosses over with ethnic minorities who already had free health care. Between the 2 groups, allowing for some crossover, we are perhaps talking about 20%
• children under six, 9 million people.
• 'heroic mothers' and other war-affected categories.

Other components of the health insurance system include:

• Compulsory health insurance, paid by the employer, covering 10 million workers (in state, foreign or registered private firms), or 12.5 percent of the population. Retirees are also covered by the compulsory 'social insurance' the company pays for workers, which also covers pensions.

• School children are covered by health insurance with an annual parent payment of 15,000 dong ($1). This is voluntary, but a number of people from northern villages spoke of it as a compulsory part of enrolling.

• Voluntary health insurance is available for 5,000 dong (33c) per month. Some 6.4 million people (8 percent of the population) had bought voluntary insurance by 2005.60

In early 2005 the Politburo issued Resolution 46, which called for:

... rapidly increasing the proportion of public financing sources (including government budgets and health insurance) and gradually reducing direct payment of hospital fees from patients ... the State needs to make strong investments and create a leap forward to upgrade healthcare facilities ... (prioritising) ... networks for basic healthcare, preventive medicine, provincial and district general hospitals. Formulate and implement the roadmap towards universal health insurance coverage by 2010.61

This was followed by concrete measures. Previously, health insurance covered only 80 percent of the cost of service, but Decree 63 in 2005 raised it to 100 percent; previously a number of expensive hi-tech services, such as eye operations and advanced scannings, of the population. This corresponds to media reports and discussions with experts in 2005, who assessed that the free health care system by then covered some 17 million people (21.5 percent of the population), of whom most get free health cards, but 2-3 million are given free health insurance instead.

60 According to Hoang Kien Thiet, head of Viet Nam Social Security, 'Self-employed to benefit from voluntary health insurance plan', Viet Nam News, June 9, 2005.

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were not covered fully, but now the majority are; an extra four categories of people became eligible for free health insurance; and the cost of voluntary health insurance was halved from 66c to 33c per month.62

In addition, compulsory enterprise-based health insurance was extended from firms employing over 10 people to every enterprise, even if employing one person, covering the entire petty private sector.63 Officially this means that health insurance coverage should jump from 18 to 30 million people, or 37.5 percent of the population.64

It is unclear whether this figure includes voluntary insurance, and whether the figures for voluntary insurance include the schoolchildren scheme. If we assume that the figure of 30 million includes all health insurance – compulsory, voluntary, schoolchildren and the poor with free health insurance, then add 15 million poor provided free health cards and 9 million children under 6, the total free coverage is now theoretically 54 million people, or 69 percent of the population (if the voluntary and/or schoolchildren schemes are extra, it may be close to 80 percent). Thus Vietnam is now closer to having universal health cover than at any time since 1989.

The effectiveness of these schemes is another question. On the one hand, WHO field visits observed that fee exemptions, free essential drugs, health insurance and hospital funds for the poor have been launched “on a large scale since 2001” and “greeted enthusiastically by both patients and health workers.”65 The World Bank claimed “initial reports show that a sharp up-tick in facility utilisation is occurring ... At an additional cost of VND 700 billion (some US$0.5 billion) per year, this is both a major increase in health spending” and one “tightly targeted at the poor.”66

On the other, there remains much evidence of the hardships that many people still experience. Any scheme involving exemptions has a problem of where to draw the line, so many marginally above the official “poor” get left out. Corruption and nepotism can

63 'Government policy to offer insured patients more medical benefits,' Viet Nam News, June 23, 2005.
64 While the move is astonishingly important, there is little evidence or data regarding the extent to which this has been effected; empirical evidence suggests little has been done.
also result in the wrong people getting health cards. Moreover, as health workers’ salaries are low, they have an incentive to charge unofficial fees, or give preferential treatment to paying rather than insured or free patients.

The main problem for those not covered is not basic health, but major operations and expensive medicines. Few third world countries can afford to cover such services, given the cost of equipment and medicines controlled by the global pharmaceutical cartel. Even for those covered, not all costs are always covered. The equipment and expertise often do not exist in local hospitals, so the sick must go to a higher level facility, but to get insurance, they have to be referred by their local one. This can involve unofficial fees.

Such major operations can ruin the poor. The number of people classed as poor in the 1998 Vietnam Living Standards survey was estimated to be greater by 3.4 percentage points, or 2.6 million people, due to this. Many go into debt to pay, and if they cannot borrow from the range of subsidised credit agencies (Bank for Social Policies, Women's Union etc), they must rely on private lenders, who charge very high interest.

Moreover, there exists a countercurrent to the Politburo push for universal health care. In 2002, the government issued Decree 10, allowing hospitals, health units and schools to “self-finance” by providing special higher quality services (e.g., larger hospital rooms) to

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67 It is difficult to estimate the expense of operations and medicines. The 1998 VLSS claimed one visit by a poor person to a public hospital cost the equivalent of 22 percent of annual non-food spending in fees and drugs (World Bank, Sida et al, p. 54). However, most of the poor use CHC’s and polyclinics, not central or provincial public hospitals, and here the figure falls to 3-6 percent (ibid). Most of the cost was for drugs – a CHC visit in 1998 only cost 2800 dong in fees, but 12,000 dong in drugs; in a public hospital, the figures were 32,000 and 82,000 dong, ibid, p. 50, 51. Based on the 2002 VLSS, the average out of pocket expense for health per ill person was 298,000 dong per year for the poorest quintile (456,000 for the next poorest quintile). This was estimated at only 4.31 percent (and 5 percent) of household expenditure, an estimate that appears too low given the incomes of the poorest, but a better estimate would still be well down on the 1998 estimates. Moreover, this was before Decree 139 of 2002. Nearly all the 298,000 dong was for treatment (151,000) and medicines (137,000), whereas “contribution” was only 2,400 dong. “Treatment” however would be an average of small inexpensive treatments and major operations, thus those who underwent the latter spent more, Joint Donor Report to the Vietnam Consultative Group Meeting, *Vietnam Development Report 2004: Poverty*, Hanoi, December 2003, p. 67.

68 World Health Organisation (WHO), *Health and Ethnic Minorities in Viet Nam*, Hanoi, 2003; plus my discussions with people in 2005. WHO also notes that in the Central Highlands the fee exemptions for minorities were enforced, whether they were poor or not, but all Kinh had to pay, whether poor or not.

wealthier users.\textsuperscript{70} This widens the dangers of a two-tier health system, though it is argued that it creates extra finance from the rich to buy better equipment and increase funds for poor patients.

More drastically, in 2005 Viet Nam News reported the government plans to "reduce the number of students at public day-care centers to 20 percent (of the total), 30 percent for kindergartens, 60 percent for senior secondary schools, 70 percent for vocational secondary schools, 40 percent for vocational training centers and 60 percent for universities and colleges"\textsuperscript{71} (notably the list does not include primary or junior secondary schools, or basic health).

Dr Banh Tien Long, Deputy Minister of MoET, explained that cutting the number of students at state universities would involve not only new private universities, but also "the ministry will decide on institutions that can go private." Similarly, Viet Nam News reported that "most public and semi-public vocational training schools will be changed into private ones."\textsuperscript{72} Deputy Minister of Planning and Investment Phan Quang Trung assured that "subsidies for vocational training will be slashed."\textsuperscript{73} This was combined with a push for massive fee increases at universities, senior secondary schools and training colleges. Deputy Minister of MoLISA, Nguyen Luong Trao, boasted that "the biggest success" was that "last year, more than 90 percent of vocational school students paid for their tuition."\textsuperscript{74}

This neo-liberal countercurrent was set back in late 2005 when the university fee rise was blocked by popular pressure.\textsuperscript{75} Combined with the advances in health care, this allows a cautious estimate that steady advances in state social spending, have begun to overcome the darkest period, when 'socialist orientation' in these areas often seemed a tragic farce.

Nevertheless, such a cautious appraisal remains inadequate to fully account for the outstanding gap between Vietnam and other countries in social outcomes. State spending

\textsuperscript{70} Decree 10/2002/ND-CP, January 16, 2002. Notably, this was introduced the same year that the HCFP was introduced, a policy in the directly opposite spirit.
\textsuperscript{71} 'State to relinquish control of services', Viet Nam News, May 5 2005.
\textsuperscript{72} 'MoLISA submits plan to develop, socialise vocational training schools', Viet Nam News, July 28, 2005.
\textsuperscript{73} 'Social sectors need diverse funding', Viet Nam News, August 24 2005.
\textsuperscript{74} ibid.
\textsuperscript{75} See below in section on mass organisations, regarding the role of the Youth Union in blocking this.
may be improving, but is still far from outstanding; the exemptions from fee policies are
growing, but capitalist third world countries can also have exemptions. The next issue
then is to look at socialistic aspects of Vietnam’s socio-economy, and whether they have
any relation to the social outcomes.

What is ‘socialist’ in current Vietnamese society?

Before focusing on the leading role of the state sector, the main structural element of
socialist orientation, other structural elements which may contain seeds of the future
socialist vision might include:

- A relatively egalitarian land distribution, and the promotion of various
  cooperative initiatives in agricultural production
- A significant role for the working class, and of labour unions in protecting
  workers’ interests in the transitional era
- Given the CPV is the only legal party, some control over party members and
  leaders by workers and peasants
- The role played by formations which arose out of Vietnam’s socialist revolution,
  such as the mass organisations and the Vietnamese People’s Army

Agricultural land

The first issue is how agricultural land is owned and allocated. Kolko claimed that under
Doi Moi, “total freedom” had replaced “total control” in land ownership,76 and
Greenfield believed the collapse of cooperatives “saw the appropriation of land and its
accumulation in private hands (usually local cadres or their relatives),” as advocated by
“new right intellectuals” who wanted to end the “constraints on the labour market”
caused by “the autarchic household economy (which) has inhibited the commodification
of the rural workforce.”77 However, Hy V. Luong claims the battles over land in the
early 1990s prevented the open restoration of private landlordism and pro-rich peasant

76 Kolko, 1997, op cit, p. 91.
policies from the north down to the south central coast, where landlessness remains low and local people have been reasonably effective in fighting corrupt encroachments.\textsuperscript{78}

The maintenance of relative equality of ownership is an indicator of a socialist orientation within a market economy, when the alternative is concentration of landholdings into fewer hands and massive landlessness. The ability of Vietnamese peasants to hold onto land despite debt, corruption and the market may ironically be connected to the fact that they do not “own” it. The constitution declares land the property of the “whole people.” Land is leased for 20 years, long enough to allow for some planning by the farmer, but restricting its value to buyers or creditors; land bought during the lease period can be reallocated at its end. Farmers’ leases are renewable and inheritable.\textsuperscript{79} There is a ceiling on the size of land holdings. Diversification is combined with a focus on food security, to ensure the poor are not fully exposed to market volatility.\textsuperscript{80} The state provides subsidies on fertilisers, seeds and other inputs, and a large amount of subsidised credit to help peasants avoid selling land.\textsuperscript{81} Government policy advocates redistributing land to those who lose it, particularly minorities in the Mekong and Central Highlands.\textsuperscript{82}

\textsuperscript{78} Hy V. Luong, “Wealth, Power and Inequality: Global Market, the State and Local Sociocultural Dynamics, in Hy V. Luong (Ed), Postwar Vietnam: Dynamics of a Changing Society, ISEAS and Rowman and Littlefield Publishers Inc, Singapore, 2003, p. 86-88, 98-101. This view is backed by the Joint Donor Group which observed “the distribution of land to rural households ... was remarkably egalitarian ... the observed allocation of land roughly amounted to giving every household in the commune the same irrigated land equivalent. This result suggests that a decentralized allocation of resources was not hijacked by local elites, as could have been feared,” Joint Donor Report to the Vietnam Consultative Group Meeting, Vietnam Development Report 2004: Poverty, Hanoi, December 2003, p. 38. However, see below (note 86) for the group’s advocacy of abolishing this equality in favour of “efficiency.”

\textsuperscript{79} Villagers saw use rights rather than ownership “a way to avoid land being accumulated by a few people and to help assure that all families who rely on farming have fields to plant.” It enabled periodic land reallocation “according to the number of people in their household and other factors,” Kerkvliet, B. J. T, The Power of Everyday Politics, Ithaca, NY: Cornell University Press, 2005, p. 228.

\textsuperscript{80} Pham Tuong Vi, Community, State and Markets: The process of agrarian transformation in upland villages in Vietnam, Unpublished seminar paper, RMAP, Australian National University, August 2004, which provides an account of the control that local communities and the state have over paddy land, which remains redistributed every few years, and on which litchi production (the main cash crop in Luc Ngan in Bac Giang province studied) is barred, only taking place outside the main paddy fields.

\textsuperscript{81} The Comprehensive Poverty Reduction and Growth Strategy (SRV, 2002) pledges to “provide integrated support in the form of credit, seeds and knowledge to help the poor avoid selling or mortgaging their land,” and to “allocate unused land to rural dwellers.”

\textsuperscript{82} Government of Vietnam, Socio-Economic Development Tasks in 2004 and Major Contents of the Socio-Economic Development Agenda in 2005 calls for “implementation of the policy on land for the Khmer people and native ethnic peoples in the Central Highlands,” Report to the Sixth session of the 11th national Assembly, October 25, 2004. Media reports indicate land is being distributed to landless households,
However, such rural organisation, where millions of peasants own tiny plots, cannot be called socialist, which suggests greater collective ownership. Moreover, it is widely seen as not the ultimate solution. While peasants have relative security, they have little chance of escaping poverty, given the lack of economies of scale. Though the system limits the tendency of the land market to create landlessness, it does not prevent it — poor and debt-ridden peasants still sell, and corrupt officials and land merchants cheat peasants. Even when the government distributes land to poor farmers, they may sell it again when they need cash. In the Mekong, landlessness has reached levels typical of neighbouring capitalist countries. Many among the minority population in the Central Highlands have also lost land; thus free health care for minorities can be combined with an appalling health situation due to lack of food. As long as poverty and technical backwardness exist, the best intentions can be undermined.

Therefore, the discussion is about whether to move in a more socialist or capitalist direction. Even proponents of economic liberalisation point to Doi Moi land policy as a source of Vietnam’s success. They believe that since de-collectivisation was beneficial, deeper liberalisation of land ownership would be more so. The removal of every one of the country’s key land policies is advocated by the World Bank, which demands “further particularly in the Central Highlands and the Mekong (e.g., ‘Loans put the landless farmers of Tra Vinh back on solid ground’, Viet Nam News, July 26, 2002; ‘Government provides land to ethnic minorities in Central Highlands’, Viet Nam News, October 11, 2002). The Joint Donor Group note that “in response to” the uprising of minority peoples in the Central Highlands in 2001, “the government vowed to allocate residential land to all ethnic minority households in the region,” Joint Donor Report, 2003, op cit, p. 147.

For example, a research team came across ethnic people in the very poor districts of Gia Lai province in the Central Highlands who had been cheated out of land at bargain prices (for the buyer) with the promise of jobs on the buyer’s coffee plantation. The jobs came and went with the coffee crash of 2000-2001, RRA Research Team, IUCN Vietnam, Resource use, Environmental Degradation and Poverty: Rapid Rural Appraisal of Two Communes in the Se San Watershed, Presented to ADB/RETA 5771, Hanoi, 2000.

The 2002 VLSS suggests landlessness jumped from 9 to 18 percent from 1998. However, the figures show it is the rich who give up land (to invest in business or buy property in cities). Only one percent of the poorest quintile in the northern mountains is landless, compared to 25 percent in the richest quintile; this was the pattern in most regions, even the Central Highlands (3 compared to 11 percent). Two regions had very high landlessness among the poorest quintile, the southeast and the Mekong. In the southeast, 31 percent of the poorest quintile were landless, rising to 59 percent of the richest. While this likely correlates to the powerful industrial growth and availability of industrial jobs in that region, the Mekong shows the reverse pattern to the rest of the country — while 39 percent of the poorest quintile are landless, only 28 percent of the rich are; in this region the rich can have truly large landholdings, and thus make money from agribusiness, employing the army of landless, Joint Donor Report, 2003, op cit., p. 39.

RRA Research Team, IUCN Vietnam, op cit, which found that “the health situation in the researched communes borders on extreme depravity. The greatest health concern is severe food shortages. The child malnutrition rate in the district is 71 percent. The infant and child mortality rates were not recorded although they were stated as being the highest in the country.” This was a district with severe landlessness.
liberalisation” of land and ‘land markets’, i.e. privatisation, land concentration to allow ‘efficient’ farmers to get larger plots, and landlessness, which they argue is necessary for greater “efficiency” and economies of scale.\(^86\)

The Market Orienters in the CPV hold similar views. According to then Deputy Prime Minister Nguyen Tan Dung, arguing for “large farms”, “land accumulation is a process which is part of the development of agriculture.”\(^87\) Reacting to criticism that this was the farming model the CPV shed blood to get rid of, Prime Minister Phan Van Khai responded “the farmland owners of Vietnam today are much different from the landlords of the past ... we are making money for ourselves and for the wealth of society.”\(^88\) An attempt to extend land leases from 20 to 50 years and abolish ceilings on plot sizes failed to get Politburo backing in 1997, but was endorsed by the Central Committee. However, it was then voted down in the National Assembly.\(^89\) Khai’s “large farm” bill of 2000 stressed mainly those farmers who put in extra work to clear “wasteland.”\(^90\)

However, de-collectivisation – which returned land to the peasants on the basis of the earlier land reforms – has arguably been beneficial due to the limitations on liberalisation. The socialist orientation consists of encouraging voluntary cooperatisation, so that small-holders can collectively achieve economies of scale, invest in irrigation, market products and buy inputs with better bargaining power, or combine food security

\(^86\) World Bank, *Advancing Rural Development*, Hanoi 1998. The Joint Donor group makes a particularly blatant advocacy of “forcing” peasants off the land to create inequality: “... distributing land on an egalitarian basis is not necessarily good for efficiency. If more had gone to the most productive (presumably wealthier) households, the overall productivity of agriculture would have been higher.” It then notes hopefully that “market forces could gradually make the initial egalitarian allocation drift in the direction of the efficient one. As land transactions become easier, less productive (presumably poorer) households could gradually be forced to sell some of the land they received, while more productive households would stand a chance of acquiring more land,” Joint Donor Report to the Vietnam Consultative Group Meeting, *Vietnam Development Report 2004: Poverty*, Hanoi, December 2003, pp. 147-8.


\(^90\) It is somewhat ironic that some social scientists laud the fact that “the market for land-use rights is particularly vibrant in the Mekong Delta and the Central Highlands,” yet later suggest one reason for Vietnam’s high relative rate of human development may be the relatively low level of social inequality. The “vibrant” land market they laud in these two regions is having precisely the opposite effect, Do Hoai Nam, Vu Quoc Huy, Vo Tri Thanh, Tran Dinh Thien, ‘The Doi Moi process and human development’, *Vietnam’s Socio-Economic Development*, No. 29, Spring 2002, p. 8.
with cash cropping. However, putting this into practice is more difficult, given what is viewed as the mistaken form of collectivisation pursued in the past.

When the old collective sector collapsed, peasants in many areas returned to spontaneous cooperative development. In 1993, there were 35,000 cooperative organisations in Vietnam, separate to surviving official coops. Some minority regions reduced collective agriculture to the point where it corresponded to their own semi-collective structures, but then did not go as far as the Kinh mainstream in the 1990s.

The 1996 8th Congress encouraged the household sector to get together in some form of cooperatives, leading to a ‘new cooperative’ law in 1998. Party leaders continue to stress the leading role of state “and cooperative” sectors. The CPRGS has a strong orientation towards cooperatives which are voluntary, democratic and of mutual benefit. Many, however, may be making the same mistakes as the old ones. MARD increasingly works with more spontaneous forms of farmer cooperation, and the government has introduced various incentives to encourage cooperatives. However, they play a minor role in the economy, though some leaders claim the “collective sector” (not only agricultural) contributes 10 or 15 percent to GDP.

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92 An account of this among Black Thai villagers in Son La is given in Dao Minh Truong and Sikor, T, Lúa Nep, Ruống Táp Thế (Sticky Rice, Collective Fields), Nhà Xuất bản Nông Nghiep, Hanoi, 2000. The collective sticky rice field persisted as the centre of the community, while households have separate plots for other crops or activities. A contrast is given by Pham Tuong Vi, who studied the more individualistic strategies of Kinh immigrants in the region, Sikor, T and Pham Thi Tuong Vi, ‘The dynamics of commoditization in a Vietnamese uplands village, 1980-2000’, Journal of Agrarian Change, 5 (3), 2005.
95 Fforde, A and Huan, Nguyen Dinh, Vietnamese Rural Society and its Institutions: Results of a Study of Cooperative Groups and Cooperatives in three Provinces Final Report, Hanoi, 2001; the 5th Plenum in 2002 also criticised the “errors of party organisations and authorities” in developing cooperatives.
96 Personal communication with Brian Doolan, CARE Country Director, January 2003.
98 Van Arkadie and Mallon cite the figure of 1 percent of GDP for agricultural coops (p. 171), but the ‘collective sector’ as a whole, including in industry and crafts, is usually presented in the Vietnamese media as accounting for several percent. The real figure is vague because what cooperatives are is vague.
99 Nhan Dan made the unlikely 15 percent claim according to an October 24, 2005 dispatch of Asia Pulse.
The possible nexus between continued control of some land by most farmers and wages in industry is an interesting issue. While rural poverty may push peasants to accept exploitative wage levels, there is evidence of its limitations – bosses in garment and footwear factories and ‘large farms’ complain that workers leave jobs rapidly as they do not accept the wage levels.100 This may be connected to them having the option of returning to the farm, which the landless do not have. According to Fforde and de Vylder, “the widespread land access guaranteed by the land allocation practices was important in helping to provide income entitlements to poor farmers, whose bargaining position as migrant workers was thereby enhanced.”101 Thus “the looming threat is of a flood of farmers coming into the cities,” but “so far, this has not happened.”102

**Trade unions**

This leads to the question of the role of workers in society. Their role in the state economy will be discussed in the following chapter. However, socialist orientation is a difficult concept for workers employed by the private sector. While the Labour Law regulates working conditions, requires employers pay extensive benefits in the formal sector, and mandates that any company with 10 workers must have a union, violation of

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100 For example, from *Viet Nam News*, ‘Garment industry urged to shape up’, July 30 2002 (which reports that the Sai Gon Garment Company spent 1.1 million Dong to advertise but could hire only one worker), ‘Binh Duong desperate to fill factories’, June 20, 2003 (re industrial zones in the province needing 38,000 workers), ‘Factories face shortage of women labourers’, June 25, 2003, about garment and seafood processing plants which employ women because ‘they are good with their hands and can peel shrimp very fast’, but they cannot find enough; ‘Hospitals and garment mills shout out for qualified and skilled employees’, July 30 2002, reporting that ‘at bad times, as many as 900 workers quit their jobs at the same time; ‘Southern farms call for help to stave off growing labour crisis’, December 19 2002, about large suburban farms in HCMC needing 2000 workers; ‘Woolly vision costs textile trade US deal’, *Vietnam Investment Review*, August 5-11 2002, which reports that 1100 of 1700 workers trained by the Viet Tien garment company quit for better paying jobs straight after training finished; ‘Footwear marches in step’, *The Saigon Times Weekly*, June 21 2003, which reports that ‘many workers do not accept the current level of pay, so change jobs ... the ratio of workers changing jobs in the footwear industry is 30-40 percent.’

101 Fforde, A. and de Vylder, S., *From Plan to Market: The Economic Transition in Vietnam*, Westview press, 1996, p. 262. Further: “The tricky issue of the relationship between the state and SOEs was further eased by the way in which the labour market helped by better than expected rural incomes growth and rather good land access, shifted in a healthy direction: Real wags grew, and job creation was rather fast and was good enough to soak up those losing their jobs in the state sector,” p. 273.

these laws is widespread. Only some 20-25 percent of private firms and 50 percent of foreign firms have unions, compared to most state firms.\footnote{According to Chau Nhat Binh, Vietnam General Confederation of Labour, Interview, May 2003.}

Greenfield claims the conditions for strikes in the Labour Law virtually criminalise them,\footnote{Greenfield, 1994, p 228.} but Chan and Norlund find it far more pro-worker than the Chinese Labour Law.\footnote{Anita Chan and Irene Norlund, ‘Vietnamese and Chinese Labour Regimes: On the Road to Divergence’, in Transforming Asian Socialism, eds. Chan, A, Kerkvliet, B and Unger, J, Rowman and Littlefield Publishers, 1999.} Both Vietnamese and Chinese workers actively fight against violations of their conditions.\footnote{For example, the Hong Kong-based Information Center for Human Rights and Democracy reported 60,000 protests in China in 1998 and 100,000 in 1999, as former SOE workers demanded unpaid pensions and wages – often from firms whose assets were stripped by their managers and officials, ‘Hu, Wen and Chinese SOE Reform’, Stratfor, February 16, 2004.} However, repression against striking workers is routine in China,\footnote{For example, in 2002, two leaders of workers’ protests were charged with “subversion,” a charge that could result in execution if convicted. Zhang Junjiu, deputy chair of the pro-government All China Federation of Trade Unions, took the side of the state in this, Eva Cheng, ‘Workers’ leaders could be executed’, Green Left Weekly, January 15, 2003.} whereas in Vietnam, though nearly every strike is a ‘wildcat strike’ led by spontaneous workers’ groups rather than official unions, and although most “did not follow proper legal procedures, they were tolerated by the government with no reports of retribution against the strikers.”\footnote{According to the VGCL, of the 879 strikes between January 1995 and May 2005, 565 (65 per cent) took place at foreign-invested enterprises, 237 (27 per cent) at domestic private firms, and 77 (or 8 per cent) at SOEs, ‘Violations of Labour Law on the rise’, Viet Nam News, May 25, 2005.} The Vietnamese General Confederation of Labour (VGCL) claims while ‘every one’ of the 1500 strikes in the last decade has been technically illegal, they have all been justified.\footnote{Reports are extremely numerous. A few examples from Viet Nam News: ‘Labour officials resolve strikes’, January 10 2002, ‘Clothing factory workers stage wildcat strike’, August 19 2002, ‘Workers strike against impossible quotas’, May 8 2003, ‘Paper company relents to striking workers’, April 16 2003, ‘Wildcat strike forces workplace reforms’, May 9 2003, ‘Labour dispute resolved at plastics company’, May 16 2003, ‘Hai Phong garment workers end strike’, June 27, 2002; Chau Nhat Binh, Head of International Relations Division, International Department, VGCL, Interview, August 2003, who claims ‘100 percent’ of strikes are resolved by the VGCL in the workers’ favour.} In most cases reported, the official unions intervene and force the bosses to relent to the workers’ demands.\footnote{VDC Business Newsletter, December 21 2004. Indeed, rhetoric about “democracy” from western governments aside, the US Chamber of Commerce demanded the Vietnamese government crack down on the massive strike wave of early 2006, which it did not, Thomas Siebert, AmCham, ‘Letter to Prime Minister re Industrial Relations in Vietnam,’ May 20, 2008, http://www.amchamvietnam.com/2252.} The manager of Nike Vietnam complained that when workers strike unlawfully, officials support them!\footnote{US Department of Commerce, Antidumping Duty Investigation of Certain Frozen Fish Fillets from the Socialist Republic of Vietnam - Determination of Market Economy Status, November 2002, p 11}
State proclivities also aid workers: the US Department of Commerce claimed that “labour rights sentiments in Vietnam are backed by a conciliation system and a judiciary sympathetic to labour demands.”

Chau Nhat Binh, from the VGCL’s International Department, explains that recent rural immigrants initially have little consciousness of unions, see themselves as temporary and “do not want trouble.” However, once they experience naked exploitation, they often join unions following VGCL intervention in wildcat strikes on their behalf. However, this is complicated by the fact that the actual workplace unions often work with management, despite intervention in support of workers from higher up in the union hierarchy.

Taiwanese bosses complain they cannot beat Vietnamese workers, or force them to work long hours, while this was a matter of course in China. Vietnamese workers want one day off a week and a maximum of 12 hours overtime. “If the managers pushed them too far, they would just go on strike,” whereas in China extremely long working hours were more common. The difference lay in the relative activism of Vietnamese unions, and the government’s toleration of this, whereas the Chinese government heavily restricts worker activism, making unions a tool of management in enforcing labour discipline.

Thus while Vietnam is a “low-wage” country, the combination of the role played by the VGCL, with the support of the Government, in fighting the most brutal exploitation, the fact that SOEs are leading the way on wages and conditions, the degree to which land reforms have remained intact, and strong labour legislation, has undermined Vietnam’s ‘comparative advantage’ of ‘cheap labour’. Wages are higher than in Indonesia, and

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113 According to Chau Nhat Binh, VGCL, Interview, August 2003, op cit. Binh calls the enterprise unions which collaborate with management “pocket unions.”
114 Chan, Anita and Wang Hongzen, “The Impact of the State on Workers’ Conditions: Comparing Taiwanese Factories in China and Vietnam,” Pacific Affairs, Vol. 77, No. 4, Winter 2004, pp. 629-646, especially pp. 632-635. On Chinese working hours, they claim “During busy seasons workers often work for a few months without any days off”; in Taiwanese footwear enterprises, hours averaged 11 hours a day; “in the export toy industry in Guangdong in the busy season workers laboured for up to 14-18 hours with no days off.” Similar claims are made by some Vietnamese workers, though not of such long hours or sustained over such long periods, and this does lead to often very militant strikes, as this research suggests.
115 Ibid. The report also says that Vietnamese workers generally do not live in dormitories on the factory site, and migrant workers had less trouble with their legal position than their Chinese counterparts.
according to some estimates approaching Thai and Chinese levels.\(^{117}\) One study of foreign-owned “sweatshops” in 11 developing countries found that a Vietnamese worker working 40 hours a week earns almost 200 percent of the average national income, and almost 100 percent of an average wage. Even in the sweatshops that had been specifically protested, Vietnamese workers were earning 120 percent of average national income. These proportions were superior to those in China, Costa Rica, Dominican Republic, El Salvador, and much higher than in Bangladesh or Indonesia.\(^{118}\)

Nevertheless, the rapid proliferation of small private firms leads to many violations of workers’ rights that unions are often slow in busting, either due to shortage of staff or to enterprise unions acting as agents of management. Workers’ situation in Vietnam is far from rosy. However, the issues are, firstly, that the situation compares well with many poor countries, and secondly, that the CPV-led union movement, often described as a “pliant” tool of the government,\(^{119}\) plays an active role in defence of workers’ rights.\(^{120}\)

**Mass organisations**

Another revolutionary inheritance is the ‘mass organisations’, the women’s, farmers’, youth and veteran’s unions, which encourage solidarity and mobilise funds for poorer members.

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\(^{118}\) Powell, B, Skarbek, D, Sweatshops and Third World Living Standards: Are the Jobs Worth the Sweat? The Independent Institute, Working Paper Number 53, September 27, 2004, http://www.independent.org/pdf/working_papers/53_sweatshop.pdf. “Average income” includes all people, including informal sector workers, peasants, unemployed and others who are poorer than formal sector workers, while “average wages” only includes wages in the formal sector, so even the average wage it is being compared to is higher than the real average wage.

\(^{119}\) For example, the January 28, 2006 *Economist* claimed that Vietnamese “workers are allowed to join only a pliant, party-affiliated union,” the irony being that the same article accuses the “pliant” union and the government of being secretly behind the huge strike wave at the time, and goes on to ask ‘why didn’t Vietnam crush the illegal strikes?,” Karadjis, M, ‘Vietnam: The big strikes: Did the government ‘cave in’ to workers or did it lead them?’, *Asian Analysis*, Asian Focus Group, Faculty of Asian Studies, Australian National University, September 2006, http://www.aseanfocus.com/asiananalysis/article.cfm?articleID=984.

\(^{120}\) Vu Tuan Anh (VASS, Interview, Hanoi, March 2005.) discussed a strike against a foreign company underway at the time in Vietnam, and noted that the VGCL newspaper, *Lao Dong*, owned by the CPV, was “supporting the workers.” He said this showed that “Vietnam has even more democracy than other countries.” While there is a free press and trade union rights in the West, he said it is unlikely that a mass distribution daily, owned by a ruling party, would campaign in favour of a workers’ strike.
Any woman over 18 can become join the Vietnamese Women’s Union (VWU), as long as she participates in one of its community based programs to empower women. Organised from the grass roots to the highest levels, the VWU has 10 million members. Its key campaigns are poverty alleviation, women’s health, HIV/AIDS, anti-trafficking, domestic violence, and encouragement of political representation. Others include ‘encouraging poor women to save’ and ‘building charity houses for poor women’. “Hundreds” of women take part in a microfinance program, which mostly funds small household or cooperative businesses, especially in handicrafts and cash crop production. With this experience, women can subsequently “get loans themselves from Vietnam Bank for Agriculture and Rural Development (VBARD),” and the VWU helps by using its reputation as “collateral” on their behalf.

The VWU leads the Committee for Population Control and Family Planning, which helps make the government’s free campaigns for the poor more effective, avoiding problems like unofficial fees. The CPCFP announces specific days and times for free health checks and free medicine provision in each locality. The VWU is active in reproductive and preventative health campaigns, and directly distributes free health services, including contraceptives, medical check-ups, and simple drugs. It provides advice to pregnant women regarding reproductive health, conducting door to door work with pregnant women in each neighbourhood. It also disseminates information about voluntary health insurance, and lobbies for free health cards for the poor.

121 According to a report in some northern provinces, “after getting married, most women automatically move their membership from the Youth Union to the Women’s Union. In one site, the chairwoman of the commune WU revealed that about 90 percent of women in the commune were WU members,” although membership is voluntary, Consultation of Investment in Health Promotion / Population and Development International / JSI Research and Training Institute (CIHP/PDI/JSI), Impact of Cairo POA: Gender, Women’s Empowerment and Reproductive Health in 4 Vietnamese Communities, 2002, p. 91.
123 Ibid. By May 2004, Women’s Unions at all levels had guaranteed loans of 3.9 billion VND for 1.5 million women, through the Social and Policy Bank and VBARD, with women organised into tens of thousands of credit cooperatives, ‘Ten year implementation of the Beijing Platform for Action by the Vietnam Women’s Union’, Women of Vietnam Review, No. 1, 2005, p. 10.
124 Nguyen Thi Hoa Binh, Vice head of Family and Social Affairs Department, Vietnamese Women’s Union, Interview March 2005.
125 My wife, Pham Tuong Vi, when pregnant in 2005, was visited by an old friend from her neighbourhood, who she had not seen for many years. The friend began asking detailed questions about nutrition and other issues. It turned out she was the head of the neighbourhood VWU, and it was her duty to visit and advise pregnant women in the area. However, a young pregnant woman from the province of
The Ho Chi Minh Communist Youth Union, part of the Vietnam Youth Federation,\textsuperscript{127} is open to all aged between 15 and 30 who “voluntarily work in its grassroots organisation.” It has some 5 million members, organised at every level from grass-roots to central levels, with 200,000 branches in villages, hamlets and schools.\textsuperscript{128}

The YU reintroduced the ‘volunteer spirit’ in the 1990s. According to a head of the Vietnam Students’ Union (VSU), “after the collapse of the USSR, socialism was in crisis, so it was necessary to have some movement to stimulate the socialist spirit in new situation.”\textsuperscript{129} Every summer, the YU recruits youth volunteers, mostly campus students, to go to rural areas to help the poor with agricultural activities, house and road building, literacy classes, health campaigns and clinics, help with entrance examinations (including accommodation in cities), environmental activities, educational camps for drug addicts, and information about government policies.\textsuperscript{130}

It also organises computer courses for rural and poor urban youth in outlying areas. The YU trains volunteers to set up computer centers in rural areas and provide free training. Computer companies loan computers for three months of summer. The YU also acts as a ‘broker’ guaranteeing collateral-free loans to poor youth. Cadres approach street kids and try to enrol them in a college they run, which provides free, full-time 3-month courses in vocational areas, free accommodation in a hostel behind the college, and free meals.\textsuperscript{131}

\textsuperscript{126} Nguyen Thi Hoa Binh, 2005, op cit.

\textsuperscript{127} The Youth Federation is broader than the Youth Union, and includes as collective members the Youth Union, the Vietnam Students Union, the Young Pioneers, the Vietnamese Young Entrepreneurs Association and various professional associations of young people. It reportedly has some 5.6 million members, including 5 million from the Youth Union and 600,000 from the Students’ Union

\textsuperscript{128} Ho Chi Minh Communist Youth Union, International Department, \textit{General Information About the Ho Chi Minh Communist Youth Union}, Brochure, 2005.

\textsuperscript{129} Nguyen Van Phong, Chairman, Municipal Students’ Association, Ho Chi Minh Communist Youth Union, Interview, September 2005.

\textsuperscript{130} Ibid; Nguyen Thi Hoang Van, Deputy Director, International Department, Ho Chi Minh Communist Youth Union, Interview, March 2, 2005.

\textsuperscript{131} According to Bui Quoc Hung, Program Officer, International Department, Ho Chi Minh Communist Youth Union, Interview, February 26, 2005. Hung claimed that “the youth very much appreciated the courses, though occasionally some run away back to the street.”
The number of volunteers is unclear. The head of the VSU claimed just from Hanoi 200,000 students take part in volunteer campaigns annually; the Youth Federation claims the volunteer campaigns have “rallied nearly 20 million incidences of CYU and VYF members, students and youths” over 5 years.132

The Vietnam Farmers’ Association is open to all farmers to join, and has 9 million members, of whom 20-25 percent are ethnic minorities. It combines grass-roots campaigns with work on policy at every level.133 One campaign is called “Farmers solidarity to help each other in poverty reduction.” Each year it holds a meeting, and if for example, 20 farmers in the village are poor, they decide to reduce this number by five the following year. They appoint specific wealthier people to help specific poor members, who sign a memorandum. This could involve providing them a number of small farm animals, which can be “paid back” without interest when they give birth, or providing money for hospital treatment, or for seeds. The VFA also provides some cheap credit to poor farmers.134 Other activities include literacy campaigns, information on nutrition, volunteer work on local infrastructure, and political campaigns.

While the Vietnamese Peoples Army is not a mass organisation, its activities combined with its origins as part of the revolutionary process make it convenient to include here. The VPA runs significant health, education and infrastructure programs in poor and minority regions, funded outside the state budget. This includes building schools and

132 Vietnam Youth Federation, Promoting Glorious Traditions, Vietnamese Youth Unite, Volunteer and Emulate with Each Other in Creative Labour, Self-Establishment and National Construction, Report of the Central Committee, 4th tenure, to the 5th National Congress of the VVF, Hanoi, January 2005. This report gives specific figures, for example, 226,583 volunteers have donated blood, 150,000 young volunteers have “given daily care to needy children,” there have been “1.5 million incidences of inhabitants of the hinterland and remote areas having accessed free health care,” that “290,000 scholarships worth over VND 60 billion have been granted,” and that the VYF has been “building the cooperative spirit” with “members’ shared funds for production, hunger eradication and poverty alleviation,” including “mutual assistance funds which have provided 361,000 VYF members and young people with grants worth VND 206 billion.”
133 Nguyen Dieu Tuyet, Vice-President, Vietnam Farmers’ Association, Interview, Hanoi, August 2005
134 According to Tuyet, a “rich” farmer may have 10 piglets, so gives a poor farmer two, and when they grow the poor farmer sells them and gives back “the equivalent amount of kilos of pig the original piglets weighed (with no interest)”, or otherwise, waits for the two piglets to give birth, and returns two of the litter to the rich farmer. “Very poor” farmers do not have to return the piglets. A VFA congress in 2005 decided “every household earning a good income would help from two to five poor families improve their living standards,” ‘Farmers contribute to the development of the nation’, Viet Nam News, June 23, 2005.
clinics, dispensing health care, and providing teachers to 80,000 pupils.\textsuperscript{135} Evidence suggests they are effective and well-received.\textsuperscript{136} The Defense Department runs 335 SOEs, employing one-sixth of the army, and the profits – some $600 million in 1998 – can be used for social programs.\textsuperscript{137} These industries also provide jobs for veterans’ families, with the ‘iron rice bowl’ of life-long employment, pensions, benefits and health insurance.\textsuperscript{138}

There are many social groups which do not belong to the large mass organisations, so the CPV founded the Fatherland Front as a broader umbrella. As well as the mass organisations, its membership includes 300 “social organisations” such as the Red Cross, Agent Orange Victims Association, cultural and scientific associations, religious groups, Viet Kieu groups, business organisations, and ethnic groups, along with “special individuals from remote areas who represent their regions, and who have high prestige.”\textsuperscript{139} While the major mass organisations are “led” by the CPV, these other organisations need not be.

All member groups are represented on the board. The CPV has only one vote. All 52 ethnic minority groups each have a representative. As one of the three components of the political system, alongside the government and the CPV, the Front is a means by which the CPV “plays a leadership role via negotiation and discussion with broad sectors, not by imposition. When it presents new policies, the organisations question them. Here the CPV tries to play a leading role by winning support politically.”\textsuperscript{140}

The Front plays a major role in poverty reduction, mobilising funds and labour contributions. October 17 is its ‘Day of the Poor’. The Front has a ‘Motivating Board’ at all levels from central to commune, to mobilise for the Poor Fund. Shelter is the role of the Front, while larger Poverty Reduction programs take care of other aspects. Between

\textsuperscript{136} Carl Thayer, Professor, Strategic and Defence Studies Centre, personal communication, Canberra, 2004, plus a host of media articles and discussions.
\textsuperscript{137} Thayer, C, ‘The Vietnam People’s Army ....’ op cit.
\textsuperscript{138} Carl Thayer, personal communication, Canberra, 2004.
\textsuperscript{139} Ha Van Nui, Director of External-economic Department of Vietnam Fatherland Front, Interview, November 2005.
\textsuperscript{140} Ibid.
2001 and 2005, the Front mobilized 1.167 trillion dong (US$ 80 million), on top of materials and labour worth a similar amount, and built 222,969 and repaired 87,053 houses for the poor. Funds are mobilised through member groups, from individuals, via the media and from enterprises.

Funds can be mobilized from private firms because the local business associations are part of the local branch of the Front; in preparing for the Day of the Poor, the local Front invites local businesses to attend a meeting to campaign for them to contribute, thus “they cough up in that atmosphere.” There are also sometimes direct methods, “if the Front knows that a local business is profitable, they go and knock on the door.” In the case of SOEs, both the enterprise trade union – in charge of solidarity funds – and the CPV cell are also members of the local branch of the Front.

Socialist democracy

Some control over the state by workers and peasants could also be considered a structural component of a socialist orientation. Rhetoric about “socialist democracy” is ubiquitous in official statements and documents. This corresponds to the views of Marx, for whom socialism was by definition more democratic than the highest form of bourgeois democracy.

The rise of a market economy reinforces the importance of socialist democracy. If the leadership is not under control by working people, the effective fusion of state power with private capital becomes a danger. Despite a common view that socialism is conducive to dictatorship, here it is argued that any ability of workers and peasants to exert influence is likely to slow the pace of capitalist restoration.

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141 Uy Ban Trung Uong Mat Tran To Quoc Viet Nam (Vietnam Fatherland Front, Central Committee), Dai Hoi Thi Dua Yeu Nuoc Mat Tran To Quoc Viet Nam 2001-2005 (Emulation Congress of the Vietnam Fatherland Front), Hanoi, August 2005, pp. 153-4.
142 Ha Van Nui, op cit.
143 Ibid.
144 When Marx and Engels observed the direct ‘Athenian’ democracy of the Paris Commune they saw it as a model of ‘proletarian’ democracy, superior to merely representative, ‘bourgeois’ democracy, Marx, K and Engels, F, ‘The Civil War in France’, 1871, Collected Works, Vol. 22. Lenin made the same observations about the ‘Soviets’ (popular councils) that arose during the revolutionary uprisings in 1905 and 1917. He argues that they will make important decisions themselves, and the people they elect will be different to bourgeois parliamentarians because they will be subject to recall at any time, be paid no higher than an average skilled worker, and be subject to regular rotation so that all will take a turn in office, Lenin, V.I., ‘The State and Revolution,’ August - September, 1917 (C), Collected Works, Volume 25.
The question of democracy can be viewed in a number of ways: firstly, that of formal institutions allowing people to participate in decision making; secondly, the ability of unofficial forms of popular pressure to influence state decisions; thirdly, democratic rights to free speech; and finally the right to form political organisations. Vietnam appears more democratic in the first two aspects, and less so in the last two.

The National Assembly, elected by universal suffrage every five years, is the major formal institution. It now holds debates publicly, with the media able to grill MPs. In addition there are elected People’s Councils at provincial, district and commune levels; a Grass-Roots Democracy law enshrining popular participation in commune-level decision making; a similar law for workers in state enterprises,145 and the mass organisations and the Fatherland Front. Even the smallest city block is an arena for regular meetings (hop to dan pho) of members of the community to discuss local concerns, where a ‘people’s representative’ (to truong) is elected.

The ‘Grass-Roots Democracy decree, introduced in 1998, greatly expands the scope of ‘direct’ democracy in the communes, with regulations on what the people must be informed of, what they must decide themselves, what decisions local authorities can only make after popular input, and what the people must inspect and monitor. It covers local budgets, land use policies, infrastructure construction, peoples’ contributions, selection of candidates, complaints and petitions.146 The actual implementation greatly varies, but the government has made amendments to improve the law.147 While the tremendous

145 To be discussed in Chapter 5.
147 A few of the many assessments of the workings of the decree, with both positive and negative examples, include Prohl, W, Schwartz, K, Sergelen, T, Mattner, M, Konrad-Adenauer-Stiftung, Strengthening Local Democracy Through Grassroots Participation: Report on Two Year Pilot Project in Vietnam, Hanoi, August 2001; Zingerli, C, ‘Grassroots Democracy and Local State Relations in Vietnam’s Northern Mountain Periphery,’ Conference Paper, EUROSEAS Conference, London, 6-8 September 2001; World Bank, Partnership to Support the Poorest Communes, MPI, Community Driven Development in Vietnam: A Review and Discussion Platform, Hanoi, 2003, pp. 24-35; Joint Donor Report 2003, op cit, pp. 124-132. Some say it is easier to implement in the communes, where villagers are traditionally closer, than in urban wards; but one retired CPV veteran, who led a successful challenge to a poorly planned redevelopment of an urban housing block where he lived, using the regulations, claims it is easier where people such as himself live, who have the education to understand how to use the laws, Interview, Hanoi, September 2005.
significance of these regulations can hardly be doubted, it is restricted to the commune (or urban ward) level: the principle is not yet replicated at higher levels.\textsuperscript{148}

Regarding the second aspect, much evidence suggests the masses exert some influence over decision-making. Many analysts have noted the tendency of the CPV to succumb to pressure from below.\textsuperscript{149} Leaders at various levels are often still those who dedicated their earlier lives to a struggle for a just society; while this is no insurance against power corrupting ideals, it is reasonable to assume there is a degree of continuity. Ngo Vinh Long claims “it is difficult for the government to carry out repression ... Vietnam just came out of a revolution and many of the retired soldiers and colonels are living in the countryside, very close to the people,” and often “they are the leaders of the protests.”\textsuperscript{150} Kerkvliet claims regimes arising from social revolutions, like China or Vietnam, rely more on ‘mass legitimation’ than those such as that of Marcos in the Philippines.\textsuperscript{151}

Kerkvliet has outlined the way peasant pressure helped change state policy and end collective agriculture.\textsuperscript{152} There is a good case to be made that peasant pressure has however limited the degree of land liberalisation. The 1988 reforms advocated that more “efficient” farmers get the best land, and many corrupt officials began grabbing land, leading to massive peasant resistance.\textsuperscript{153} Rural delegates from many regions at the 7th Party Congress of 1991 opposed these moves.\textsuperscript{154} The 1993 Land Law laid this to rest, with an egalitarian land distribution.\textsuperscript{155}

\textsuperscript{148} This can affect people’s ability to have a say over seemingly local issues; for example, when people in an urban ward believe there is a real need for traffic lights at an intersection, my experience was that they felt powerless to do anything, because it is the Hanoi City People’s Committee, not the ward, that controls main road infrastructure, “and they only care about making traffic move more smoothly.”

\textsuperscript{149} Beresford, M, and Dang Phong, (Authority Relations and Economic Decision Making in Vietnam, NIAS Publications, 1998) write “in socialist countries, the room for divergent expressions of interest is very limited ... However, in Vietnam we believe that the most fundamental taboo has been one which even the highest leaders have to respect, and that is not to press against the interests of the people,” p. 12.


\textsuperscript{155} “This policy encountered resistance at the local level ... by 1993 most communities in northern Vietnam had divided almost all of their fields on an egalitarian basis among villagers, regardless of gender
Even illegal actions by the masses can be met by concessions rather than repression. The peasant uprising in Thai Binh in 1997 was followed by the disciplining of 2000 cadres and officials, support for the peasants' by political leaders, and various populist policies. Peasants from around the country regularly go to Hanoi or Ho Chi Minh City to hold demonstrations against violations of land rights by corrupt officials.

There is also evidence that ‘equitisation’ of SOEs is being slowed down by SOE workers and the VGCL. The VGCL campaigned against the extension of maximum overtime hours from 200 to 300 annually in the lead-up to the revised Labour law of 2003. It only succeeded in attaching strings to this, but made the law more labour-friendly in other ways, including making strikes easier. It campaigned for a 40 percent wage rise in foreign plants, granted by the government in September 2005. When the bosses procrastinated, workers launched an enormous strike wave in early 2006, and were backed by the VGCL and its daily Lao Dong, despite the “illegality” of the strikes. The government ended the strike wave by forcing investors to pay up.

The Women’s Union is also involved in policy formulation. For example, the sections of the Comprehensive Poverty Reduction and Growth Strategy related to women arose from a National Plan of Action put together by VWU activists. This included training 16,700 women candidates for commune, district and provincial people’s committee...
elections, a new Marriage and Family Law stipulating that the names of both husband and wife must be on land-use certificates, expansion of the kindergarten and nursery school system, “campaigns to propagate and educate about family responsibility sharing” and removing “prejudice against women” from textbooks.

The Youth Union plays a similar role. When the government planned massive fee rises for senior high school and university students in 2005, the YU protested both via submissions to the National Assembly and in its media. Along with protest from NA deputies, the Fatherland Front and the VGCL, this forced the plan to be shelved. In 2004, the YU-led Committee on Culture, Education, Youth, Adolescents and Children made a major report to the NA which called for the state to “proceed towards collecting no tuition fees for the first nine years of general education,” leading to government plans to abolish fees for lower secondary school by 2010.

Likewise, the Farmers’ Association campaigns for issues of concern to farmers. In 2002, it coordinated with Action Aid Vietnam in campaigning against US government protectionism against Vietnamese catfish exports.

The Fatherland Front plays a prominent role in elections. It first consults its member organisations, who nominate candidates for an initial list. Officially, it follows this with three rounds of consultation with local people, based on which up to thirty candidates are chosen. If half the people in a given area reject someone, that person cannot be a candidate. For people already on a People’s Council, an annual confidence vote is conducted by the Front. They must score more than fifty percent or be dismissed.

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164 Committee on Culture, Education, Youth, Adolescents and Children, ‘About the quality of education’, Excerpts from appraisal submitted to the National Assembly’s report on education, Tuoi Tre, November 22, 2004; Joint Donor Report, op cit, p. 14. To reiterate, there are no official fees for primary school, so this was a call to abolish fees also for junior secondary school. Despite the government’s acceptance of this at the time, in 2009 the government is proposing raising fees for junior secondary school.
concerns are expressed about the head of a People’s Committee, a confidence vote can be conducted “at any time” and this person must gain fifty percent.\(^{166}\)

Nevertheless, this democratic-sounding official version is widely viewed in practice as a means for the CPV to control which candidates may stand, since the Front itself is led by the party. As with most issues concerning democracy, there is probably both a degree of truth and a degree of dogma in that assumption. More generally, the quasi-democracy described in the paragraphs above is restricted by various non-democratic aspects: the formal restrictions on free speech, facilitated by ambiguous “security” laws,\(^{167}\) the limits on media criticism, and the status of the CPV as the only legal party.

The ability of Vietnamese people to criticise the government has been growing. However, when “dissidents” call for an end to the CPV’s monopoly, or organise outside the CPV’s control, they often face imprisonment or house arrest.\(^{168}\) The media is increasingly active in criticising government policies, corruption and social injustices.\(^{169}\) Again however, this must not cross the line to questioning the legitimacy of CPV rule.

Evidence suggests there is little mass support for the dissident groups, and that most people favour improving democracy within the CPV and the semi-state institutions,

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\(^{167}\) For example, Administrative Detention Decree 31/CP of April 4, 1997 allowed house arrest or detention from 2 to 6 months for alleged “threats to national security,” “propaganda against the revolution” and other ill-defined “violations of the law” which “do not meet the criteria for criminal prosecution.” It was reportedly abolished in March 2007, Que Me – Action for Democracy in Vietnam, ‘Vietnam repeals Decree 31/CP on “Administrative Probation” but continues arbitrary detention of dissidents under Ordinance 44’, March 30, 2007, http://www.queme.net/eng/news_detail.php?numb=776.

\(^{168}\) A statement by 21 dissidents claimed increased repression following the 9th Congress, and that “After the suppression of the Nhan Van Giai Pham literary group and the ‘Anti-revisionist purges’, this is one of the darkest periods for Vietnamese culture, thinking and civilization,” Vietnam Committee on Human Rights, *Petition to the XI Session of the National Assembly in Hanoi*, Paris, August 16, 2002. As of early 2007, reports by organisations such as Amnesty International and Human Rights Watch continue to claim significant numbers of dissidents are either detained or imprisoned, for example, Amnesty International USA, *Internet Repression Creates Climate of Fear in Viet Nam*, Press Release, October 22, 2006.

\(^{169}\) Regarding the embezzlement of funds for ethnic minorities, *FEER* claimed the scandal “points to the increasing boldness of the Vietnamese press and the national assembly in demanding public accountability. Local newspapers began uncovering irregularities in Cemma projects three years ago. That prompted the State Inspectorate to launch a comprehensive probe ... As the investigation stretched into 2000, the press became more aggressive,” Cohen, M, ‘Robbing the poor’, *Far Eastern Economic Review*, January 25, 2001. The media played a prominent role in exposing the scandal in the Transport Ministry in 2006.
rather than a multi-party system. Moreover, while intellectual dissidents may be imprisoned, the fact that the laws regarding "illegal" strikes are not enforced against workers, and that the VGCL supports many strikes, suggests the party-state has a different relation to workers than to intellectuals. The fact that peasant demonstrations regularly occur without repression, suggests something similar. However, the restrictions on intellectual dissidents clearly create an atmosphere that is stifling to all dissent, including from workers and peasants. Moreover, while police repression is not used against peasant demonstrators, the state keeps domestic and foreign media away, greatly restricting the impact of their actions.

The Communist Party

Arguably, the presence of only one legal party further limits the participatory mechanisms described above, even if there is little current support for an opposition party. It may create an arrogance and self-satisfaction in the ruling party facing no legal opposition, its right to rule is a clause in the 'security' restrictions, and party membership tied to state power inevitably leads to careerism. Most seriously, ruling party ties to state power at every level, combined with "security" laws, can facilitate para-legal linkages between officials, police agencies and powerful individuals, leading to injustices against people opposing certain policies or interests, nullifying many formal rights. While such linkages are hardly unique to Vietnam or to a one-party system, it clearly impacts on the question of socialist democracy. The weight of this impact is connected to the question of how democratic or otherwise the CPV is.

Officially, one cannot simply "join" the CPV; one has to be introduced by fellow members of some kind of "union" or social organisation. The concept of "democracy" is that people who have gained the utmost respect of others are promoted by the grassroots

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170. "When people here say they want more democracy, several analysts said, they are not for the most part calling for political pluralism but for a more open and responsive Communist Party leadership," Mydans, S, 'A fervor of capitalism sweeps Vietnam', International Herald Tribune, April 26, 2006. Thayer claims "Vietnam's communist rulers have not been seriously challenged by a dissident movement divided by separate agendas ... (they) are more like a virtual network than a discernable group or movement," Lauras, D, 'Vietnams divided dissidents no major threat to regime', Agence France Presse, Hanoi, April 19 2006.
171. Since "participation of workers and peasants in decision-making" is here defined as the aspect of democracy most relevant to socialism, that is being assessed. This should not be interpreted as suggesting any moral apologetics for other restrictions on democratic rights, such as locking up dissidents.
to the party. In an enterprise, union members introduce workers to the party; one’s workmates must approve. In a village, members of the village-level Farmers’ Association introduce farmers. The Youth and Women’s Union play similar roles. In a neighbourhood, one may be introduced to a party unit by any mass organisation or “any other kind of union or organisation” they take part in.

Ultimate approval of membership however comes from the party. Nevertheless, unless the party finds a problem with the person’s “character”, theoretically it must accept the member. Of course, any step of this process may be open to manipulation by dishonest party members, like in any system. However, as a model, it can be argued that it has its own democratic character. In theory, it makes it more difficult for careerists to simply join and use their wealth to promote themselves.

One can find many examples of manipulation of this system. For example, ‘Chi Dau’ was deputy head of the VWU in a mountainous district in Bac Giang. The party cell in her VWU branch recommended her for membership, in recognition of her good work, and she became a provisional member. However, at that time, a niece was tricked by swindlers to illegally cross the border to work in China. The local CPV branch had a strict rule for membership: no-one within three generations of the prospective member’s family can have violated the law. So this excluded her from membership.

However, there are also good examples. One young farmer from Nghe An explained that the village Youth Union introduced him to the party due to his outstanding work digging irrigation canals and organising youth cultural events. Conversely, Cong, though a journalist at the CPV’s theoretical journal, Tap Chi Cong San, had to work there for 14 years before being accepted into the party. It was “long and difficult” and he “his membership had to be approved by his workmates, which plays a ‘crucial’ role.”

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172 Party Building School, Ho Chi Minh National Political Academy, Interview, Hanoi, December 2005.
174 Party-Building School, op cit.
175 ‘Chi Dau’, Interview, Hanoi, August 2005. This may not be the best example, because it is unclear whether this strange rule was used against her by someone who didn’t like her (she knows nothing of anyone having any reason to oppose her membership), or whether it reflected a genuine but extreme caution by this particular branch, an extreme “purity,” perhaps combined with local feudal era views on family responsibility. She still considers the idea of party membership an honour.
177 ‘Cong’, Interview, Hanoi, June 2005.
Hanoi research centre, an employee explains that the five party members there “are all good people,” even though she dislikes one of them and is critical of the party. They include a current and former director, a former deputy, and two young research staff. Another former director was never offered membership, because he was “not good.” The two current deputies are not members, though one is the son of the oldest member.\textsuperscript{178}

It is difficult to call the CPV a “working class” party as only 12 percent of members are industrial workers; however, some 30-40 percent are farmers.\textsuperscript{179} The rest are “officials” or “intellectuals.” However, in Vietnamese terms, “officials” is often used to include white collar workers, and “intellectuals” can include teachers and doctors. Nevertheless, it is clear that a large bloc of members are state and government officials. According to Interviewee 6, a working class party does not merely consist of workers, but of members who support a working class program, and most officials and intellectuals were originally of worker or peasant background and carry with them the ideals rooted in their origins.\textsuperscript{180} However, this may mean less for the next generation, whose parents are not workers and farmers, and who often use their parents’ connections to enter private business.

An important issue is how much the presence of only one legal party impinges on the democracy of elections at various levels. One does not have to be a party member to be a candidate; some 10 percent of the National Assembly are non-members.\textsuperscript{181} Arguably, however, such individuals are relatively disadvantaged in not having an organisation behind them. Yet even party candidates do not stand as party members, backed by elaborate and expensive advertising; candidates simply stand with a CV. In theory, they

\textsuperscript{178}‘Trang’, Interview, Hanoi, October 2005. Of course, being “good” and “not good” could well be subjective criteria misused by members who do not like other employees or even other directors. However, I happen to have personal knowledge of the particular case. The reasons the former director is considered “not good” are extremely valid, indeed it is a credit to the party that he was not offered membership. Likewise, the former director who is a member (the oldest member) has an extremely high reputation, not only in this organisation but nationally and internationally, for very good reasons.

\textsuperscript{179}According to head of Party-Building School at Ho Chi Minh National Political Academy, op cit.

\textsuperscript{180}Interviewee 6, February 2005.

\textsuperscript{181}In the 2007 National Assembly elections, 450 of the 493 elected are CPV members, ‘Vietnam election results out,’ May 29, 2007, \url{http://www.thanhniennews.com/politics/?catid=1&newsid=28566}. Of 877 candidates, 150 were non-members, Mitton, R, ‘Vietnam's voters have more choice tomorrow’, \textit{The Straits Times}, May 19, 2007.
must regularly meet with their constituency to determine policy, rather than being elected on the basis of pre-determined policy. Again, however, practice varies widely.

On the one hand, the example above of ‘chi Dau’ had a democratic outcome. Though barred from the party, she was chosen by the VWU as a candidate in the district elections. She beat the party’s candidates twice, and served two terms on the People’s Council. On the other hand, during the 2002 National Assembly elections, even our retired neighbour in Hanoi, a veteran party member and the ‘people’s representative’ of our bloc, did not hear of any supposedly compulsory community meetings to question the candidates.

Finally, there is the question of whether the ruling party has been taken over by corrupt elements. The CPV admits to serious corruption among “a not small segment of party officials and members,” and the problem is unquestionably very widespread. However, important elements in the party appear determined to turn it back, as evidenced by a string of busts of major corruption scandals, from EPCO-Minh Phung in 1997, through the Hanoi water-park scandal in 1998-99, the reaction of the regime to the Thai Binh uprising, the anti-corruption campaign launched within the party from 1999, a scandal involving funding to ethnic minorities in 2000, the media’s “open season” against the mire of corruption involving tycoon Le Van Kiem in 2000, the massive Nam Cam mafia scandal in 2002-3; and the enormous scandal in the transport ministry in 2006.

While both the Philippines and Vietnam “fall well short of being full democracies,” Kerkvliet claims “the struggle (for democracy) has further to go in the Philippines, although “this is counterintuitive given that on the surface the Philippines is more democratic than Vietnam.” This is because “entrenched powerful elite interests stubbornly, often violently, use the political system to their own advantage, paying slight attention to the needs and demands of the majority of people.” In contrast, “the political

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elite in Vietnam has a track record of being inclined to listen for and be responsive to ordinary people’s aspirations."

This concurs with the overall judgment from my summary above: while Vietnam has a serious democracy deficit, it also has many quasi-democratic aspects which are often not recognised from a formal look at the situation.

While a deeper examination of the structure and role of the party and its relationship to the workers and peasants would require a separate dissertation, these issues will present themselves in context below when examining where the CPV intersects with the state economic sector and its workers and how this relates to its socialist orientation.

**The problem with the state sector**

The discussion above suggests that Vietnam’s social indicators are *relatively* outstanding, and that elements of its political economy can be cautiously considered aspects of socialist orientation, including the relatively egalitarian land allocation, the support for workers’ struggles by the party-led labour confederation, the role of mass organisations, and aspects of the political system which allow popular pressure and participation. At the same time, significant limitations are clearly present in all these areas.

The major remaining non-capitalist element is its powerful state economic sector. Socialist theory ascribes a leading role to state enterprise because it suggests that income socially produced is socially distributed, as the ‘profits’ belong to the state and can be used for the social good.

The problem is that if the usual characterisation of the state sector is correct, that it is a vehicle for corrupt asset-stripping and de-facto illegal privatisation in inefficient rust-belt industries, then, given its size in the economy, it should be creating a serious brake on Vietnam’s development.

It is this view of the state sector that is behind the characterisation of the wing of the CPV committed to socialist orientation as “conservative.” If the state sector is a self-

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evident dinosaur, if it dominates the economy but produces no positive social outcomes, then the attachment to its “leading role” can only be either a “conservative” ideological attachment to a leftover from the past with no practical significance, or a corrupt attachment to a porous state sector that people in powerful positions can siphon wealth from. If on the other hand, the state sector is a dynamic and socially progressive part of the socio-economy, and the skeleton around which other elements – ‘socialist’ and market/private – are able to play the positive roles they do, then the Socialist Orientation tendency of the CPV can be understood as having a real basis in Vietnamese society. The following chapter will open the discussion of the nature of the state sector.

188 "The one thing in Vietnam that doesn’t work," as it was put to me by a foreign NGO worker in 2005.
Chapter 4
The State Sector: Is it Waxing or Waning?

Reasons to focus on state sector

The previous chapter demonstrated that Vietnam has carried out record poverty reduction and boasts far superior social indicators than countries of similar income. Therefore, it can be cautiously accepted that certain objectives of socialist orientation are being carried out to some extent.

This has taken place under Vietnam’s ‘Doi Moi consensus model’, at variance with the neo-liberal ‘Washington Consensus’. A major difference is the 40 percent of GDP controlled by the state, situated throughout the strategic parts of the economy. Its “leading role” is the key structural aspect of socialist orientation, according to CPV cadres.

The stubborn lingering of a dominant state sector belies the predictions of its collapse under market pressures by left analysts, and prescriptions for its dismantling by analysts influenced by neo-liberalism, who view the state sector as little more than a corrupt, inefficient rust-belt. If this were true, the state sector, given its size in the economy, should be a serious brake on socio-economic development, in conflict with key objectives of socialist orientation. Much of the rest of the dissertation will show this is not the case.

The current chapter will give an overall picture of the post-Doi Moi state sector. The first part overviews the pressures upon it and the legislative changes. Following this, the claims of various analysts will be assessed in relation the sector’s weight, efficiency and contribution to the socio-economy.¹

State sector pre Doi Moi

A connection between a large state sector and social progress is not self-evident post Doi Moi. The more ‘socialist’ state sector before Doi Moi had an apparent connection with social welfare: the SOEs’ surplus went to the state, which could, theoretically, allocate it

¹ The chapter borrows its tile from the article ‘SOEs: Are they waxing or waning?’, Vietnam Investment Review, September 9-15, 2002.
to benefit society and the social sectors, while its reinvestment was tied to state concerns to overcome underdevelopment.

Much has been written about what was unworkable in this system, making this apparent connection less than real. This is a valid discussion, though ought to be balanced by the effects that decades of war and embargo would have had on any system. However, this thesis cannot deal with this question.

Nor can it deal with the contradictions of 'half-reform' in 1981-87. Under dual-track pricing, SOEs could sell a portion of their products on the market, while another portion was allocated by the plans. In theory, the state controlled the main economic levers and supplied basic goods at low cost, while SOES competed on the market to boost production and profits. In reality, SOE or state officials exploited the price difference, created false shortages and diverted produce to the free market. This led to an attack on state assets and finances and unofficial privatisation, inflation rising hundreds of percent.

Whether this crisis was caused by reform itself or lack of more thorough reform is an issue of contention. Beresford blames this already “severe fiscal crisis of the Vietnamese state” before Doi Moi for the subsequent abandonment of social welfare programs, refuting the view that Doi Moi’s legitimisation of the market was responsible. While Greenfield agrees about pre-Doi Moi, he sees this crisis as already due to too much market “reform” pre-Doi Moi, which the latter intensified.

Main changes to and pressures on the state sector

Whatever the case, the contradictions of half-reform had to be resolved either by going “back” to firmer state control or “forward” to running SOEs on a more consistently market basis.

While Decision 217-HDBT in 1987 did not give complete independence to SOEs, it gave them some business autonomy, and the obligation to cover their costs. Profits were to be

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based on real costs rather than plan directives and targets. Budget support was to end, as was state supply of inputs and restrictions on SOE selling in the market.\textsuperscript{5} SOEs were also allowed to form joint ventures with foreign capital.

Nevertheless, the loosening of state control at that moment worsened the fiscal crisis. Making it easier to set up new SOEs encouraged people’s committees with little economic capacity to do so, with easy access to credit. The budget constraints in Decree 287 were not accompanied by a bankruptcy law. Between 1976 and 1989, the number of SOEs doubled to around 12000,\textsuperscript{6} much of this occurring in the late 1980s.\textsuperscript{7} However, many couldn’t function, bled state assets and underwent unofficial privatisation.\textsuperscript{8}

The collapse of the Soviet bloc cut Vietnam off from its major source of aid, trade and technical assistance. The entire system of subsidies and allocative planning based on SOEs and rural collectives had been dependent on this non-market based international order. This collapse led to severe systemic crisis, per capita GDP falling to $86 by 1988.\textsuperscript{9}

The concurrent end of the western embargo in 1989 pointed to the direction Vietnam’s economy now had to take to resolve its crisis.\textsuperscript{10} Dual-track pricing and direct state allocative planning were abolished in 1989, putting most SOE operations onto a market basis.\textsuperscript{11} Some key products, accounting for a significant proportion of SOE production, remained subject to state pricing, but even these prices were no longer “dual.”

\textsuperscript{5} Decision 217-HDBT, Renovation of Planning and Socialist Business Cost-Accounting in State Enterprises, Council of Ministers, November 14, 1987. This decision also strengthened the powers of the SOE director, charged with pursuing this entrepreneurial role. This and other changes in subsequent SOE legislation in relation to the roles of SOE management and workers are dealt with in the next chapter.


\textsuperscript{10} The European Union formally lifted its embargo in 1991, but member states and other western countries, except the US, had already renewed trade and investment relations with Vietnam after 1989, as had Asian countries.

This shift of much production to a market basis, the rise of domestic private and foreign investment, and growing trade with the world capitalist economy, put the state economy under pressure to ‘perform economically’ and make decisions based on profitability. Many directors allowed the market to dominate to a greater extent than many in the CPV desired, and various processes moved SOEs towards a privatising logic.

The first process is “effective privatisation.” To enable some devolution of decision making to the enterprise required they have greater control over their surpluses. SOEs now merely pay the same percentage of profit tax as private firms. This leads to surplus being accumulated in the SOEs themselves, who choose how to use it based on market considerations. The state and society are unable to utilize these growing concentrations of wealth, even though the wealth remains officially ‘state-owned’. It is a separate question whether managers are also engaged in asset stripping, or are paying themselves inordinately high salaries. Whether these firms are ‘inefficient’ is also secondary; some are heavily involved in the market economy, but hotels or jewelry shops are not necessarily priority social investments. Whether these SOEs are controlled by stereotypical ‘party officials’, ‘entrepreneurial’ managers or workers is again secondary.

The second process is “asset stripping”: the market opened doors to large-scale diversion of assets or work from the SOE to legal or illegal private firms connected to SOE directors, leading to the “hollowing out” of the state sector. Such firms often appear ‘unprofitable’, but may not be if profits are stolen. This flowed from the incentives fostered by the market economy; the desire to own the big houses and cars that private businesspeople could own was an incentive for directors to accumulate. Moreover, as directors approach retirement, mere management with no ownership rights means the firm cannot be passed onto their children, so assets are “passed on” in other ways.

The third process may seem incongruous here: officials from ministries or local governments interfering in SOE operations to collect bribes to stop petty interference, or to place relatives in high positions. Unlike legitimate interference to enforce labour,
health or environmental laws, this unofficial interference has no relation to social goals, but aims at private enrichment of these individuals.

However, the new market environment was not the only pressure on SOEs. Counterpressures included the state trying to protect its assets and revenue, the party’s traditions, traditions of solidarity from war time, and pressure from SOE workers.14

The state and party attempted to bring some order back into the state sector.15 While unofficial privatisation continued, some apparently liberalising reforms of the 1990s were also attempts to rationalise and thereby control and reverse the spontaneous privatisation, asset diversion and loss of state control already rife under ‘half-reform’.

The first legislation to convert SOEs into share companies (equitisation) was passed in 1992.16 While also a privatising process, at this stage it only involved a few small SOEs, and many saw it as a legal way to deal with spontaneous privatisation. In reality however, it also facilitated illegal transfer of state assets into private hands alongside the legal transfer.17

The 1991 legislation demanding all SOEs re-register was similarly contradictory.18 By 1994, only half, some 6000, had done so. Allowing unprofitable SOEs to collapse may be interpreted as a liberalising measure. However, it was also an attempt by the state to reassert control over the SOEs which had grown explosively, seeping much state capital, due to earlier liberalisation. Halving the number of SOEs simply returned their total number to that existing before liberalisation; and the 6000 that disappeared accounted for only 4 percent of SOE capital.19

Nevertheless, the collapse of state finances led to the SOE workforce dropping from 2.6 million to 1.7 million,20 though retrenchment was concentrated in agriculture and trade,

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14 This pressure from workers was a factor leading to decrees reaffirming workers’ power in SOE management, which will be detailed in the next chapter.
15 Alarm at the squandering of state assets was common to both “conservatives” and “reformers.”
17 The pressure for equitisation is also related to the same issue noted above regarding illegal privatisation, that of directors approaching retirement wanting to pass on assets to their children.
19 Van Arkadie and Mallon, op cit, p. 126.
20 The concurrent drop in employment in the whole state sector (ie, including state administration) was of around a quarter, from some 4 down to 3 million workers, O’Connor, 1996, p. 20.
with little job loss in industry.\textsuperscript{21} This was partially cushioned by the explosion of the small household economy, which was thus a social void needing to be filled, often by these workers.\textsuperscript{22} In theory, retrenchment was voluntary, but “managers probably exerted greater influence” over this than its voluntary nature “would suggest.”\textsuperscript{23}

The launching of 82 General Corporations in the mid-1990s – gathering 2000 SOEs, accounting for 80 percent of SOE production capacity\textsuperscript{24} – also aimed at re-imposing state control. The central government appoints officials to their Management Boards, who control SOE affiliates.\textsuperscript{25} This aimed to sideline line ministries which had been governing important SOEs and which had resulted in chaotic governance and unwarranted interference. The state aimed to consolidate finances and ensure a strong national economy could compete globally, by gathering related SOEs under one large roof.

\textbf{Intensified pressures after 1997}

Following the events of 1997, the contradictory pressures intensified. On the one hand, socialist orienters saw the collapse of neighbouring capitalist economies as an argument for bringing the state economy under greater social control than during the 1990s, when economic goals had been overemphasised to enable Vietnam to climb out of its systemic crisis. In early 1999, a decree tied the state corporations to the official poverty reduction program: SOE profits or investment strategies were to be used for social goals. Around the same time, a grass-roots democracy decree for SOE workers was enacted, reflecting the revival of workers’ confidence during the recovery of 1992-97.\textsuperscript{26}

However, the opposing pressures also intensified. The World Bank released a major document on Vietnamese agriculture in 1998, castigating SOEs and cooperatives. It

\textsuperscript{21} Ibid. About two thirds of job losses were in local SOEs.
\textsuperscript{22} Overall employment rose 20 percent in this period, but employment in “trade and supply” rose 40 percent, ibid, p. 20. According to the OECD, it was common for SOE workers “to use their lump-sum severance payments as capital to invest in household businesses,” as the average severance pay was about equal “to the average productive capital investment per worker in the private household industry sector in 1992 (i.e., 3.7 million Dong),” ibid, p. 37. But while many may have improved their earnings or at least kept up, for many at the lower end of the informal service sector, this meant a far less secure existence.
\textsuperscript{23} Ibid, pp. 22-23. The voluntary process involved either a large redundancy package or early retirement.
\textsuperscript{25} Decision 90-TTG and 91-TTG, March 7, 1994. The management structure will be discussed more in Chapter 5.
\textsuperscript{26} These processes will be discussed in the next two chapters.
called for a level playing-field for “all economic enterprises, irrespective of type of ownership,” asserting that “only enterprises able to earn profits should survive.” The Bank released a memorandum stating that certain loans would be conditional on policy changes. At the meeting of large creditors (including the IMF, WB and ADB) in December 1998, some $US500 million in aid was conditioned on Vietnam adopting an “accelerated doi moi program.”

Their program included SOE “reform” to virtually eliminate the state sector, with strict timetables and targets, restructuring of banks, and a trade liberalisation plan, particularly to reduce protection of ‘inefficient’ state-dominated industries such as cement, fertiliser and sugar. They warned that unless this program were enacted, Vietnam would fall behind the region, “FDI flows would continue to fall (and) growth could fall to zero.”

In reality, Vietnam’s growth was the best in the region in 1998-99, and in 2001 grew 6.8 per cent, the highest in Asia after China, when the region fell back into a mini-crisis. The Bank could hardly have got it more wrong.

In 1998, the Bank released its Country Assistance Strategy (CAS) for Vietnam to qualify for assistance under the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The CAS was not “country-owned,” as its fundamentals had to be agreed to.

The CAS “triggers” included “complete equitation of 400 SOEs by 1999” (and 1000 by 2000), including 100 with assets of over VND 15 billion, “an action plan for restructuring 100 of the largest SOEs in 1998,” encouragement of Private Provision of Infrastructure (PPI), and “closing unviable/insolvent banks and complete restructuring of viable ones by 1999.”

Soon after, before ‘second tranche’ money was released,

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27 World Bank, *Advancing Rural Development*, Hanoi, 1998. According to an International Monetary Fund (IMF) presentation, while there are “multiple objectives of fiscal policy”, such as to “contribute to economic stability, ensure good use of national resources and (allegedly) help achieve a more fair sharing of income,” the “ultimate objective of fiscal policy” is summarized in one phrase: “Promote growth of the private sector,” Robert Hagemann, IMF Resident Representative in Cambodia, “The Role of Fiscal Policy in Reducing Poverty”, *Provincial Workshop on NPRS Implementation*, 25 June 2003, Phnom Penh.


Vietnam would have to implement further conditions, including deeper equitisations and removal of all caps on shareholdings in equitised SOEs.\textsuperscript{32}

Other international bodies joined this intervention into Vietnam’s political economy. Then Vietnam head of the United Nations Development Programme, Jordan Ryan, called for “a hard look” at whether SOEs should exist “in commercial enterprises like steel and concrete,” or the army should have “business interests in telecommunications.”\textsuperscript{33} The United States Department of Commerce judged that Vietnam was “not a market economy” because “privatisation of state-owned enterprises ... has been slow, private land ownership is not allowed” and there is no “land privatisation program.”\textsuperscript{34}

The Bank’s conditions also included trade and investment liberalisation, which ultimately prevent protection of state industries and even the right of the state to decide which areas it controls. Membership of the Asia Free Trade Area (AFTA) required tariffs on Asian products be cut to 0-5 per cent by 2005, and to zero by 2013, and other non-tariff barriers to end by 2006.\textsuperscript{35} Before Vietnam’s 2006 entry into the WTO, it had to slash trade and investment protection. The WTO TRIMS agreement bans devices which developing countries long used to make foreign investment work for them, including localisation rates and technology transfer.\textsuperscript{36} Furthermore, the WTO opens all services to the private sector or foreign TNCs.\textsuperscript{37}

\begin{quote}
“deregulate/allow foreign equity investments in domestic enterprises”, “eliminate interest rate caps” (which have “made lending by IFC and other foreign lenders to banks in Vietnam uneconomic”), and “allow mortgage security to be taken by foreign offshore banks.”
\end{quote}

\textsuperscript{32} Demands included that Vietnam end quantitative restrictions by 2003 on a list of major products, expand capital and security markets, remove ceilings on shareholdings in equitised SOEs, complete major equitisations of SOEs with assets in excess of 15 billion dong (selling more than 65 percent of shares to non-state shareholders and no dominant or special state shares), sell or liquidate at least 200 SOEs, complete minor equitisations (sales of shares with the state having dominant or special shares) of at least 200 SOEs, and restructure general corporations, including new corporate governance.


\textsuperscript{34} US Department of Commerce, \textit{Antidumping Duty Investigation of Certain Frozen Fish Fillets from the Socialist Republic of Vietnam - Determination of Market Economy Status}, November 2002. This ruling allowed the US to impose punitive high tariffs on Vietnamese seafood.


\textsuperscript{36} See TRIMS provisions of the US-Vietnam Bilateral trade Agreement.

\textsuperscript{37} ‘Vietnam has opened 110 out of its 115 service lines, and has accepted the principle of no special treatment for domestic enterprises. After five years of WTO membership, Vietnam will have to open wide most of its financial services. Companies are entitled to enter Vietnam with 100% foreign-owned
The Bilateral Trade Agreement (BTA), signed with the US in 2001, included the WTO’s TRIMS, ‘equal treatment’ and services’ privatisation provisions. This allowed US firms to enter joint ventures in all products with majority ownership, and 100 percent US firms to trade in all products by 2008.

Legislation in 1998 stepped up the equitisation of small firms. Decree 64 in 2002 capped the preferential share offer to workers at 50 percent, while removing limits on preferential shares for managers and the percentage of shares owned by one individual or private company in an equitised SOE.

In 2004, the major corporations and large SOEs were opened to equitisation. The criteria for the state to hold majority shares in SOEs were changed to release more state property, and even the most important sectors, previously reserved for 100 percent state ownership, were shifted to mere state majority. Since then, a number of major equitisations have taken place.

Further legislation was enacted to transform state corporations into “parent and subsidiary” companies. Although the corporation’s management board appoints directors to subsidiaries, the exact links between firms remained unclear. According to investment. Vietnam has totally opened the door to its accounting-auditing and tax consultancy market. Upon entering the WTO, Vietnam will allow the establishment of representative offices and joint ventures with a foreign stake of up to 49% in trading stocks and shares. In the next five years, wholly-owned foreign stock service companies and branches of foreign stock companies will be allowed,” ‘WTO: The Issues Remain Hot’, Saigon Times Magazine, October 6, 2006.

Significantly, one third of the National Assembly voted against its passage.

Decree 44-CP, June 29, 1998.

Decree 64/CP, June 19, 2002.

Central Institute for Economic Management (CIEM), Viet Nam’s Equitised Enterprises: An Ex-Post Study Of Performance, Problems And Implications For Policy, Hanoi, August 2002, p. 60.


Decision 58 of April 26, 2002, the state would hold 100 percent in SOEs in state monopolies, and also in SOEs where state investment was over 20 billion dong, which remitted over 3 billion dong to the budget for three years, were leaders in high technologies, or contributed to macroeconomic stabilisation. The state would hold 50 percent or more where state investment was 10 billion dong or more or budget remittance was one billion dong over three years. However, Decision 155 of August 24, 2004 increased the state capital requirement for the 100 percent and 50 percent or more categories to 30 and 20 billion dong respectively, while the budget remittance level was increased to two billion dong for the 50 percent category. The majority of the sectors included in the 100 percent category, based on these criteria, in 2002, were shifted to the ‘50 percent or more’ category in 2004, UNDP Vietnam, The State As Investor: Equitisation, Privatisation and the Transformation Of SOEs in Viet Nam, UNDP Viet Nam Policy Dialogue Paper 2006/3, Hanoi, October 2006, pp. 10-11.

Some of the most notable were the state milk company Vinamilk and Bao Viet insurance.

Decree 153, August 9, 2004. The term “holding company” is also used, almost interchangeably.
Vo Tri Thanh from CIEM, the parent-subsidiary model helps “clarify the links;” the administrative unit heading the corporation becomes a parent company, which holds a controlling stake in the subsidiary. This “hastens equitisation,” because “the subsidiary must needs a share-holding structure for the parent company to hold a stake.”

Affiliates operate under the Enterprise Law, with the same rules as the private sector. The new Enterprise and Unified Investment laws of 2005 unify the regulatory framework for private and foreign firms and “transformed” SOEs. Non-transformed SOEs must comply by 2010. Only SOEs with a state share of over 65 percent are currently excluded.

**Current size of state sector**

The “restoration of capitalism” school believed these international prescriptions would doom the state sector, whether equitised out of existence, forced to collapse under trade liberalisation, out-competed by foreign investment, or forced into de facto privatisation by ruthless pursuit of profit and “efficiency.”

Kolko shows the “illusions” in the private sector were belied by impressive state sector growth in the 1990s. However, he believed the “good fortune” of SOEs would “inevitably run out” and “the state sector will be eliminated.” The “spontaneous privatisation” of SOEs by their managers and the equitisation push by ‘reformers’ were merely two routes to grab state assets by different sections of the elite. Greenfield believed the state sector was involved in a “retreat from production” into finance and ‘merchant capital’, that the state’s fiscal crisis had “intensified,” and “the bulk of the state enterprise sector is slipping into oblivion.”

Reality has turned out differently. By 1997, only 18 SOEs were equitised, rising to 776 by 2002. However, most were small, in total accounting for 2 percent of SOE capital.

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47 UNDP Vietnam, ibid, p. 34.
51 Central Institute for Economic Management (CIEM), 2002, op cit, p. 17.
In the same period, new SOEs were established in sugar, cement, gas, electricity and fertiliser "with capital far in excess" of the total of the equitised enterprises. The 1706 SOEs (one third of all SOEs) equitised by 2003 had assets accounting for 3 percent of the state sector, half had a state majority holding, and only 10 percent of equitised capital had gone to outside investors. By 2006, equitised enterprises accounted for 12 percent of SOE capital, and the program was still judged to be behind schedule.

Of the $10 billion of total investment in 2001, the state (budget, state credit and SOEs) accounted for 58 percent — a rise from 42 percent in 1995. Foreign invested enterprises (FIEs) made up 18 percent, and the household economy 19.8 percent (including the millions of small peasants). The domestic capitalist sector accounted for a mere 4.4 percent. By 2004, the state share remained almost the same, but within it the share of SOEs was rapidly rising at the expense of state credit.

The state sector’s contribution to GDP also rose from 30 percent in 1990 to 42 percent in 1995, and then fluctuated around 40 percent for the next decade. In 2001, FDI accounted for 13 percent of GDP, and small household production 32 percent. Domestic ‘private enterprises’ only accounted for 3.3 percent, the remainder divided between ‘cooperatives’ and the ‘mixed sector’.

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54 'To consider pilot establishment of economic groups in some industries', VNEconomy, April 23, 2004. In other words, most had gone to workers, farmers or state input firms.
58 Vu Long, op cit.
To understand the paradox of a small state sector before Doi Moi, it must be understood that this term applies to industry, not agriculture, where collective property dominated. In North Vietnam in 1975, the state sector accounted for 51.7 percent of GDP, the collective sector 39.9 percent and the private sector 8.4 percent. However, following reunification and economic crisis, the state sector contribution fell to 19.8 percent in 1980, rising to 28 percent in 1985. The main effect of Doi Moi was to convert the other 72 percent from collective to household ownership, thus the suddenly huge “private” sector.

Thus the state sector grew after Doi Moi, even though the latter introduced the private and foreign sectors, partly due to the big rise in industry at the expense of agriculture. However, while industrial growth meant growth in the state, private and foreign sectors concurrently, the SOE share in industry itself rose at the expense of existing small private and cooperative industries. In the first half of the 1990’s, the SOEs’ annual growth was 10.5 percent, almost double the non-state sectors’ 6.1 percent.

The later decline in the State sector’s share of industrial production to some 46 percent by 2001 was due to large-scale foreign investment into industry. The doubling of FDI’s share in overall GDP over 1997-2001 barely touched the SOE share, but the private domestic sector’s share fell from 53 to 47 percent.

Private businesses are overwhelmingly small, with relatively few large capitalists until recent years. In 2001, the average SOE employed 312 workers, the average FIE 266, and the average private business only 31. The average SOE held $3.4 million in
operational capital, the average FIE $8.2 million, and the average private domestic firm only $177,000.\textsuperscript{67} Despite equitisation, average capital in wholly state owned SOEs grew to 71.55 billion dong in 2003, three times that in 2001.\textsuperscript{68} For example, Vinashin, the shipbuilding SOE, was granted the entire 750 million USD raised in "Vietnam's maiden sovereign bond" in 2005.\textsuperscript{69}

To sum up, till 2004-5, the state remained dominant in domestic large-scale production, its main competitor being FDI. There is a huge sector of small-scale production in agriculture, services, retail, handicrafts and petty manufacture, run by households. The private capitalist sector remained relatively small, and mostly small-scale.

Is the state sector an economic burden?

However, while the state sector has not been "eliminated," the concerns about its "hollowing out" call into question whether its prominent role is a healthy thing. The main discourse claims that an "inefficient" state sector maintains its role due to state subsidies, favouritism in credit and massive debt, producing few jobs yet blocking the private sector, which produces faster growth and most employment.\textsuperscript{70}

This dissertation is mainly concerned with the social efficiency of the state sector, but if it really were a serious economic burden, it would be in no financial position to do much social good. Growth and profit levels may not need to be as high as in the private sector, but need to be positive. The following section will evaluate this.

Firstly, the annual growth rate of SOEs in the first half of the 1990s doubled that of non-state sectors, leading to a 7.7 fold increase in income by 1995.\textsuperscript{71} While non-state sector growth rates later surpassed those of SOEs, state sector growth has continued at over 10 per cent per annum almost every year since the early 1990s.\textsuperscript{72} Moreover, the state sector as late as 2004 still had a higher "GDP growth rate" (7.75 percent) than the private sector.

\textsuperscript{67} Vu Long, op cit.
\textsuperscript{69} Kazmin, A, 'State control stops Vietnam realising its IT potential', *Financial Times*, April 24, 2006.
\textsuperscript{70} Examples are given in the introduction, pp. 8-9.
\textsuperscript{71} Pham Quang Huan, 'Solutions for the State-owned enterprise reform', *Vietnam's Socio-Economic Development*, No. 14, Summer 1998, p. 3.
As for "efficiency," the UK Department for International Development found that SOEs in dynamic areas created jobs, improved quality and invested in technology as well as private firms do.74

Secondly, following recovery from the crisis in the early 1990s, the state used new revenues from liberalisation to recentralise finances, revenue rising 38 percent annually.75 Real tax revenues rose from 1.1 billion USD in 1990 to 5 billion USD in 1995.76 The state budget rose from 14 percent of GDP in 1986 to 25 percent in 1994.77 In the early 1990's, SOE contributions to state revenue increased 50 percent per year.78

SOE taxes in 2001 accounted for 50 percent of state revenues, while the private sector, foreign and domestic, paid only 10.3 percent.79 SOE budget contributions in 2002-03 exceeded 45 trillion dong ($3 billion).80 Major contributors in the first half of 2002 included PetroVietnam, Vinacoal, Electricity of Vietnam (548 billion dong), the Steel Corporation (128 billion), the Cement Corporation (295 billion) and the Textile and Garment Corporation (58 billion).81

SOEs pay the same profit tax (28 percent) as private firms, but in practice often pay more. In 2005, PetroVietnam earned US$7.1 billion, but its budget contribution was 44.86 trillion dong (US$2.9 billion), nearly half its turnover.82 Its "pre-tax profit," confusingly, was only 3.6 trillion dong (US$231 million), out of which comes the profit

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73 CIEM, Vietnam's Economy in 2004, Science and Technics Publishing House, Hanoi, 2005. This is due to its much bigger starting point. In terms of simple growth rates, the private sector has tended to double that of the state this decade.


79 WB, ADB, 2002, p125, compared to WB/ADB/UNDP, 2001. Non-tax revenue was largely import and export duties, where SOEs also play a major role. This and other non-tax contributions by SOEs to revenue are thus not included in the 50 percent figure –total SOE contribution is estimated to be around 70 percent.

80 'Deputy PM calls on state sector to step up enterprise reform', Viet Nam News, December 16, 2002.


tax, a tiny part of its budget contribution. Electricity of Vietnam in the first half of 2003 contributed 667 billion dong ($43 million) to the budget, more than its 395 billion ($25 million) profit for this period. In 1997, the 200 largest SOEs contributed 15 trillion dong, one fifth of total turnover, yet their “pre-tax profit” was only 5 billion dong.

Vo Tri Thanh from CIEM explained “contributions to budget” means “all kinds of taxes and contributions.” “Pre-tax profit” refers to profit after these items have been paid, except the profit tax, often the smallest “contribution.” While there is evidence of significant SOE tax avoidance, there is much suggesting private sector tax avoidance may be worse. Foreign firms have been implicated in large-scale tax evasion, via price transfer fraud and reporting suspect losses, for many years.

Thirdly, it is unclear how much direct state money goes into SOEs as investments or subsidies. While most reinvestment comes from SOEs’ own funds, a World Bank expert claimed the state does “invest a little.” For example, “if an SOE embarks on a large project, it is not sensible to get all the capital from loans.” Tran Tien Cuong from CIEM said the state’s industry budget was mostly infrastructure, but can include “establishing new SOEs, or parts of SOEs, if the SOE doesn’t have enough money (like a new tea plant), or if the extension is very large and important.”

Direct subsidies were largely scrapped after Doi Moi. According to one estimate, in 1994 subsidies to SOEs “sank to 0.5 percent of GDP,” compared to the 8.5 percent “they soaked up” in 1988; according to another, “net bank and budget support” of SOEs fell

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85 Vo Tri Thanh, Central Institute of Economic Management, Interview, Hanoi, May 23, 2005. This appears to apply to the larger SOEs.
86 During the investigation into the Dong Nam (private mobile company) tax scam in 2003, Dong Nam claimed to be doing what all private firms do. The Far Eastern Economic Review claimed in Dong Nam’s defense that private firms avoid 90-95 percent of tax, (Wain, B, ‘Falling To Earth’, May 15, 2003). An Oxfam team in Nghe An noted that a local SOE, “as a State-owned profit-making business cannot compete well with private traders because of its bureaucracy and ‘inflexibility’ (e.g. every transaction must have ‘red invoices’, so it cannot ‘avoid’ taxes like the private traders),” Oxfam GB/HK Rice for the Poor, 2001.
89 Tran Tien Cuong, director of enterprise reform at Central Institute for Economic Management, Interview, Hanoi, October 2005.
from 3.5 percent of GDP in 1989 to -9.2 per cent in 1994.\textsuperscript{91} In the 1990s, SOE payments to the state were 75 times greater than subsidies to SOEs.\textsuperscript{92} It is difficult to get information on what subsidies still exist. However, in 1998, the state budget contribution by agricultural SOEs was 1.3 trillion dong, or 26 times higher than the 50 billion dong they received in subsidies that year.\textsuperscript{93}

A more common claim is that credit to SOEs is too easy compared to private firms. SOEs acquired 52 percent of total credit after 1997, as they stepped in to maintain investment and exports in the face of FDI flight. By 2002, however, the figure had fallen to 40 percent, \textsuperscript{94} equal to their weight in GDP and below their contribution to state revenue. Private firms also controlled 40-50 per cent of credit. \textsuperscript{95} The State Bank holds 70 percent of credit, only half of which goes to SOEs, while the 12 percent of credit controlled by joint-stock banks mainly goes to the private sector. \textsuperscript{96} Only 25 percent of new loans went to SOEs in 2002, \textsuperscript{97} while “a mere 29 percent” went to private firms. \textsuperscript{98} The idea that SOEs dominate credit thus appears a mere hangover from the past.

In addition, SOEs are concentrated in areas that require more capital. While there may be valid complaints about many decisions to favour an SOE, in many other cases such lending has social value. The biggest borrower from the Development Assistance Fund in 2002 was Electricity of Vietnam. \textsuperscript{99} Electricity infrastructure requires more capital than a private brick-making workshop, but spreads electricity to thousands of rural people. The World Bank expert claimed “power production is expanding at 16-17 percent per

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\textsuperscript{92} Kolko, 1997, p. 61.


\textsuperscript{97} ibid, p. 23.


\end{footnotesize}
annum, a good rate for an economy growing at 7 percent, trying to connect poorer regions. While banks are not supposed to lend so much to one creditor, this is sensible lending."\textsuperscript{100}

Are SOEs nevertheless so chronically indebted they constitute a dead weight on the economy? In 2002, of 5175 existing SOEs, 3979 (77 per cent) were profitable and 816 (15 per cent) losing money.\textsuperscript{101} An IMF report showed 40 percent profitable and 16 percent unprofitable – the others ‘occasional loss makers.’\textsuperscript{102} But 90 percent of the largest 200 SOEs (holding 60 percent of SOE capital) were profitable.\textsuperscript{103} While total SOE debt is nevertheless quite large, the proportion of “non-performing” loans was halved from 12.7 to a rather small 5 percent of total loans between 2001 and 2003.\textsuperscript{104}

Finally, the World Bank claimed the “structure of (trade) protection” favours capital intensive SOEs, as the prices of “plant, machinery, and other purchased inputs for local industry” are more expensive than if imports flowed in freely.\textsuperscript{105} Thus trade liberalisation will, by dismantling Vietnam’s heavy industries, free more credit for private non-farm rural firms and light export-oriented industry, creating more jobs than those lost.\textsuperscript{106}

However, 56.7 percent of domestic private firms had levels of protection of over 100 per cent, compared to 46.3 percent of SOEs.\textsuperscript{107} The Bank’s 2001 figures show agricultural and light industrial products in labour intensive areas – dominated by private operators – were as protected as heavy industrial products.\textsuperscript{108} Thus SOEs and capital intensive sectors did not especially benefit from trade protection.\textsuperscript{109}

\textsuperscript{100} World Bank SOE expert, Interview, Hanoi, October 2005.
\textsuperscript{101} ‘Deputy PM calls on state sector to step up enterprise reform’, VN News, December 16 2002
\textsuperscript{103} Ibid. Eighteen of the largest state corporations made a combined profit of 6.6 trillion dong (US$426 million) in the first half of 2003. This included the post and telecommunications, oil and gas, electricity, rubber and cement corporations, ‘State corporations haul in hefty profits’, \textit{Viet Nam News}, Aug 5 2003.
\textsuperscript{105} World Bank, \textit{Advancing Rural Development}, 1998.
\textsuperscript{106} On the specific question of different economic sectors and job creation, see Chapter 6.
\textsuperscript{108} World Bank, ADB, UNDP, 2001, p. 25. Protection rates for ceramics were 127%, textiles 132%, foodstuffs 105%, vegetable and fruit canning 100%, tea and coffee processing 90%, while the rates for the SOE-dominated sectors of cement and equipment and machinery were only 90% and 12% respectively.
While the above casts doubt on the validity of stereotypes of SOE economic performance, the debate would not be complete without some reference to SOE corruption. However, corruption is not limited to SOEs, either in Vietnam or elsewhere. Joseph Stiglitz, former World Bank head, noted that state sector corruption is used to justify privatisation, but “cheerleaders of the private sector failed to reckon with the ability of (private) company bosses to indulge in corrupt practices on an almost unfathomable scale ... (and) put to shame petty government bureaucrats who steal a measly few thousand dollars – even a few million dollars.”

Of course, that does not lighten the enormous damage caused by theft of state assets via SOEs. However, the continuing busts, however inconsistent, suggest difficulty for secure private accumulation via the state sector. Greenfield notes the case of Miliket, but in footnotes we see the case went to court; he describes the corruption of the first equitisation (Legamex), but notes it was “under investigation;” he accused the government of enacting “policies to facilitate the expansion of Minh Phung’s production and export activities,” yet Minh Phung’s empire was busted 1997-98. These examples, and a continual string of busts of major corruption scandals since 1997, suggest elements in the regime remain determined to prevent this road to riches. There is no guarantee, however, of their long-term success.

Conclusion

None of the above aims to paint a rosy picture, or to deny the serious reality of corruption and asset-stripping, of ‘effective privatisation’, the chronic inefficiency of

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110 The massive Minh Phung-Epco case, for example, involved private enterprise.
111 WorldCom’s $US4 billion ‘accounting error’ was over half Vietnam’s national budget.
113 Greenfield, 1994, pp. 219, 216.
114 For example, EPCO-Minh Phung in 1997; the Hanoi water-park scandal in 1998-99, which brought down a deputy PM (‘Justice Seen to Be Done’, Vietnam Economic Times, December 1999); a scandal involving funding to ethnic minorities in 2000 (Cohen, 2001); the media’s ‘open season’ against Le Van Kiem’s mega-private company in 2000 (Cohen, 2000); the reaction of the regime to the Thai Binh uprising, which led to the fall of up to 2000 cadres (Kerkvliet, 2001, p. 267); the vigorous anti-corruption campaign launched by Le Kha Phieu from 1999 (even studies extremely critical of Phieu noted that he was honestly appalled by the prevailing corruption, eg, Abuza, 2002); the massive scandal around the Nam Cam mafia gang (BBC World Service, ‘Vietnam’s Former PM Linked to Scandal’, 20 May, 2002); and the busting of an enormous scandal in the Transport Ministry in the lead-up to the 2006 Party Congress.
115 Beresford suggests “attempts to use state positions to accumulate private capital have been clearly identified as corrupt, and where possible, severely punished,” Beresford 2001, p. 227.
some SOEs, the naked profit-orientation of others, bad investment decisions, and other anti-social aspects of many SOE’ operations. All of this is a great part of the reality.

However, the overall picture of the strong survival and growth of the state sector, with a moderate if not high level of efficiency, suggests these negatives are far from the full story. The point is not however to simply point to positives and negatives. The point is that the negatives do not have the weight to have dragged the Vietnamese socio-economy down, which they could have done considering the state’s weight in the economy. This thus brings an overall assessment of the powerful state-owned part of the economy into line with the general overall positive assessment of the Vietnamese socio-economy made by most analysts, abolishing the otherwise stark contradiction.

This helps explain the stubborn resilience of a powerful state sector in face of the continually more radical goals of the official ‘reform’ program: as the sector is a viable and beneficial part of Vietnamese society, there are real social interests – not only of stereotypical ‘conservatives” or ‘corrupt’ officials – in maintaining it.

However, these social interests do not merely stem from the state sector’s ability to be partially efficient. In itself this could suggest it would gain a greater base in society by being more consistently “efficient.” This could lead precisely to the kind of “reforming” the SOEs out of existence that has been avoided.

Rather, socialist orientation requires state enterprises to be different to private enterprises in significant ways, above all to be socially, rather than just economically, efficient, and to have a special relationship to the workers and peasants. Following this will be several chapters dealing with these issues that concern socialism and its relation to the state sector.
Chapter 5
State Enterprise Workers: "Commodities" or "Masters"?

An important aspect in assessing the socialist nature of the state sector is whether its workers have any control over its operations. The broader question is the role played in SOE management by central or local state ‘owners’, enterprise managers, Communist Party cells, trade unions, mass organisations, and employees.

This helps us understand the nature of decision-making, and thus the extent to which some form of social control exists over social enterprises.

“Workers’ power” is central to Marxist concepts of socialism. Socialism was not viewed simply as a state taking over the economy; rather, the working class must become the new ruling class, controlling the enterprises and the state which now owned this property.1 Lenin claimed “supervision and control” by the workers was the crucial difference between mere “confiscation” of the means of production, and doing something useful with the confiscated enterprises, namely “socialisation.”2

It is beyond the scope of this study to discuss how this evolved into the centralised dictatorship of Stalinism, in stark variance to the theory. But the surface appearance of the post-1954 Vietnamese state resembled the Soviet and Chinese models. This can lead to assumptions that the state and party held “totalitarian” control over society, and thus over the state enterprises.3 The system may be socialist in that ownership belonged to society, but distorted if the state did not democratically represent working people.

Whether either the pre- or post-Doi Moi system was totalitarian is debatable. The conclusion of chapter 3 was that, while there is a lack of formal democracy, and the party and state have extensive powers, they nevertheless act to a significant degree under popular pressure, their legitimacy partially rests on carrying out the popular will

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1 Engels (‘Socialism: Utopian and Scientific’, 1880, Collected Works, Vol. 24) pointed out that in wealthy capitalist countries, the state often takes over sections of the economy, “first in the great institutions for intercourse and communication - the post office, the telegraphs, the railways.” But this “does not do away with the capitalism.” This state is “the organisation that bourgeois society takes on in order to support the external conditions of the capitalist mode of production against its own anarchy.”


3 It is not my purpose here to judge how true this totalitarian scenario was even in the USSR and China, but to examine whether it fits Vietnam.
inherited from the revolution, and they are reluctant to use open repression against collective forms of action.

It would be logical to apply this cautious analysis of the system as a whole to the state enterprise system. This chapter will examine this regarding the role of workers in state enterprises in the post-Doi Moi period.

The first section will briefly discuss the situation before Doi Moi. This will lead on to some definitions of terms for various bodies inside SOEs, relevant to both pre- and post-Doi Moi. Following this will be several sections overviewing the formal changes since Doi Moi.

As these first sections detail the formal situation, the literature on this will be reviewed in the following section, headed “Assessments of the new reality.” This will combine both the academic literature and the views of a number of Vietnamese writers, analysts and trade unionists who I interviewed.

Following this there will be several sections where I assess the situation. First there will be an overview of workers’ conditions in the state sector. This may not tell us anything definitively about the question of workers’ participation, but may shed some light on the discourse about “exploitation” of workers in the state sector. Then I will present two case studies of large SOEs which I visited and where I interviewed workers, and where the research suggests a still stong form of workers’ participation and benefit.

My case studies will then be contrasted to an important case in the academic literature, that of Greenfield’s description of the anti-worker strategy of the state coal SOE in the 1990s. While this demonstrates the contrasts that exist within the state sector, it will also show that the SOE management did not ultimately win a total victory and that elements of the “party-state” struggled against the capitalist logic. This same phenomenon will be demonstrated more sharply in the last section, outlining the current struggle by the party-led trade union movement against the anti-worker dynamics of equitisation.
Workers and SOEs pre-Doi Moi

A common notion holds that Vietnam’s political system was more repressive before Doi Moi than it is now. Whether this is justified is beyond the scope of this study. However, the situation may have been the inverse regarding democracy in the workplace.

Greenfield believes there was never any workers’ power, and Doi Moi was essentially a new strategy for the same elite to exploit their workers. However, he clearly believes this new strategy enabled the elite to exploit workers more brutally than before.

Fforde and de Vylder, discussing the great “multiplicity of agencies” involved in the management of post-Doi Moi SOEs, see a degree of continuity, claiming the pre-1986 polity was also more a “bargaining economy” than a pure “command economy.”

Porter discusses the profit-gouging by SOE managers in the 1980s, when they exploited the difference between official and market prices. However, even this account does not have them squeezing workers; rather, workers as co-conspirators. These methods “generated profits for cadres and workers … everyone in the enterprise usually got a share.”

Vietnamese respondents tended to see workers’ role as stronger before Doi Moi. Long-time unionist Nguyen Phuong Hoa claimed “directors have more power post-Doi Moi, so unionists have to be very firm and knowledgeable. Before Doi Moi, the union and the director were much closer; now there is more conflict.” According to Tran Trung Phuc, Director of the Socio-Economic Policy Department of the Vietnam General Confederation of Labour (VGCL), “workers had a very good position in SOEs before

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4 This appears unarguably the case in certain respects, such as the large-scale closing of the ‘re-education camps’ and release of post-war prisoners by the late 1980s.
5 Greenfield, G, From Class to Commodity: Workers and Capitalist Industrialisation in Vietnam, PhD, UNSW, 2000, pp. 8-9, 29-32, 35-36.
6 Fforde, A and de Vylder, S, From Plan to Market: The Economic Transition in Vietnam, Westview Press, 1996, pp. 256-7. Beresford also claims that pre-Doi Moi Vietnam was not really a “command economy” but rather was “a system in which the demands of conflicting interest groups within society were negotiated through the mediation of the state apparatus,” 2001, op cit, p. 228.
8 Nguyen Phuong Hoa, Head of Trade Union, Textile Research Institute, Vinatex, previously head of Trade Union in a state garment company under Vinatex, before that head of Trade Union in a state wood company (Cong Ty Go Cau Duong), Interview, November 2005.
Doi Moi, the trade union had a strong role via the ‘Group of Four’ (Bo Tu) system. According to Professor Ton Thien Chieu, who researches labour issues, “before Doi Moi, the role of workers was stronger; the Bo Tu had the final decision.”

Chieu continued that “before 1990, production plans had to go through the party unit before the director could approve.” While the party unit is often conceived of as an ally of management, it was notable that many discussing the workers’ role refer to a strong party role as positive, perhaps as a balance against full managerial control.

The pre-Doi Moi structure is often confused due to the terminology used. Trinh Duy Luan of the Sociology Institute writes that before Doi Moi, every state enterprise “had a workers collective” which was “the real boss of the enterprise.”

Greenfield wrote that the “workers’ collective” Luan refers to is “more accurately translated as a workers’ council,” but asserted that discussions with “several” SOE workers revealed “the workers’ councils were not operating” or “did not exist at all.” When he asked them about a “workers’ council” (hoi dong lao dong) they confused it with the trade union committee, or the workers’ inspection committee (ban thanh tra cong nhan), or even the enterprise councils (hoi dong xi nghiep). He writes that usually there was only “an enterprise council functioning alongside the trade union (cong doan).”

However, when interviewed, Luan explained the ‘workers’ collective’ was not a body, but referred to the workers in all production units in the SOE, who acted together, with “collective values.” This was confirmed by other interviewees, and all insisted there had never been anything called a workers’ council (hoi dong lao dong).

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9 Tran Trung Phuc, Director, Socio-Economic Policy Department, VGCL, Interview November 9, 2005
10 Ton Thien Chieu, Institute of Sociology, Vietnam Academy of Social Sciences, Hanoi, Interview, November 25, 2005
11 Ibid.
12 There will be many examples below regarding the post-Doi Moi situation.
14 Greenfield, 2000, p. 73-4.
15 Ibid; Tran Trung Phuc, op cit; Nguyen Xuan Con, former head of Trade Union of Vinatex, Interview, November 2005, Hanoi. Greenfield assumed a non-existent body existed on paper, so when workers had not heard of it, he saw this as evidence that such councils do not represent workers.
Chapter 5: State Enterprise Workers: “Commodities” or “Masters”?

According to the former head of the Vinatex (Vietnam Textile Corporation) trade union, Nguyen Xuan Con, the enterprise council and the Group of Four were the official and unofficial leading bodies respectively.¹⁷

The Group of Four consisted of the director, who was appointed by the state (both before and after Doi Moi – the director was never subject to election); the head of the Communist Party (CPV) unit; and representatives of the trade union and the youth union. The trade union committee was (and is) elected at a trade union congress, attended by all workers, which takes place every 2-5 years.¹⁸ Its official role was to represent workers on management on an ongoing basis.

The official name of the enterprise council was ‘Ban Thuong Truc Dai Hoi Cong Nhan Vien Chuc’ (‘standing board of the workers congress’). It was elected by workers at their annual congress.¹⁹ The workers’ congress (Dai Hoi Cong Nhan Vien Chuc) – distinct from the trade union congress – was and is an annual event attended by all workers where they directly participate in decision making about the company plan and draw up a collective labour agreement. The State Enterprise Law of 1995 describes it as “a direct forum for SOE workers to take part in management.”²⁰ It was “the highest authority in an enterprise,” putting together the business plan and “everything.”²¹ This explains why “workers often accounted for 50 percent of the members of enterprise councils.”²² It also explains why workers “confused” Greenfield’s question about a “workers’ council” with the “enterprise council,” since the latter was elected by the workers congress.

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¹⁷ Nguyen Xuan Con, former head of Trade Union of Vinatex, Interview, November 2005, Hanoi. Chieu (op cit) says the official name of the Group of Four was ‘Ban Lanh Dao’, or ‘leading board’.
¹⁸ Dung Du Duc, Head of Trade Union, Northern Airlines Services Company (NASCO, subsidiary of Vietnam Airlines), Interview July 2005, Hanoi.
¹⁹ Nguyen Xuan Con, op cit. As this study focuses on the post-Doi Moi system, I wasn’t able to do in depth interviews on the issue of how democratic these pre-Doi Moi elections were. Then, as explained below, workers did not elect the enterprise council after 1990. However, there is much discussion below on how democratic the discussion and decision-making is in the workers’ congress today.
²² Fforde and de Vylder, op cit, p. 256.
Doi Moi changes: New power of directors and reduced power of workers

Based on the totalitarian party-state scenario, when SOE management was decentralized, this could not lead to greater control by workers, but by management, the enterprise-level section of the party-state. This might be the worst of both worlds from a socialist view: the directors have the same power over workers as before, but freed from state control, they can play the market and be guided even less by social concerns. To assess this, I will first look at the changes after Doi Moi, and then discuss some assessments of them.

Decision 217-HDBT of November 1987 on SOE financial autonomy and business cost-accounting strengthened the role of the director, in relation to the state, the party, the workers and the ‘Group of Four’. The market needed an independent director to make fast and clear business decisions, with less political interference or social considerations.

According to regulations in March 1988, the director “represents both the state and the workers collective in managing the enterprise” and “represents the enterprise with full power in all production and business ... has the right to decide on the organisational apparatus ... carries out the work of planning, choosing, arranging and using cadres.”

However, the legislation also mandated the director to take the “necessary steps to implement the decisions of the workers congress,” giving him/her “the power to decide any operation of the enterprise in compliance with the state’s plans, policies and laws and decisions of the workers’ congress.”

Further legislation in June 1988 reasserted the role of the workers’ congress, to set plans and policies for all aspects of production and business, elect the enterprise council “as its standing board between congresses,” elect a workers’ inspection board, and have a confidence vote for the director. If the director wanted to change something between congresses, he/she had to ask the enterprise council. If agreement was not reached, the

26 Decree 50-HDBT, op cit.
director decided in matters related to business, but had to submit to the enterprise council in matters related to workers interests.27

This contradiction between strengthening an entrepreneurial director, while reaffirming the power of workers', reflected this first period of Doi Moi. Nguyen Van Linh combined economic reform with quasi-democratic input from the masses, aiming for the latter to keep the former within the bounds of socialist orientation.

However, in 1990, the enterprise council was replaced by a management board. Half its members were appointed by government departments from outside the firm, the other half still elected by the workers’ congress. Its chairperson was appointed by the government, while the board appointed the director.28

The workers’ congress still met annually, but with reduced powers. It could now merely “contribute opinions” on plans, orientations and assessments of the activities of the enterprise, and “discuss” and “propose” measures to implement the plan.

By reducing control by workers, the decree further enhanced the director’s role. However, the state was also attempting to regain some control over directors by appointing half the management board. But these board members were appointed by a variety of ministries, departments and people’s committees with overlapping or contradictory aims and interests, leading to a chaotic form of control. While complicating things for directors, this could also facilitate links between people in government departments, directors and managerial personnel, with unclear lines of responsibility.29

Change in the role of the party

The role of the party unit also decreased, and “was blurred, indeed was disregarded.”30 Decree 50-HDBT mandated that the party unit “only participates in managing the

29 This confused and overlapping form of state management is spelt out in Section B.2 of the Decree.
30 Tien Hai, ‘Ve hoat dong cua to chuc dang trong cac doanh nghiep nha nuoc’ (‘Regarding the activities of the Party organisation in state enterprises’), Tap Chi Cong San, No. 14, July 1998, p. 27.
enterprise but cannot directly decide any affairs under the authority of the workers congress, the enterprise council or the director.” While the party committee could “make recommendations” to the director, the latter “has the final decision.”

While this may have limited arbitrary interference by the party unit, it failed to clarify its new role. To deal with this, Resolution 49 in 1992 defined it as the “political core to direct the implementation of the party’s policies and state laws in the enterprise, to guide production and business to be effective, to improve the spiritual and material life of workers, to carry out the enterprise’s service to the state, to promote the main role of the state-owned enterprises in the economy, to build a strong working class.”

Thus the party was to oversee and ensure the enterprise acted in accordance with laws, policies and orientations, do ideological work, and have a role in “guiding personnel work.” However, these were not decided on by the party, whose work would be felt more via recommendations.

In addition, the director was to report “periodically (each 3-6 months) to the party executive committee or the congress” about the implementation of various activities and coming tasks; and the party was to “periodically report to the director the opinions of party members and the staff on the implementation of tasks, policies and regulations.”

This reappraisal sought to bring back some balance to the strengthened director, and focus the party unit on ensuring socialist orientation. That it was also supposed to improve workers’ conditions and report workers’ opinions to management also theoretically gave the party unit a “go-between” role.

**Further changes in management structure and increased state control**

The state also attempted to regain greater control over enterprises and curb enterprise independence. In 1994, State Corporations 90 and 91 were created, gathering large numbers of SOEs in related areas.

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31 Ibid.  
32 Decision 49 QD/TU, CPV Central Committee (VIIIth Tenure), November 19, 1992.  
33 Tien Hai, op cit.  
34 As we will see below, such a role is alluded to by many interviewees.
These corporations are run by a ‘Hoi Dong Quan Tri’ or Management Board, controlled by the state, curbing directors, government departments and worker-elected bodies alike. The election of half the board by the workers’ congress ended; in the 1995 State Enterprise Law, all members are appointed by the state. There is no elected council, nor any reference to a ‘Group of Four’. This enhanced the director’s power with respect to the workers below.

It also reduced the chaotic control by various departments. Members of the HDQT are proposed by only the one relevant ministry, to the prime minister, who appoints them; the HDQT in turn controls affiliate SOEs.

The director is appointed by the prime minister, based on the HDQT’s recommendations. The director “holds the supreme managerial power.” However, if there is a disagreement with the HDQT, the director has the right to “ask the competent state body to settle it,” but ultimately must comply with the decisions of the HDQT, a reduction of director power vis-à-vis above.

While trade unions and party units are not represented in the HDQT, SOE interviewees said an unofficial role remained. For example, a deputy director of the Northern Food Corporation said the head of the union is one of the “leaders” who “always” has a voice in management meetings. The youth union takes part in “some” meetings. The party cell “gives leadership in terms of policy, is important in human resource positions, gives guidance about people to be elected, but does not decide.” In Sugar Corporation 1, a separate ‘supervisory board’ exists alongside the HDQT, and includes the trade union and heads of departments. In Song Da, the head of the union is a member of the HDQT. 

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36 Deputy Director, Northern Food Corporation, Interview, June 2005, Hanoi. Stressed that he was not a party member. Similarly, a deputy director of the Vietnam Tobacco Corporation said the trade union leader participated in “every” meeting of the Board of Directors (Interview, July 2005, Hanoi). Similar statements were made by management personnel in the Tea and Paper corporations (Nguyen Khac Thinh, Head of Administrative Department, Vietnam Tea Corporation, Interview, July 2005, Hanoi; Pham Van Tu, Management Board Member, Vietnam Paper Corporation, Interview, August 2005, Hanoi).
38 Mr Tinh, Song Da Corporation, Interview, August 8, 2005, Hanoi.
In ordinary SOEs – both the affiliates of the corporations, and smaller SOEs – the enterprise council was replaced by a board of directors, consisting of a director and several deputies. The director is appointed by the state, and in subsidiaries of corporations, by the HDQT. The SOE director appoints the deputy directors and the chief accountant.

However, workers conduct a ‘confidence vote’ for the director and the other positions. While the ‘Group of Four’ is not mentioned in the law, respondents spoke of its presence. Hoa claims that next to the Board of Directors is “the informal structure by which trade union, party unit and sometimes youth union are present at meetings and play an unofficial management role.” Often the board is a Group of Four, because union and party heads are deputy directors. Tran Van Viet, a glass SOE deputy director, claimed the board is “not exactly a management board, but a managing team, consisting of the director, the trade union and youth union secretaries, the head of party cell, and heads of sections of workers.” In most SOEs, the union head is one of the deputy directors.

When conflict arises between workers and the director, a ‘hoi dong hoa giai’ (conciliation committee) is set up, consisting half of representatives nominated by workers, with the trade union secretary, and half management representatives, with the deputy director.

The State Enterprise Law of 1995 has a short, and contradictory, section on the workers’ congress. Congress can only “discuss and make suggestions” about plans, business and management. Workers can “adopt” decisions about “the use of funds directly related to the interests of the workers” and the workers “representative” signs a collective labour

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39 Nguyen Phuong Hoa, op cit; Tran Trung Phuc, op cit.
40 This was spelt out in the 1988 regulations, was absent in the 1995 State Enterprise Law, and was re-written into the Grass Roots Democracy regulations in 1999.
41 Nguyen Phuong Hoa, op cit. Phuc (VGCL) claims now it is a ‘Group of Three’, the youth union only sometimes attending. There is some confusion over names: Hoa claimed the Board of Directors is called the Ban Lanh Dao, whereas Ton Tien Chieu claimed this name applied to the unofficial Group of Four
42 Tran Van Viet, Deputy Director, DAPCAU glass company (subsidiary of Viglacera), Interview, Bac Ninh, June 2005.
43 Nguyen Phuong Hoa, op cit; Dung Du Duc, Head of Trade Union, Northern Airlines Services Company (NASCO, subsidiary of Vietnam Airlines), Interview July 2005, Hanoi.
44 Nguyen Xuan Con, op cit.
accord at the end of congress, but elsewhere the law states that congress only “takes part in discussion of questions related to the elaboration” of this agreement.45

While these limited powers represented a slight improvement over 1990, this was balanced by the elimination of the congress’ power to elect even half the HDQT. However, it had the right to “present candidates” for the management board.”

**Grass-roots democracy decree for SOEs**

In 1999, the ‘Regulations on Exercising Democracy in State Enterprises’ (often called the ‘Grass Roots Democracy decree for SOEs) was introduced, detailing the rights of SOE workers, a complete reversal of the 1990 and 1995 legislation.46

The decree says that workers can only “comment” on production and business plans “before they are decided by the management board and/or the director.” If workers’ suggestions are not accepted, they “have to strictly abide by the director’s decisions” regarding certain clauses, but not clauses dealing with the collective labour agreement.

The “things to be decided by workers” include voting on the collective labour agreement so that the trade union may sign it (with the director), labour contracts, adopting norms “directly related to workers’ rights, interests and obligations,” “the establishment and use of the welfare fund,” and election of the people’s inspection board.

Workers must “comment” on personnel issues, and the comments “shall serve as references for management, party organisations and mass organisations before their decision.” This includes recommendations for and “opinion polls” on candidates for director, deputy director, chief accountant, and chair of the HDQT.

The decree mandates all production plans, laws and policies, regulations on workers’ rights and benefits, financial reports, and complaints and denunciations, be publicised. Workers can question the director or the board and “supervise and inspect” everything publicised, particularly the production and business plans, the implementation of the decisions of the congress and of the collective labour agreement, the payment of taxes

and obligations to the state and society, "especially the use of the after-tax funds," and the settlement of labour disputes and "citizens' complaints and denunciations."

The avenues which workers have include the workers' congress, smaller meetings in their sections and production teams, the "collection of workers' opinions by grass-roots party committees" and unions, participation in their union and the union's participation in management, electing the people's inspection board, complaints and denunciations, direct meetings with top management "as scheduled or at urgent request," and in comment boxes around the enterprise.

The new State Enterprise law, passed in 2003, includes the main provisions of these regulations, in brief summary form.

Assessments of reality of new structure

This summary suggests workers lost much official power after Doi Moi, while still having rights to participate, and then there was a revival of official workers' power in 1999. However, there was great unevenness in practice. The opposing pressures on SOEs not only altered the legal structure, but also impacted on the extent to which these structures could be utilised or were undermined in practice.

Kolko claims SOE success in the 1990s was due to stepped up exploitation of workers – workers "now subsidise them." Greenfield likewise believed "the crushing of working class struggle and repression of the labour movement" was on the cards, as 'reform' requires "the structures of power and control" of capitalism via "absolute managerial power." He writes in relation to Vinacoal:

The threat of competition for employment and the removal of the constraints on managers to fire workers did not have its full effect until the spread of over a thousand 'bandit' mines ... Contracting out and cooperation with the private sector by state mine

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managers saw workers forced into the unregulated small-scale private mines (with) intense competition and unrestrained profit maximisation.\textsuperscript{51}

In other words, even workers' remaining formal role meant little when SOE workers were retrenched in the early 1990s, creating a pool of unemployed, and the rising private sector allowed SOE bosses to divert production to firms with low labour standards

In the Quang Ninh coal industry, Greenfield found extended working hours, accidents, staff cuts and intensified exploitation. Furthermore, he claimed "exclusive control over the financial resources" had shifted to managers:

Workers have no access to the accounts of the enterprise and have no knowledge of the financial structure of the firm, not even the size of the wage bill or profits.\textsuperscript{52}

While Greenfield observed this reality, the 1988 decree legally empowered workers to access, supervise and scrutinize financial accounts, and to decide on issues concerning wages, benefits and the like. But as workers' bargaining power had crashed during the systemic crisis of the early 1990s, they could not utilise these formal powers. The 1995 law formalised this loss of power (a loss reversed in 1999).

However, following the systemic crash around 1990, mass redundancies did not reoccur, and the unexpectedly successful performance of SOEs through the 1990s neutralised the loss in official power as workers regained bargaining power.

For example, Beresford wrote that workers were "entitled to a share in the enterprise profits in the form of bonus and welfare funds which grow in size as productivity rises" which "serve(s) to reinforce the ethos of collective ownership," though "as market discipline" increases, "pressure on workers seemed likely to increase" to end such arrangements.\textsuperscript{53} She also claims the workers' congress is "theoretically the highest
authority within an enterprise,” but has not elaborated on the connection between this structure and the collective ownership “ethos” she sees in practice.

Fforde and de Vylder claim “a multiplicity of agencies represented the owner” of an SOE – the ministry, State Planning Commission, local people’s committees, trade unions, workers on management boards, cadres and bureaucrats – and their conflicts meant “bargaining, in which the profit motive was only one component, was still the rule.” This can be in workers’ favour, as trade unions “formed alliances with local government to protect employment, at the expense of the profitability of the enterprise.”

However, for Fforde, such an outcome depends on a particular union being in a strong position, rather than any structural positon of workers; stressing “the divorce between form and reality,” he calls SOEs “virtual share companies,” belonging in essence to those with interests in them. To the extent such privatisation has been limited, it has been due to struggle between SOE quasi-owners and “interests sited above,” that is, the state, rather than resistance from below.

Many Vietnamese respondents, however, gave more credence to workers’ formal powers, whether viewing this positively or otherwise. Luan wrote that social relations in SOEs were “more democratic and equal and less different than in non-state enterprises. Leaders of state enterprises are not the bosses. The ‘workers collective’ is the real boss.” In a later interview, he said SOE workers feel their interests are protected, and directors still have to consult the Group of Four, which is “very good for workers, but very bad for efficiency,” because “the director needs to make quick decisions, not wait

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55 Fforde and de Vylder, op cit, pp. 256-7.
57 Trinh Duy Luan, Head of Institute of Sociology, Vietnam Academy of Social Sciences, ‘Changes of labour relations in industry’, Vietnam’s Socio-Economic Development, Winter 1997. While his article seems to confuse what was before and after Doi Moi, in a subsequent interview (November 16, 2005), he confirmed that this situation remained largely intact when he researched for that article in the mid-1990s.
for agreement from the party and trade union,” impediments he believes should be abolished.\textsuperscript{58}

Seeing such workers’ influence positively, Phuc from the VGCL explained:

The director’s power increased post-Doi Moi, but only over the production plan.
The director is still controlled by the party, whose rules dominate in SOEs.
Directors and union leaders are also party members, and the director also a union member. The union is responsible for workers’ rights. Workers still expressed considerable power and control via the workers’ congress, not only after 1999.\textsuperscript{59}

This highlights views that the director is not all-powerful; a strong party is good for workers; a trade union participating in management is a protection for workers; and the workers’ congress remains powerful.

Regarding the power of directors, while they and deputy directors are appointed by the corporation HDQT, Hoa explains that first the director’s board, party cell and trade union meet to nominate candidates, and give the list to the HDQT to choose among them. Also, workers conduct a ‘confidence vote’ for these positions, and for the chief accountant.\textsuperscript{60}

Hoa sees this vote as largely a “formality” as the results are not announced at congress, but taken by the union to the board of directors and the corporation as an indication. “Whether or not they take it into account depends on them.”\textsuperscript{61}

Phuc however claims the vote carries weight. For a deputy to become director, he/she needs over 50 percent of the workers vote at congress. Even if the director is appointed from outside the company, workers vote at the next congress whether to accept – if they don’t, the director will be dismissed.\textsuperscript{62}

Backing this is Con. Though the vote is not binding, “opinions are always asked for, and 50 percent of workers must agree for the candidate to be appointed.”\textsuperscript{63} Similarly, Viet

\textsuperscript{58} Trinh Duy Luan, Head, Institute of Sociology, VASS, Interview, November 16, 2005
\textsuperscript{59} Tran Truong Phuc, Interview, op cit.
\textsuperscript{60} This vote was spelt out in the 1988 regulations, was absent in the 1995 State Enterprise Law, but was again written into the Grass Roots Democracy regulations in 1999.
\textsuperscript{61} Nguyen Phuong Hoa, op cit.
\textsuperscript{62} Tran Trung Phuc, op cit.
\textsuperscript{63} Nguyen Xuan Con, op cit.
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says the HDQT chooses the director, but "opinions of cadres and the party cell are asked for if the person is already on the director’s board, and of the workers if he/she is not."64

Workers have even sacked their directors. Greenfield reports:

In 1990, 200 workers in a state rubber enterprise went on strike for thirteen days. The strike committee dismissed the manager for abuse of power and protested to higher authorities about the 'lack of democracy'.65

Hoa reports that when she was head of the trade union in a state wood company (Cong ty Go Cau Duong), the director sacked a worker for no reason. She challenged him, the worker was reinstated, the director was sacked, and she had no repercussions. Con gave an example of a textile SOE where workers at congress sent a letter to the union about a director's wrong-doings, and "he was busted."66 Both were before the 1999 decree.

In one case, it was a strike committee, in the second the trade union, and in the third, the workers' congress. I will now look at what respondents say about these agencies, and about the party, also often reported to play a role.

The role the party plays in SOEs is very difficult to get clarity about.67 Coherent responses referred to it "balancing" between workers and management. According to Binh, if the union and party are strong in an SOE, it is good for workers. "In state firms, labour issues are easier, because the level of unionisation is high, they mostly follow the Labour Law, and the party enforces this."68 Duc said that in a private firm, "it is contradictory for the head of a party cell to be director, because the boss only wants profit, but in an SOE, there is no contradiction, because the party agrees the firm must make money for the state, while also advocating for the workers."69

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64 Tran Van Viet, Deputy Director, DAPCAU glass company (subsidiary of Viglacera), Interview, Bac Ninh, June 2005.
66 Nguyen Phuong Hoa, Interview, op cit; Nguyen Xuan Con, Interview, op cit.
67 Most gave general and not very useful answers. For example, the party unit "doesn't do detailed work, but looks at the overall orientation" (Chieu), that it "implements the party's and state's plans and influences business decisions" (Viet), and that "the party plays the leading role, but not separately like before, now, directors and union leaders are usually party members, so they have to implement party decisions" (Con).
68 Chau Nhat Binh, International Department, VGCL, Interview, June 2005, Hanoi.
69 Dung Du Duc, Interview, op cit.
Seeing the party’s influence in a negative light, Luan confirmed that the party often objected to the director’s decisions “based on socialist orientation, or the rights of workers, or many things,” adding “sometimes it is just about personal cliques.”

The role of trade unions in management is a vexed question: does it enable workers to have a say in management, or does it turn the union into a tool of management?

Greenfield writes that the union’s role was “a transmission-belt of the party-state.” He quotes a former VGCL leader, Xuan Cang, that unions “neglect or nearly forget their function of protecting workers' legitimate interests,” and the rise of commercial interests in SOEs “widened the abyss.” He quotes CPV theoreticians Hoang Chi Bao and Nguyen Thanh Tuan, who argue that workers react by lowering labour discipline, which then increases the argument for managers to “subject workers to the whip of market forces” using unions “to ensure workers' compliance.” These quotes from CPV and VGCL leaders indicate how deeply this issue was debated in the early 1990s.

However, some respondents, while recognising the problem, placed it in the context of emerging contradictions in the new market reality. Nguyen Xuan Con says this new reality made it increasingly difficult for unions and workers to make decisions, as their goals as managers and as workers were contradictory. Therefore, the VGCL took part in ending the system of the congress electing the enterprise council, and in introducing some separation between the trade union and management. Ton Thien Chieu claims “as living standards rose under the new system, workers did not oppose it; they needed the decisive power of managers with economic knowledge to get production moving.”

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70 Trinh Duy Luan, Interview, op cit.
71 Greenfield, 1994, op cit, p. 221.
72 Xuan Cang, ‘Thuc trang giai cap cong nhan va giai phap cong doan’ (The real situation of the working class and options for the trade unions), Tap Chi Cong San, 10, 1992, pp. 38-42.
74 Greenfield quoting Hoang Chi Bao and Nguyen Thanh Tuan, ‘Vai tro cua cac nghiep doan trong co che thi truong’ (The role of unions under the market mechanism), Lao Dong & Cong Doan (Labour and Trade Union Review), 150, September, 1993, p. 9.
75 They also create a problem for Greenfield’s view of an all-powerful “party-state” with unanimously anti-worker interests: these people are very important leaders of this “party-state.” In particular, Hoang Chi Bao is now Deputy Dean of the Ho Chi Minh National Political Academy, the CPV’s key ideological institute.
76 Nguyen Xuan Con, Interview, op cit.
77 Ton Thien Chieu, Interview, op cit.
Thus while these changes superficially reduced workers' power, given the contradictions the market imposed on this power, the compromise that removed workers from direct management but still accorded them some managerial role worked in their interests.

This partial separation of workers' organisations from management increased the standing of unions among workers. Chieu's research shows workers developed a better relationship with unions as their role of protecting workers became clearer.78

A survey of SOE workers he conducted in the 1990s showed 47.4 percent believed the union was the best representative of their interests in any conflict with management, and 37.4 percent would call on the union's help in a conflict among workers (while 44.2 percent would rely on the "workers' collective").79

Of course, this separation from management is partial, but many argued that the degree of separation allowed the unions enough leeway to be revitalized as workers' organisations, and thus be able to play a more positive de facto management role on behalf of workers.

For example, Hoa said even when the union head is not on the board of directors, he/she:

must be at meetings which discuss enterprise plans, with a strong voice though no official vote. Formally the directors make the decisions, but in practice, the view of the union is taken into account. Unions are empowered to control and check management, and have a very strong voice if the firm tries to sack workers, force overtime, or not pay properly, but their role is not limited to these issues. However this depends on quality of the unionists.80

According to Chieu, the directors only have power over production and business, but the union "participates in decision making on issues such as the price of labour, workers' rights and benefits, insurance, harmful work and overtime." If the directors want to make someone head of a department, it must be approved by the party and the union.81

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78 Ton Thien Chieu, Interview, op cit.
79 Ton Thien Chieu, 'Quan he xa hoi trong xi nghiep cua cong nhan cong nghiep' (The social relations in enterprises of industrial workers'), Xa Hoi Hoc, (Sociology), No. 2 (54), 1996, p. 53.
80 Nguyen Phuong Hoa, Interview, op cit.
81 Ton Thien Chieu, Interview, op cit.
Hoa says some unionists become organs of management, “but not many, because they can be voted out at the next union congress.” This seemingly obvious statement was repeated in numerous interviews. Duc explained “of course if a union representative becomes a tool of management, he/she will be voted out at the next union congress.”

Duc thinks “workers often prefer to vote for a union leader who is on the directors’ board, because they will have more power and knowledge to deal with their rights.” In practice one deputy is almost always a union leader.

The powers ascribed to the workers congress by respondents broadly accord with its official powers. This includes reviewing the previous year’s plan, designing the plan for the next year, presenting workers’ demands to the directors, making the Labour Law more detailed and practical for the enterprise, drawing up the collective labour agreement (to be signed by the director and union leader), and electing a workers inspection board to deal with complaints through the year.

While there is a clear difference between the veto power workers have over issues related to their own welfare, and issues related to the business plan, where the director has final say, respondents claimed there was rarely any disagreement over the latter.

Hoa rarely sees disagreements at congress because both the collective agreement and the plan “have already been put together in meetings in each unit in the firm where workers have made their input.” The union also reviews the plan, and at congress, goes through each point with workers, “and if they disagree with anything, it has to be fixed up.”

This was backed up by a deputy director of Vigecam, who claimed “strong disagreements do not often occur because the business plan is based on plans that have

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82 The Trade Union Congress takes place every 2-5 years, during which workers nominate and vote for union leaders; this should be distinguished from the Workers’ Congress.

83 Dung Du Duc, Interview, op cit. Le Van Viet, deputy director of the Agricultural Machinery Corporation, likewise explained that “it is not necessary that the union head is on management, workers can vote for another worker to head the union, but they prefer to vote for one who is a manager, so they have influence at the top,” Interview, October 2005, Hanoi.

84 Nguyen Phuong Hoa, Interview, op cit.
been submitted from departments and lower levels, which have already had input from workers.\textsuperscript{85}

Many claimed the views of workers were generally taken into account, “because they are appropriate.”\textsuperscript{86} Duc claimed “workers also vote on the company plan, not only workers’ issues.” If there are strong disagreements, they have to come to a compromise.\textsuperscript{87}

The deputy director of the Paper Corp said workers only “make recommendations” about the plan, but at congress “often report bad managers and wrong-doings in the grassroots SOEs to the corporation.” He gives an example of workers reporting crooked managers in the Hanoi Construction Import-Export Company.\textsuperscript{88}

By contrast, Nghiep from Vinacoal said that only worker-related issues are decided by employees; regarding other company business, they can only recommend and discuss, not the overall targets, but their meaning in practice and how to reach these targets.\textsuperscript{89}

These varying assessments reflect different realities. Chieu claimed the 1990s saw extremes in two directions: some workers “thought they were the managers and didn’t follow the director, while some directors were dictatorial and ignored workers’ views.”

The grassroots democracy decree was introduced not only to stem the power of directors, but to clarify the rights and responsibilities of both workers and directors.\textsuperscript{90}

Many agreed workers already had most rights in the 1999 decree, but it strengthened and concretised them, and universalised the workers’ congress.\textsuperscript{91} Despite these formal rights, however, many said directors still often became “dictatorial.” According to Con, stronger director power led to corruption, and “the decree was introduced to control this power.”\textsuperscript{92}

\textsuperscript{85} Nguyen The Bang, Assistant to General Director, Vietnam General Corporation of Agricultural Materials, Interview, Hanoi, October 2005.

\textsuperscript{86} Deputy Director of Tobacco Corporation, Interview, July 2005. She is also the former union head of one subsidiary of the Corporation, and now in charge of trade union, youth union and social affairs.

\textsuperscript{87} Dung Du Duc, Interview, op cit. Similarly, Mr. Khanh, from Sugar Corp I management, claims the “targets are set by the director and the union, and the workers’ congress may approve or reject them.” They “are minimum targets, and congress gives them more detail.” Mr. Tinh from Song Da claimed “if workers disagree with the plan, the HDQT must make adjustments to reach consensus based on workers’ views.”

\textsuperscript{88} He claimed the article which reported the workers’ claims was in the daily \textit{Tin Tuc} on July 27, 2005.

\textsuperscript{89} Mr. Nghiep, Director Personnel Dept, Vinacoal, Interview, Hanoi, October 2005.

\textsuperscript{90} Ton Thien Chieu, Interview, op cit.

\textsuperscript{91} Tran Van Viet, Interview, op cit; Tran Truong Phuc, Interview, op cit; Nghiep from Vinacoal claimed “before 1999, these rules already applied, but the decree detailed them, enhancing the role of employees.”

\textsuperscript{92} Nguyen Xuan Con, op cit.
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This view was expressed in CPV theoretical journals. After Doi Moi “the role, position and power of the director became very large and brought about absolutism.” Many

abused their supreme power and authority to decide everything, from small to large ... without consulting the party executive committee or the mass organisations. Bureaucracy, domineering, arbitrariness and despotism appeared.93

This led to many party units “behaving negatively, letting their leadership drift.” The 1992 regulations redefining the party unit’s role took effect in only 60 percent of SOEs; in the rest, either the director still acted dictatorially and the party unit “supported the director’s negative practices, lost themselves, neutralised themselves,” or party cells “interfered too deeply into or wanted to decide affairs under the director’s power.” As a result “the mass of workers lost confidence in both” the directors and the party.94

Before 1999, though many of the regulations existed:

enterprises did not follow them regularly; the legal and compulsory requirements were not very high ... employees did not have enough legal bases to know, discuss and inspect the leadership and direction of the directors’ board ... many directors fell into bureaucracy, became separated from the masses, made arbitrary and thoughtless decisions, and abused their authority, doing harm to the interests of the enterprise, the state and the workers.95

This loss of democracy was

the main reason for enterprises’ long-term losses, yet many leaders retained their privileges. These privileges of a small group of enterprise leaders were opposed to the interests of the workers and the whole society. These leaders tried by all means to squeeze money and property from the state budget ... while workers’ work and living conditions were unstable ... those who dared struggle for justice were pushed aside. ... solidarity among the staff was weak, letters of complaint

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94 Ibid.
95 Nguyen Minh Thong, ‘Bai hoc rut ra tu thuc hien quy ehe dan chu co so o doanh nghiep nha nuoc’ (‘Lessons learnt form implementing grassroots democracy in state-owned enterprises’), Tap Chi Cong San, No. 20, October 2004, p. 45.
and exposure increased rapidly. In some places, the state’s money was taken and put into individuals’ pockets and served private interests. (All this) had a negative effect on the role of state-owned enterprises and on the whole economy.96

These very strong views, expressed in the CPV’s leading theoretical journal, indicate how deeply felt this issue was within the party, and highlight the problem of seeing the power of SOE directors as a natural expression of the “dictatorship” of the “party-state.” What these party theoreticians were writing corresponded closely with Greenfield’s description of the corruption and anti-worker policies of Vinacoal, the state coal corporation, leading to mass lay-offs in 1999.97 Below (pages 209-216) some of Greenfield’s conclusions will be taken up. However, there clearly was a victory of an unaccountable SOE management, in the context of the after-effects of the Asian crisis, which again weakened workers’ bargaining power in the late 1990s.

The grassroots democracy decree, reaffirming workers’ formal power, was introduced at this point, when workers’ real power had again ebbed. The aim was partly to stem from below arbitrary and corrupt managerial power. The preamble encourages workers to “combat wastefulness and corruption and violations of democracy.”98

It is difficult however to assess what the decree has achieved, because respondents claimed workers already had many of these powers, and that many of the same practical problems remain despite these powers being clarified. Hoa stressed that “if conflict is serious, it is difficult due to the director’s power.” Her successful challenge to a director noted above occurred before 1999. Yet more recently, when she wanted to ‘sue’ a director in a garment SOE for an arbitrary attempt to sack her, “the processes were so difficult, they had to go to various higher levels on both sides,” so while the director could not sack her, she also had to give up her case against him.99

However, Con claims now SOEs “must be open about everything, including finances, and workers have more rights to supervise and control.” When the new Labour Law was being drafted in 2003, workers’ congresses criticised it over conditions and hours. Phuc

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96 Ibid.
97 Greenfield, 2000, op cit.
98 Nguyen Minh Thong, op cit, p. 46.
99 Nguyen Phuong Hoa, Interview, op cit.
says that, while these rights already existed, the decree spurred on the VGCL to campaign to ensure that congress occurs. He claims it takes place in 96 percent of SOEs.

While the decree hasn’t stopped corruption, Con says it “is a preventative measure.” Phuc claims “managerial corruption in SOEs is limited due to the activities of the peoples inspection board,” elected by congress “to control and supervise the activities of the enterprise.” Chieu says the decree was introduced to reduce arbitrary managerial power, so “it probably has some effect on corrupt managers.” Binh thinks the additional powers in 1999 “help prevent some open corruption,” but “now directors and chief accountants use more sophisticated methods of pillaging SOE assets. It is extremely serious and a major threat to the state sector and its workers.”

Overall, therefore, opinions on the decree’s impact were mixed. Post-1999 we can roughly sketch two phases: the initial period, as the economy recovered and Vietnam again became the fastest growing economy of the region, boosting workers’ incomes, confidence and bargaining power; and the period from 2003-4 with the new push for equitisation and WTO membership, creating new challenges for workers.

To examine the state of workers’ power since 1999, I will look at four areas. First will be a look at the conditions of workers in the state sector. Second, an examination of two important SOEs where forms of workers’ participation remain entrenched. This will then be contrasted with a study of an SOE which acted against workers’ interests, and with the current struggle against the effects of equitisation.

Wages and conditions far better in SOEs

Comparing the conditions of SOE workers with those in private and foreign firms may not necessarily tell us about workers’ participation in decision making; however, it may shed light on the discourse about “exploitation” of SOE workers by market-driven directors. In addition, a significant SOE social budget at least reduces the amount available for managerial asset stripping.

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100 Chau Nhat Binh, VGCL, Interview, June 2005, Hanoi.
As is well known, SOE profits show little of the alleged exploitation. According to the IMF, SOE profits average 3 percent, well below private sector ‘profitability’. The Miyazawa audit showed average “return on equity” of major SOEs to be 7.6 percent, compared to 12 percent for Chinese and 24 percent for Indian SOEs. According to the World Bank, the profit/capital ratio in private non-farm rural firms is double that of similar SOE’s. These facts are commonly quoted to demonstrate the “inefficiency” of SOEs, based on the assumption that higher profit is the only important concern. The rather straightforward idea that lower profit may be related to the very mildness of “exploitation,” rather than a more mysterious kind of “inefficiency,” is rarely highlighted. SOEs provide significantly better pay, benefits and conditions to workers, and boast far higher levels of union representation, lower rates of industrial accidents, and higher rates of payment of social and health insurance, than do private and foreign firms.

One study found public sector workers are “overpaid” by 20 percent compared to those in the private sector, even when not including the higher benefits, security and less intense work pace in SOEs. The World Bank notes “income per worker in the private non-farm rural sector is roughly one-fifth that of the state non-farm rural sector.” From 2006 to 2008, average SOE wages were nearly double private sector wages and 20

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102 Le Anh Tu Packard and VICA Consultants, The Diagnostic Audit of Vietnam’s State Enterprises, Final Policy Paper, Prepared for the Ministry of Finance, Miyazawa Grant, June 2004, p. 15. The “diagnostic audit of Vietnam’s important state enterprises (SOEs)” was “implemented under the supervision of the Ministry of Finance with technical support from the World Bank and funding support from Japan’s Miyazawa Fund and other bilateral donors, notably Danida and AUSAID.” Its goals were to “strengthen Vietnam’s capacity to compete in international and domestic markets,” to advance SOE reform, and to assess “the commercial viability of the SOEs.” p. 4. As such it provides a good idea of the views of international ‘donors’, informed from a purely ‘economic efficiency’ point of view.
103 World Bank, Advancing Rural Development, Hanoi, 1998. The report states that nonfarm (private) establishments and nonfarm household (enterprises) yielding profit/capital ratios of 20 percent and 17 percent, respectively, while the average ratio for SOE’s in the same year was 11 percent.
104 This is a different discussion which cannot be had out here. Nevertheless, it would be a valid point if average SOE profit was negative and thus their existence depended on being bailed out by the state budget. But the figures here merely compare the lower positive profits of SOEs with higher private sector profits.
percent higher than wages in FIEs, and the rate of wage increase was also significantly higher, double in 2006.\footnote{107}

A MOLISA survey revealed “the rate of wage increase in SOEs was much higher than that of labour productivity: 16.9 percent compared with 8.2 percent.” In contrast, while foreign companies (FIEs) increased profits and productivity by 41.2 percent and 13.8 percent respectively, salaries only increased 12.6 percent. The head of the Institute for Labour and Social Science, Nguyen Huu Dung, explained that SOEs tend “to pay salaries near the maximum wage,” but while minimum and maximum wages for FIEs are higher than in SOEs, FIEs “pay much closer to the minimum wage.”\footnote{108}

These accounts do not fit with commonly heard statements that SOE wages are “lower” than in the private sector. CIEM claims that “freed from SOE constraints on wages, management should be able to attract a better quality of employee (think of the wage differential between public and private sector accountants).”\footnote{109}

The question is, higher wages for whom? As Nguyen Huu Dung explained, in SOEs, maximum wages cannot exceed three times the minimum wage.\footnote{110} Likewise, the Miyazawa report explains that SOEs follow “a non-market system of fixing salaries” and so “non-skilled people get better salaries in SOEs than in the private sector and skilled

\footnote{107 Vo Tri Thanh, ‘Vietnam 2 Years After WTO Admission: What lessons can be learnt?’, Presentation at Vietnam Update Conference, Australian National University, November 6-7, 2008, table from Nguyen Hai Huu, ‘Social safety net in the current macroeconomic situation’, Paper presented at the Forum ‘Macroeconomic Stabilization: Challenges and Policy Options’, CIEM and GTZ, Hanoi, October 2, 2008. Specifically, average SOE wages rose from 2,633,000 dong per month in 2006 to 3,530 dong in 2008, FIE wages from 2,175,000 to 2,750,000 and private sector wages from 1,488,000 to 1,860,000 over the period. SOE wages rose 23 percent in 2006 and nearly 16 percent both following years, while in both foreign and domestic private firms they rose an average of 11-12 percent per year.


\footnote{109 Central Institute for Economic Management (CIEM), Viet Nam’s Equitised Enterprises: An Ex-Post Study Of Performance, Problems And Implications For Policy, Hanoi, August 2002, p. 42.

\footnote{110 In interviews, some directors did receive greater than 3 times the average salary. For example, Tran Van Viet from DAPCAU Glass said the average monthly salary in his enterprise was 1.5 million dong (a figure corroborated by a young female worker, Hung, who already receives this wage at 22 years of age) – and the top wage is 7 million. This is 4-5 times the average salary. However, this figure is still low and the discrepancy still small – compared to to CEO salaries in large private and foreign firms.}
people and management get far lower salaries."\textsuperscript{111} These comments, and those above from CIEM, are part of a campaign to make wages more "flexible."

The Miyazawa report into Hoang Thach Cement notes "the much higher salary rates paid by private and foreign invested enterprises," but elsewhere reports that average wages at Hoang Thach were 2.7 million per month, far higher than at any comparable private or foreign firm. The secret is that the monthly salary range was only from 2.2 to 5.2 million ($US 147-347). The consultants are concerned about the "low" top wages:

the financial differentials available to upper management and highly qualified staff are not commensurate with their responsibilities ... (they) can earn several times more in JVs and the private sector, especially those in middle and upper management.\textsuperscript{112}

Similarly, the report into Vinacoal states that "much higher salary rates (are) paid by private and foreign invested enterprises," yet elsewhere reports that SOE mine wages are "far higher than the average salary in Quang Ninh province."\textsuperscript{113}

"Reform" thus requires greater inequality and higher managerial salaries. The Economist Intelligence Unit complains "the general director of the Vietnam Electricity Corporation receives a salary of less than 10 million dong (US$640) per month," making it difficult for SOEs to "attract talent."\textsuperscript{114}

However, with a new policy allowing SOEs to hire directors on the market, the Vietnam Shipbuilding Corp is set to hire a director on $US 3500 a month,\textsuperscript{115} and Vinamotor will pay $US 3700.\textsuperscript{116} Salaries as high as $US 10,000 a month have been broached.\textsuperscript{117}

\textsuperscript{112} Ernst and Young (A), \textit{Final Report: Vietnam National Cement Company}, Operational Reviews of State Owned Enterprises in the Cement Industry, Ministry of Finance – Miyazawa Fund, pp. 121, 60, 99-100. Average wages in 2002 were 2.5 million in Bim Son and HT2, and 2.9 million in HT1, other VNCC plants.
\textsuperscript{113} Barlow Jonker / Ernst and Young, \textit{Final Report: Vietnam Coal Company}, Operational Reviews of State Owned Enterprises in the Coal Industry, Ministry of Finance, Miyazawa Fund, pp. 62 (in Appendix 7), 54.
\textsuperscript{115} 'Vinashin plans to hire foreign CEO', \textit{Viet Nam News}, October 15, 2005.
\textsuperscript{116} 'SOEs still struggle to hire foreign CEOs', \textit{Viet Nam News}, December 13, 2005.
\textsuperscript{117} Anh Hieu, 'PM’s new policies may alter SoC hiring process', \textit{Viet Nam News}, April 12, 2005.
Other conditions are also superior in the state sector. Of 63,874 grass-roots unions, 51,000 are in the state sector, covering 3,400,000 workers, almost the entire state sector workforce; those in the private sector have only 1,200,000 members. While 90 percent of SOE workers are in unions, only 50 percent of FIE workers are, and 20-25 percent of workers in domestic private firms. Any firm with ten workers must legally have a union, but laws are more easily enforceable in the state’s own firms. This combined with the role unions play in SOE management is part of the reason for the better conditions.

A 2002 study found 90 percent of workers in SOEs but only 40 per cent in the private sector had contracts. When accidents declined in SOEs over several years to 2002, they rose by 31 percent in private firms. An inspection of 34 private firms in 2005 found most violating the Labour law. Of 18 foreign firms, three were fully complying, eight had unions, seven had contracts, and fewer than half the workers received social insurance.

All enterprises employing ten workers must pay social and health insurance for them, but in a 1998 study, 92 percent of all workers with health insurance were state employees. Private sector compliance is even lower with social insurance; Trinh Thi Hoa from Vietnam Social Insurance explains that “many people avoid participating … especially in the non-state owned sector.”

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119 Chau Nhat Binh, Vietnam General Confederation of Labour, Interview, May 2003. When comparing Binh’s estimate with the actual number of private sector workers in unions, the total private sector workforce would be only 5-6 million. As this is a fraction of the private sector workforce, it is clear Binh’s “20-25 percent” of private sector workers in unions refers only to the official, registered private companies.
123 Trinh Thi Hoa, ‘Social Insurance: Status and Prospects’, *Vietnam’s Socio Economic Development*, Summer 2004. In 2002, social insurance covered only half the number of workers (4.8 million) as did health insurance (8.6 million), ibid. As the 4.8 million almost certainly includes nearly all state workers (some 3.8 million), it indicates very low private sector compliance. Of 249 HCMC factories in one survey, 197 did not provide social insurance – mainly the private plants, ‘Decree aims to settle job disputes’, *Viet Nam News* November 14, 2002.
This indicates the government needs to better enforce compliance from private firms. However, the CPV is not usually accused of being soft on private firms. In Vietnam, as in other poor countries with backward administrative systems, private firms easily shirk the system; when the state directly controls the enterprise, it tends to be more effective – at least in a country where the state has an interest in achieving social goals.

The good conditions in SOEs stem not only from their partly non-profit nature, collective traditions and the role of workers in management. In addition, while 40-50 percent of an SOE’s after-tax profit goes to a fund for expanded investment, another 30-50 percent legally goes to the welfare and bonus funds, which provide benefits to workers, and are controlled by the union and the workers’ congress.\(^{124}\)

It is also widely reported that SOEs have a more “human” working environment. One worker describes how the enterprise was connected to their lives:

> Before equitisation, most policies were very good to workers, such as health care, training, education... we had holidays, our children got rewards if they studied well, the trade union built compassionate houses for poor workers; female workers were sent to courses at the women’s union... the fee paid by the company, we even have funds for the deceased and weddings ...\(^{125}\)

While 59 percent of female wage earners work in the state sector, only 47 percent of men do. Many women prefer the conditions and more human environment in state firms:

> Women are more likely to look for stable, guaranteed jobs with better working conditions ... public sector and SOE workers are entitled to maternity leave and better working conditions ... the lack of effective monitoring systems in the

\(^{124}\) Tran Trung Phuc, Director, Socio-Economic Policy Department, VGCL, Interview, November 2005. Tran Van Viet from DAPCAU glass company gave the figure of 50 percent of after-tax profit for the two funds combined; the Northern Food Corp gave 33 percent; the Tobacco Corp said the welfare fund was equivalent to 3 months of total salary of the workforce; Dung Du Duc from NASCO said 40 percent for the two funds; the Tea Corp said the balance between the development and welfare funds varies, so “in some cases” the latter could be 50 percent of after-tax profit; Mr. Hung, the Deputy Director of Cement Hai Phong, gave the figure of 33 percent, Interview, August 2005, Hanoi; Mr. Tinh, Deputy chair of Hoang Thach trade union said in his company, 50 percent goes to the development fund and the other 50 percent to the bonus and welfare funds, Interview, Hoang Thach plant, November 2005.

\(^{125}\) Nguyen Lan Huong, *Redundant Workers in SOE Equitisation*, paper presented at the Workshop on Equitisation in Vietnam, Institute of Social Sciences, Ho Chi Minh City, October 2004, quoting Nguyen Van T, who worked for company X for almost 19 years, and was a people’s supervisor of the company.
public sector leads to fewer working hours and effort required, allowing women to combine work with household responsibilities ... women’s access to jobs in the labour market might be constrained by discrimination from employers.\textsuperscript{126}

The same study showed that while in SOEs, average female wages were 86 percent of male wages, in foreign invested firms they were only 80 percent.\textsuperscript{127}

A study showing female garment workers in Vietnam were better off than in Bangladesh connected this to there being “more state-owned enterprises” and noted

One consequence (of the socialist orientation) was that workers in Vietnam had higher levels of education ... State regulation of the economy meant workers generally enjoyed higher levels of formal protection, labour standards and unionisation, particularly in the state owned sectors.\textsuperscript{128}

By contrast, in many FIEs, even where wages are higher, worker satisfaction is very low, due to long shifts with no breaks or overtime payment. One study of female workers in joint-ventures with foreign capital showed only 3.5 percent satisfied with their jobs.\textsuperscript{129}

Regarding job security, economist Vu Quoc Ngu claims 40 percent of SOE workers are “surplus,” a problem to be dealt with during equitisation.”\textsuperscript{130} Another study showed that “as many as half the workers would be redundant if SOEs were to operate fully” like

\textsuperscript{126} Tran Tho Dat and Le Thu Huong, ‘Wage comparison between males and females in Vietnam’, Vietnam’s Socio Economic Development, Autumn 2003. The report also notes that workers in private firms didn’t get maternity leave until 1995, and in fact 4 months paid leave is the law for all workers, very high by world standards. By putting it that way, the writer may have been indicating a significant level of non-compliance by private firms. Trinh Duy Luan claimed “in the 1990s, many young workers wanted to work in private firms, but found that work was very hard, now many women want to come back to state firms, due to the stability, comfortable conditions, friendly working environment, good benefits, even when pay is not great,” Interview, November 2005. Chau Nhat Binh also claimed many people, particularly women, who had previously left the state sector for “dynamic” private sector jobs, were now returning to the state sector due to its more “human” environment and better benefits, Interview, June 2005.

\textsuperscript{127} Tran Tho Dat and Le Thu Huong, op cit.


\textsuperscript{129} Bui Kim Quy, ‘The existing situation of women workers in joint-venture enterprises with foreign investment capital in Ho Chi Minh City’, Vietnam’s Socio-Economic Development, No. 4, 1996.

private firms.\textsuperscript{131} This suggests the drive for profitability is held in check by traditional social concerns about employment.

One World Bank report revealed the difference between Vietnamese and Bank views on "surplus" labour. While SOE directors thought there was almost zero redundant labour in textile and garment, plastic products, iron and steel, and coal and minerals, and 3 percent in glass and ceramics, the Bank deemed "redundant" 17 percent of the workforce in garment and textile, 39, 82 and 68 percent in the next three, and 15 percent in glass and ceramics. While SOE directors deemed 7 percent of employees "redundant" in machinery and equipment, the Bank estimate was 73 percent.\textsuperscript{132}

The whole mantra of "SOE inefficiency" is difficult to find coherent explanations for. The clearest answers revolved around their relative inability to sack workers,\textsuperscript{133} their inability to pay very high managerial salaries, and the greater ability of private firms to avoid taxes and the Labour Law.\textsuperscript{134}

While the overall superiority of state firms regarding workers' wages and conditions appears a given, there are also sharp differences among state firms. A study of SOE workers in the 1990s showed that 62 percent of workers in a textile mill took an interest in their work, one third higher than in the surveyed mechanical and rubber factories; 41 percent of textile workers were satisfied with their working conditions, four times more than the others; 65 percent assessed management-worker relations were good in the

\begin{itemize}
  \item \textsuperscript{131} Mekong Economics 2002, op cit, p. 7.
  \item \textsuperscript{133} Pham Hoang Ha from CIEM, when asked what accounted for SOE "inefficiency," responded "the main issue is the great difficulty in sacking people or in other ways restructuring in the state sector, there are many institutions involved in making a decision (whereas private firms can sack immediately when there is a violation of rules), therefore, employees don't have any incentive to work well," Interview, September 2005. This is consistent with views expressed by the Miyazawa Project consultants (notes 189, 190 and 191 below). Tran Van Viet likewise said "workers in private companies "can be sacked any time (if they do something wrong), whereas workers in state companies cannot be easily sacked -- they have to go through various processes, involving workers' meetings etc," Interview, Bac Ninh, June 2005.
  \item \textsuperscript{134} A deputy director of the Northern Food Corporation claimed private firms do rice distribution business better than the state sector "because they are flexible, they do not have to pay proper wages, they don't have to cover welfare and social security, and they often are able to avoid tax." Note that his view, while from an executive of a state corporation, was explicitly praising this ability to be more "flexible." This claim of tax avoidance is backed by the Miyazawa report into the Southern Food Corporation, KPMG Phoomchai Business Advisory Ltd, \textit{Diagnostic Report of Vinafood II: Final Report}, Operational Reviews of State Owned Enterprises, Ministry of Finance, Miyazawa Fund, March 5, 2004, pp. 4-16.
\end{itemize}
textile firm, compared to 35 and 26 percent in the rubber and mechanical plants respectively; in textile, 62 percent thought management cared about workers, compared to only 19 and 15 percent in the other two.¹³⁵

This may reflect different performance in the market economy – the textile firm performed the best, while the mechanical industry “has old and backward equipment” which prevents it from “adapting to the market economy.”¹³⁶ A similar point was made by Tran Thi Van Anh. While unions were far stronger in SOEs, so workers’ conditions are generally better, “in some cases they are not very good if the SOE has little cash and thus has not been able to upgrade equipment.”¹³⁷

Comparing this with the private sector, workers in the state textile firm had much higher satisfaction with conditions, and showed one third higher satisfaction with management-worker relations than in the private firm in good economic shape; worker satisfaction with wages was double, and over double the number in the state firm thought management cared about staff compared to the private firm. Nevertheless, workers in the private firm were more satisfied with their incomes than in the two poorer SOEs.¹³⁸

SOEs with some success in the market economy thus appear more beneficial for workers than either bankrupt SOEs or more profit-driven private firms. For example, evidence suggests workers in state garment companies enjoy far superior conditions to those in private or foreign firms, with average wages one third higher.¹³⁹

However, further exposure to the capitalist world market is a double-edged sword. In contrast to the study above, a recent study involving 101 workers in 52 enterprises in the fashion and footwear industry showed little difference in wages and conditions among

¹³⁵ Ton Thien Chieu, ‘Quan he xa hoi trong xi nghiep cua cong nhan cong nghiep’ (‘The social relations in enterprises of industrial workers’), Xa Hoi Hoc. (Sociology), No. 2 (54), 1996.
¹³⁷ Tran Thi Van Anh, Editor, Khoa Hoc Phu Nu (Journal of Women’s Studies), Interview, November 2005.
¹³⁸ Ton Thien Chieu, 1996, op cit.
state, private and foreign plants, and only a slightly higher degree of management sensitivity to workers in state firms.\textsuperscript{140}

Kim concludes from this that company ownership has little to do with labour practices, thus questioning assumptions about the “protective state” versus the “repressive market.” However, and alternative explanation more consistent with other evidence presented above is that the ability of SOEs to walk the fine line becomes more difficult as Vietnam further opens to corporate “globalisation,” and the “repressive market” tends to flatten out differences and drive SOE conditions down toward the private sector level.\textsuperscript{141} This suggestion of a market-driven shift in workers’ situation in SOEs will be reinforced in the discussion below on equitisation.

The aim of the two case studies below is thus not to suggest that the high level of workers’ benefits and participation revealed applies to the whole state sector, which clearly varies. However, these cases may be fairly typical of a certain type of SOE – large, traditional heavy sectors which form part of the CPV’s list of important areas where the state aims to remain “the core.” Also both plants are in the provincial north, part of the great swathe of socialist heavy industry traditionally located outside of major cities in the north, which contributes 35 percent to national heavy industrial output.\textsuperscript{142}

**Workers’ participation in the Bai Bang Paper plant**

In late 2005, I visited two large and important state enterprises: the Bai Bang Pulp and Paper Company in Phu Tho, a major subsidiary of the state-owned Vietnam National Paper Corporation; and the Hoang Thach Cement Company in Hai Duong, a major subsidiary of the Vietnam National Cement Corporation.

Neither was highly profitable, though neither was making losses. These companies have neither been through a Vinacoal-type crisis, nor yet confronted battles over equitisation.


The Bai Bang visit in November 2005 included discussions with union leaders, with groups of workers, a plant tour, and informal discussions with workers around town outside of work time.

Bai Bang has 1,957 workers, with an average monthly wage in 2005 of 1.8-2 million dong ($US 120-140), a significant sum in semi-rural areas. This was corroborated in informal discussions with workers, who claimed there were few companies in the region paying such wages. The Miyazawa report claimed an average wage of 1.8 million already in 2001, and a salary range of 1.2 – 5.4 million. This may now have doubled.

In general, workers claimed working conditions, benefits, safety, environmental standards, safety standards, and living standards were rather good.

At the workers’ congress, workers claim they “contribute to the production plan,” “discuss solutions to problems,” “discuss salaries and benefits for employees,” “decide how to spend the welfare and bonus funds,” “discuss improvements to the Labour Code,”

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143 These leaders were Mr. Dai Van Hoi and Mr. Nguyen Xinh, the chairman and deputy chairman of the Bai Bang trade union. Both are CPV members. Xinh was a former soldier in the war with China in 1979.

144 The groups we met were from the maintenance section and the paper mill. In the paper mill we met Mr Cuong, the chair of the trade union in the mill, Ms Nga, in charge of quality control and chemical checking, and formerly head of the women’s unit in one section, Trong from the admin department, Mr Hoang, deputy head of one of the workshops of the mill, and Mr Nga, head of the shift. All had worked at Bai Bang for over 20 years. In the maintenance section we met Mr Trung, Ms Ha, Mr Khanh, Mr Quan and Ms Quynh. Their specific jobs or positions were not introduced. The maintenance section includes 403 workers, including 68 engineers and 35 college graduates. The oldest worker had worked at Bai Bang for 27 years, most over 20 years, the youngest for 18 years.

145 We were only able to spend two days around town in early December, but met with numerous workers over the weekend. I’m especially grateful to my interpreter and unofficial assistant, Ms Hoang, for helping enable this. Unofficial meeting places included eating venues, bia hoi (pubs) and markets. Most discussions could not take place for very long, as we engaged in often fleeting conversation. However, some were willing to talk at greater length before having to wander off. One female worker, Ms Hang, was particularly informative. We were also lucky to be able to visit the house of two Bai Bang workers, Mr Chien and Ms Dung, who were relatives of a friend from Hanoi. They invited several other workers over to casually chat, but we did not record their names.

146 Ernst and Young / A&C Sandwell (A), Final Summary Report: Vietnam National Paper Corporation, Operational Reviews of State-Owned Enterprises in the Steel and Paper Industries, Ministry of Finance – Miyazawa Fund, p. 21. Average wages were 1.35 million at Cogido and 1.7 million at Tan Mai, two other major SOE paper plants.

147 According to workers on a later visit in April 2007, average income at Bai Bang is 3.5-4 million dong. Dung, an electrician, in a middle management position, working there since 1982, earns 6 million dong.
“sign a collective labour agreement,” “elect the workers’ inspection board,” and “vote for the management board of the company, but this is only for reference.”

Workers say they freely contribute during congress and no-one reported attempts to silence them. Some claimed that “in SOEs, the workers’ congress determines almost all issues, from the production plan to the collective labour agreement.” Others said the congress “discusses issues with management to reach agreement and build up regulations.” Some said “almost all requirements of workers are put forward at congress, and management have to respond directly at the congress, or answer with a written report.” No-one was in any doubt that the decisions of congress at least played a significant role in decision making.

Most said disagreement was very rare, and when conflict with management did occur, it was related to workers’ benefits, most often safety. Some said there was “never” disagreement over production plans.

However, some noted that on certain issues, particularly in large scale planning, “we don’t have the information.” They did not mean the company denied them information, but that certain issues could only be understood fully by “experts”, so their input was “formal.” No workers made this claim about issues related to workers’ benefits or the welfare fund.

Some said their input into the production plan was most important where they were most knowledgeable, their own work area. They described a process whereby, firstly, a draft plan was outlined by management and union leaders, then submitted to the workers for discussion. Before congress, meetings are held in each unit to discuss the plan, to contribute to aspects related to their area, and then vote for or against the amended plan.

Regarding the confidence vote for the board of directors, the union counts the votes, and if someone has a low confidence rating among workers, it takes this to management to reconsider the candidate. While the director makes the final decision, most thought it unlikely that a strong opinion from workers would not be taken into account.

148 These views and those expressed below are generally a composite of the views expressed by different workers in both sections, unless otherwise stated, and views expressed by workers in unofficial meetings.
A 'people's inspection board' (Ban Thanh Tra) is elected at congress every two years. Workers say its roles include "dealing with questions, problems and complaints from workers," "investigating and solving them," "investigating any suspicions workers have - workers write and submit letters about concerns to the BTT," and "supervising management's compliance with the Labour Code and the collective labour agreement.

Seven hundred workers, a third of the workforce, are CPV members. The CPV cell does not officially belong to management, but, like the trade union, and sometimes the youth union, it is part of the 'Group of Four', which is virtually always consulted about important decisions. So how workers join it is relevant.

To join, a worker must be 'introduced' by one of the unions (trade union, youth union, women's union, veterans' union) in the SOE. Membership must be approved by the party unit where the worker lives, which judges whether he/she is a good person in their neighbourhood, a link between the company and the community. The party unit at work makes the final decision, but this is a formality if the neighbourhood unit has agreed.

The congress decides how to spend the welfare fund, the size of which depends on company profit. Workers said the fund is spent on three main things: holidays for workers and their families; sports, cultural and entertainment activities and facilities; and solidarity funds and poverty programs. Some said the fund covered medical help for workers and other benefits.

'Holidays' do not mean the salary for annual leave, a legal part of workers' pay, but the cost of holiday travel, accommodation and food. Workers said they go "everywhere in the country, and sometimes overseas." If they go to China, Bai Bang "doesn't pay the entire cost, but 50-100%, depending." They also go to Thailand, Malaysia, Singapore or Sweden. Later, workers said that when they go overseas, it comes from the training fund, not the welfare fund, but it is "training combined with sightseeing." Some said only foremen and shift leaders go overseas, but others said "all of us do"

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149 This very high-sounding figure was provided by the union leaders, Dai Van Hoi and Mr. Nguyen Xinh.
150 It should be clarified that 'welfare' in the welfare fund does not include the cost of Social and Health Insurance, which are compulsory legal deductions from company funds from pre-tax profit.
Travel times are 2-3 times a year by rotation, each worker going once a year. Workers have 12 days annual leave, increasing one day each 5 years (for those working in toxic areas, 2 days). The workweek is 40 hours, but when there is sudden demand, they do overtime, but not more than 4 hours per day or 200 hours per year ("as in the Labour Code and the collective agreement").

The unionists and workers told us of the impressive sports and entertainment facilities, which we saw on a plant tour. They include a swimming pool, a sports complex, 3 tennis courts, a stadium and sports-grounds, a dance hall, museums, libraries, a gymnasium, a large sports hall, aerobics, outdoor seating with refreshments etc. Dancing classes are held for workers. Three evenings a week there are music festivals: one for union members, one for youth union members, and one night open for the community, usually a 'cultural and music exchange'.

Workers claim "100% of workers use these facilities," and they are open to the local community, though some said non-workers must pay some "small fees."

Education facilities included three kindergartens, and a primary and a secondary school under MOET but funded by Bai Bang. Health care includes vaccines and annual medical checks, with "priority for women" (according to a female worker), and for work related diseases. The company runs three clinics at which treatment and medicines are free. Workers said "these are the basic benefits" but there are "lots of others."

Finally, the workers' houses around the area looked magnificent, 2-3 storey free standing houses. There were a great number of them, so obviously not only houses for a few leading cadres.151

Workers' participation in the Hoang Thach Cement plant

At Hoang Thach we had extensive discussions with Mr. Tinh, the deputy chairman of the Hoang Thach trade union.152 Again we met two groups of workers from different parts of

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151 My interpreter, Ms Hoang, noted this as evidence that cannot be denied of the good standards. She also made the general comment that workers even in the official meetings appeared to be speaking very openly.
152 Tinh is also a member of the CPV, and was a former soldier in the American war.
the plant,\textsuperscript{153} had a plant tour, and had informal discussions with workers outside work time.\textsuperscript{154}

Hoang Thach has 2759 workers (including 466 women), made up of 400 engineers, 1689 production workers, and 557 office workers. The average salary, confirmed both in official and unofficial meetings, is 3-3.5 million Dong ($US 200-233) per month, a high salary in Vietnam.\textsuperscript{155} They work 8-hour days, from 7-11.30 am, and 1.30–5pm. The company provides three dorms for workers who do not live nearby.

Some parts of Vietnam National Cement Corporation are to be equitised, but not Hoang Thach, “as the state still wants to use it as a tool to control the market.”\textsuperscript{156}

The union participates in management (the head of the union is on the directors’ board), including “organising competitions among workers to motivate them, finding solutions to production difficulties, organising conferences for workers to discuss problems which arise,” and “educating workers about work instructions, government laws and policies and improvement of skills.”

The union’s main job is “to protect the rights and benefits of workers,” but it also “shares the goal” with management “of “accomplishing the government plan.” To achieve this

\textsuperscript{153} In the mechanical section, we met the supervisor Mr Luong, also deputy head of trade union in that section, and five workers, Mr Hai, Ms Hang, Mr Duong, Mr Quang and Hung. The last three were relatively young, and Ms Hang about 40. Their jobs or roles were not introduced, though Mr Quang appeared to have some connection to the youth union. In the mechanical repair team we met Mr Con, a supervisor, Ms Hoa, deputy director of the trade union for that section, Mr Thang, Mr Thanh and Mr Trung. The four men were middle-aged, and Ms Hoa about 40.

\textsuperscript{154} Again we could only stay two days around town to meet with workers, mostly on a Saturday. Again I’m especially grateful to the invaluable assistance of another interpreter who acted as unofficial assistant, Ms Vo Mai Trang, for facilitating this. The unofficial meeting places were overall similar to those noted above for Bai Bang (see note 145 above). Again most discussions were by nature short, fleeting and casual. Our best discussion was with three men eating an early breakfast before a shift, who said they adh seen us the previous day in the plant. We did not record their names. Though short discussions, we talked to a significant number of people over the two days. In general, both here and at Bai Bang, it was not difficult for conversations to start once a foreigner was spotted sitting in close range of others at a food stall.

\textsuperscript{155} The Miyazawa report into Hoang Thach reported that as early as 2001 the average salary was already 2.7 million a month, Ernst and Young (A), \textit{Final Report: Vietnam National Cement Trading Company}, Operational Reviews of State Owned Enterprises in the Cement Industry, Ministry of Finance – Miyazawa Fund, p. 60. The figure for the number of workers was also confirmed by a Vietnam National Cement Corporation Trade Union report, \textit{Cac Bao Cao va Tham Luan tai Dai Hoi Thi Dua Yeu Nuoc Lan Thu II (2001-2005) cua TCTY Xi Mang Viet Nam (Reports and Speeches at 2\textsuperscript{nd} National Emulation Congress (2001-2005) of the Vietnam General Cement Corporation}, Ministry of Construction, Hanoi, August 2005.

\textsuperscript{156} According to Tinh. Hoang Thach is the largest subsidiary of VNCC, producing 2-3 million tons of cement per year, one third of all cement production in Vietnam.
“requires benefits to workers – and vice versa, for benefits to workers, it is necessary to work for the goal and plan of the SOE and the government.”

Unionists and workers gave the impression of a great deal of workers’ participation in decision-making, more so than in Bai Bang. While congress is the major forum, a number of other meetings, conferences and methods of participation were described. Separate from congress, the union collects opinions of workers through numerous meetings.

Firstly, every week there is an open day for workers’ opinions, on which “one person from the management board is assigned to sit there and wait for anyone to come.”

Secondly, there are monthly meetings. Workers in each unit meet to discuss any issues with the union, then the union heads of each unit meet with management to put workers’ opinions and concerns. “Workers can be very open about opinions and suggestions,” said one worker. Both meetings take place during working hours, as do all union meetings.

Workers can also request a meeting with management about issues as they arise, and the union may organise a workers’ conference when a problem arises. The union also collects workers’ opinions from opinion boxes around the plant, which can be anonymous.

Hoang Thach holds two workers’ congresses – one at the beginning and one at the end of the year. To prepare for congress, workers in each unit have a meeting to discuss issues, coordinated by the grassroots union, and all these ‘mini-congresses’ build up to the big congress. The union has an important input, as it has “much knowledge and ideas to provide workers about the following year’s plan, its feasibility and so on.”

Regarding the authority of congress decisions in the enterprise, answers at Hoang Thach tended to suggest it had more than at Bai Bang. “Normally, management will base their decisions on the results of the congress regarding how much to produce the following year” was one response. A memorandum is signed by both sides and the director “has to follow these decisions of congress,” was another. “Direction for decision making comes from the congress” was a third example.

157 These views and those expressed below are generally a composite of the views expressed by different workers in both sections, unless otherwise stated, and views expressed by workers in unofficial meetings.
Workers said “congress is a very open, democratic body, all misunderstandings and conflicts are discussed, and must be resolved there.” At congress, “the director has to answer all questions from workers about the plan.” Disagreements between staff and management were considered normal, but mostly minor. According to one worker, “conflict between us and management is good because it’s a conflict for improvement.”

At the end of the year “there is an assessment of how this has worked out” and this is discussed at the second, end of year, congress.

Various informants reported the workers’ congress discusses the production plan, the main goals of production and business, an assessment of the previous year, assigning responsibilities for the following year, company rules, contracts and policies, income and spending of welfare fund, whether fund spending the previous year followed the agreement at the last congress, workers’ income, benefits and opportunities, improving working conditions, building infrastructure and schools, workers’ health and welfare, recreational and sporting activities, new technology, how to reduce the price of products, how much to pay the government, and donations to poverty reduction.

Nine people are elected at congress to the Ban Thanh Tra (people’s inspection board), whose job it is to “assess and monitor to see the agreement is followed.”

Regarding how the director is chosen, according to Tinh, “a big guy from the government comes and looks for the workers’ vote.” According to workers, “labour conferences in each unit vote for the directors of the units, and these directors vote for the company director, and the deputies.” Workers’ votes thus appear to play a direct role.

There are 670 CPV members, a quarter of the workforce, and the party committee has 21 members. In SOEs, “the major leader is the party.” A party representative is on the directors’ board, the head of the party unit is a deputy director, and the director and union head are usually members. An SOE party unit is at the same level as that of the district.158

The mass organisations are also represented. A female worker said the ‘women’s unit’ in an SOE is equivalent to the women’s union, but is part of the trade union. There are 26

158 Information supplied by Tinh.
units in Hoang Thach, one for each section of the company. It collects women’s opinions and shares experiences, and runs a ‘women’s union club’ which meets monthly to discuss issues such as the benefits women should have, family issues and reproductive health.

Two young workers said every section has a unit of the youth union, whose activities “follow the programs of the district.” It participates in local youth activities, such as conferences and festivals, and gets youth together for educational, cultural and sport activities, to gather opinions, to teach work skills, or to educate youth about regulations.

Tinh said that when Hoang Thach sets goals outside the company, the youth union plays an important role mobilising outside help for such work. “The activities of the youth and women’s unions are very important to the company’s work, so it doesn’t matter if their meetings are in work time. Each section can decide whether various groups can meet in or outside working hours.”

The congress decides on the spending of the welfare fund, and “the director and the union must implement these decisions.” The fund “can be a million dollars.” After-tax profit is divided fifty-fifty between production expansion and the welfare and bonus funds.

The welfare fund is spent on sports and recreation facilities, kindergartens, hospitals, to “assist workers in their daily lives, both financially and in physical and mental health,” Tet and other holidays, workers’ birthdays, family deaths, supporting union members in difficulty (“when a family member is sick, the union helps with fund money and visits”), donations to the area, poverty reduction, heroic mothers, people in remote areas, and families in difficulty in the local area.

One worker said the fund “covers everything during holidays, including accommodation and travel.” He said workers went on holidays throughout the country, and to Thailand, China and Singapore. He has been to Hong Kong and mainland China. Another worker had only been to various destinations inside Vietnam, including Hue, Dalat and Saigon.

One worker said “we go for 17-20 days per year” (this is longer than the annual leave in the Labour Law). Another said that “if they go far, only the worker is paid for, but if they
go to closer beaches, they can take their families on company expense.” A female worker said “the harder we work, the further we can go.” She had “often been to the south.”

Others talked about the sporting activities and facilities. Every year they have a soccer prize, in competitions between sections of the company and with outside groups. Each sports activity has its own area on company grounds, and there is a swimming pool.

Another worker said “this is one of the best companies for health. Every year, we have a free health check, and based on that, we know how to divide the work appropriately. In particular, we check people working in a harmful environment, who get a special bonus. If anything wrong is discovered, the worker is sent to a special hospital to be treated.”

Workers “are provided service during sick leave.” For the first two days of sick leave, there is no change in salary and bonus, but if a worker takes more than that, his/her pay goes down to ‘Salary and Bonus Type B’ rather than type A’.

One young worker said he chose to work at a state company “because they have better benefits than other sectors, private or foreign.” Another young worker added that “state firms have a more human work environment and human relations inside the company.”

From observations in the two factories and around the plant, Hoang Thach looks clean, uncluttered and well-organised. Workers work at a steady but relaxed pace. All workers were wearing hard hats. There are 4-stage reverse osmosis water filters throughout the plant. Signs for safe use of equipment can be seen everywhere in the workplace, near every machine or piece of equipment. Meals are good and clean; workers have a 15,000 dong ($US 1) allowance per meal. According to Tinh who took us for lunch, this is more than adequate, so workers can spend 6000 dong for a decent meal and keep the rest.

The aftermath of the Quang Ninh mines crisis

What occurred in 1999 in the state coal industry in Quang Ninh represents an opposite case, where an SOE acted against workers interests under the pressure of the market, when overproduction led to mass retrenchments. However, this led to struggle from
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within the “party-state” that prevented the outright victory for the capitalist “efficiency” imperative in the state sector that Greenfield believed occurred.\(^\text{159}\)

In May 1999, the workers’ congress decided that, of the 85,000 coal-miners in Quang Ninh, “the 70,000 on long-term contracts” would not lose their jobs.\(^\text{160}\) In June, Vinacoal announced 15,273 seasonal workers would be sacked, “when their contracts finish.”

Of the permanent workforce, 1000 workers were moved to non-coal Vinacoal plants (e.g., garment factories), 600 moved to other mines which had been employing seasonal workers, and 1200 retired on early pensions. Some 50,000 workers would suffer temporary and rotational retrenchments, as some mines were closed, and be entitled to 70 percent of their ‘basic’ monthly wage (a low 144,000 dong or $US 10), but would still receive their ‘salary coefficients’ which make up much of their actual pay. The remaining 17,000 miners were unaffected,\(^\text{161}\) but the white-collar and managerial staff had to work for 50 percent of their salaries for four months.\(^\text{162}\)

VGCL interviewees claimed they strongly opposed the mine closures, and that “the VGCL and Molisa decided the decision was wrong and all (permanent) workers got their

\(^{159}\) Greenfield, G, *From Class to Commodity: Workers and Capitalist Industrialisation* in Vietnam, PhD, UNSW, 2000, p. 262-263.

\(^{160}\) Nguyen An Dinh, Luu Quang Dinh, ‘Toi khong choi bo trach nhiem, nhung can hieu dung’ (‘I don’t deny responsibility, but it is necessary to understand correctly’), *Lao Dong*, July 10, 2000.

\(^{161}\) Xuan Quang, ‘Tong Lien Doan lam viec voi CD nganh cong nghiep: Du kien chi 50 ti dong tra luong ngung viec cho gan 5 van cong nhan nganh than’ (‘General Confederation works with industrial branch of trade union: Proposal to pay 50 billion dong in wages for work stoppages for 50,000 coal workers’), *Lao Dong*, June 4, 1999. This version is broadly backed by *Vietnam Investment Review* which claimed 52,000 workers would “be affected by the industry shake-up” and receive 70 percent of their salary during the mine stoppages, while “14,000 workers will be left with permanent jobs” (‘Coal workers mining an unproductive future’, June 7-13, 1999), i.e., 52,000 on rotational lay-offs, 14,000 unaffected, 3000 moved or retired, and 15,000 sacked seasonal workers, equals 84,000, the total workforce. Both versions are in conflict with Greenfield’s assertion that the remaining “20,000 regular workers would be paid the equivalent of 70 percent of their wages and dismissed permanently,” (2000, p. 260).

\(^{162}\) Chu Tuong, ‘Tho mo vuot kho’ (‘Miners overcome hardship’), *Lao Dong*, June 4, 1999. The article does not clarify whether “white collar staff” includes managers, but Mr. Nghiep and Mr. Cu, Director and Deputy Director of the Personnel Department of Vinacoal, claimed this was the case: “all of us, for example us two, had to work for half our salaries,” Interview, October 2005, Hanoi.
The government ordered Vinacoal to re-employ retrenched miners, but were temporarily put on 4-day weeks, their wages reduced 15-20 percent. The VGCL also saved the contracts of short-term workers who were relatives of permanent workers. Therefore, from 15,000, the number who ultimately lost their jobs was only 5,500, according to Vinacoal union boss Tran Khoa Thu. He also claimed that as of 2000, 77,500 miners were working, suggesting an original total of 83,000.

The VGCL was candid in its criticism of Vinacoal. It denounced Vinacoal’s employment of a high proportion of seasonal workers as part of the problem. One Lao Dong piece slamming cement and power SOEs for buying bandit coal, also labels the practice of Vinacoal subsidiary Dong Bac, of employing thousands of seasonal workers to cut conditions, as a kind of bandit mining. The tone and title of the piece - ‘Don’t buy bandit coal!’ – suggests a union campaign.

Greenfield saw the crisis caused by Vinacoal bosses buying coal from bandit mines, then selling it to pocket the difference. He also claims an alliance with foreign capital led to a profit-driven strategy of over-reliance on exports, leaving a large stockpile when exports fell in 1999. Some of this I would dispute, but his general case is compelling.

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163 Tran Trung Phuc, Director, Socio-Economic Policy Department, VGCL, Interview, November 2005. Also, Chau Nhat Binh, Head of International Relations Division, International Department, Vietnam General Confederation of Labour, Interview, August 2003.
165 Ung Duy Ninh, Quang Chinh, ‘Cong doan co phan trach nhiem voi nhung sai pham cua nganh than’ (‘Trade unions are partly responsible for the mistakes in the coal sector’), Lao Dong, July 10, 2000
166 Ung Duy Ninh, Quang Chinh, ‘Ca nhan nao sai pham, du o bat cu cuong vi nao cung phai bi xu ly ky luat’ (‘Every violator, whatever their position, must be disciplined’), Lao Dong, July 6, 2000. Even if the original total was 85,000, the number sacked would be only half the original figure of 15,000, and far fewer than Greenfield’s claim of 35,000. Other articles also suggested fewer lay-offs. One quoted Vinacoal official Dinh Quang Trung that the company was “trying to cut the number of workers from the current 78,000 to 76,000 this year by sending them abroad or finding them work in garment factories,” Due Hung, ‘Coal corporation set for hefty losses of $3m’, Vietnam Investment Review, September 20-26, 1999. This means there had been 7000 lay-offs at that time.
167 Chu Tuong, ‘Khong mua than tho phi!’ (Don’t buy bandit coal!), Lao Dong, June 8, 1999. The same issue reports a decision by the Cement Corporation to ban its member SOEs from buying any other than Vinacoal coal, Thanh Thuy, ‘Quy III/1999: DN thuoc TCty Ximang chi mua than cua TCty Than VN’ (‘Enterprises in the cement Corp only buy coal from the Coal Corp’), Lao Dong, June 8, 1999.
Subsequent events, however, cast doubt on his conclusions that this represented an outright victory for the profit-making needs of an emerging state capitalist class, workers becoming a 'commodity' to be thrown aside, and that Vinacoal obtained this victory in league with other parts of the ‘party-state’, including the official unions.

The State Inspectorate launched an investigation, involving the government, the unions and Vinacoal. This may sound like a perfect cover-up by analysts who believe the state, SOEs and unions are all run by the ‘party-state’, but the report in June 2000 was scathing:

Vinacoal purposefully exaggerated how much coal it had stockpiled. By doing so, it was able to inflate costs it claimed to be facing and so seek state approval to delay loan repayments and take out more loans ... Vinacoal reported to the government that its coal stockpiles had reached 4.34 million tones by the end of 1998 ... it asked for government permission to export at lower than regulated prices, to cut its number of miners and lower salaries. The actual total of stockpiled coal by the end of 1998 was just 2.42 million tones.

Vinacoal’s directors and management board were all held responsible. One manager had signed dozens of contracts at “lower than normal export prices” and “incurred losses of hundreds of thousands of dollars.” Other allegations concern “the recording of expenses in its books,” cash “drained away through investments and infrastructure,” the purchase of equipment and cars, “illegal trading of foreign hard currency, and unlawful financial and operational management moves.” One manager, Nguyen The Hanh, head of an affiliate in a joint venture with a US firm, fled to the US. He was jailed on his return.

However, Vinacoal director Doan Van Kien claimed the discrepancy over the stockpile was due to different ways of assessing it, and export contracts were signed at low prices.

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169 Ibid, p. 262-263.
172 Ibid.
173 Mr. Nghiep, Director Personnel Department, and Mr. Cu, Deputy Director Personnel Department, Vinacoal, Interview, Hanoi, September 2005. Also, Chau Nhat Binh asserted that “a number of managers were jailed,” Interview, August 2003.
because the world coal price had dropped 45 percent 1997-98. Yet he took responsibility for several mine accidents, for “negatives” in investment management, and for “the number of (seasonal) workers being too high.”174

The last point refers to the high number of seasonal workers. Yet he describes how Vinacoal allegedly got rid of 1000 bandit mines: first it signed contracts with them, based on them ensuring legal conditions, then it got rid of the subcontractors and signed contracts with the workers, and then brought modern technology into these workplaces. This caused Vinacoal’s workforce to grow by many thousands by 1997.175 But if this was true – that bandit mines were eliminated, rather than just being adopted by Vinacoal – then it is unclear why he would be admitting “responsibility” as if this were a problem.

The VGCL, the Vinacoal union, and the Industrial Unions of Vietnam did their own investigation. It came out in agreement with the Inspectorate, except that they accepted Kien’s explanation about the stockpile. They demanded the head of the Vinacoal HDQT penalise the director and other officials, and that four Vinacoal officials most responsible be sacked, given the “highest financial penalty,” and face a criminal court, and that Vinacoal return 12 billion dong (about $US 800,000) to the state.

VGCL deputy president, Do Duc Ngo, claimed “the entire problem was the fault of Vinacoal management” but the Vinacoal union was also responsible, since it did not know what was going on, did not express its own view, and its participation in management was “very limited.”176

174 Nguyen An Dinh, Luu Quang Dinh, ‘Toi khong choi bo trach nhiem, nhung can hieu dung’ (‘I don’t deny responsibility, but it is necessary to understand correctly’), Lao Dong, July 10, 2000. Kien claimed the difference was 1.8 million tons of pure and semi-pure coal that Vinacoal calculated but the Inspectorate did not; the Inspectorate only calculated the 2.5 million tons of “coal products.” This is because Decision 1278 of the Ministry decreed that pure and semi-pure coal was not to be calculated as part of a stockpile. Yet in his opinion, it was necessary to calculate whatever Vinacoal produces and sells.

175 Ibid.

176 Ung Duy Ninh, Quang Chinh, ‘Cong doan co phan trach nhiem voi nhung sai pham cua nganh than’ (‘Trade unions are partly responsible for the mistakes in the coal sector’), Lao Dong, July 10, 2000. The views of various union leaders, party cells, managers of Vinacoal affiliates, and People’s Committee heads, on Vinacoal’s responsibility and the Inspectorate report, were presented in Nguyen An Dinh, ‘Nganh Than – nhin tu vung mo’ (Coal sector – view from the mining regions’), Lao Dong, July 19, 2000.
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The head of the Vinacoal union, Tran Khoa Thu, accepted this, but explained that while legally it must participate in management, for many years, the government has refused the union’s request to have a representative on the HDQT.\(^{177}\)

It is difficult to judge where all this led. A number of bosses had been penalised, and the situation was “back to normal” by mid-2000 and salaries 30 percent higher than in 1999.\(^{178}\) What however were the long-term effect of Vinacoal’s actions and those of the government and unions?

In fact, the situation since 2000 does not suggest a victory for profit orientation at the expense of society and of “commodified” workers.

Profits are low: the Miyazawa report claims “overall profitability … is too low to generate the operating cash flows needed for investment.” Also, “the non coal-related businesses are placing a heavy financial burden and are not profitable or are operating at a loss.”\(^{179}\) These unprofitable firms were set up in 1999 to absorb redundant labour from the coalfields.\(^{180}\)

Furthermore, Vinacoal “does not benefit from the (current) strong demand in the international market,”\(^{181}\) due to a lack of export orientation. Greenfield’s view that the crisis was caused by a profit-driven export-first orientation appears only partly true. He believed Vinacoal had not reduced production as the after-effects of the Asian crisis loomed, and then exports fell. However, Vinacoal did slightly reduce its 1999 production plan, from 11.6 to 11 million tons,\(^{182}\) yet exports of 2.1 million tons in the first 8 months

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\(^{177}\) Ung Duy Ninh, Quang Chinh, ‘Ca nhan nao sai pham, du o bat cu cuong vi nao cung phai bi xu ly ky luat’ (‘Every violator, whatever their position, must be disciplined’), Lao Dong, July 6, 2000. In addition, the views of various union leaders, party cells, managers of Vinacoal affiliates, and People’s Committee heads, on Vinacoal’s responsibility and the Inspectorate report, were presented in Nguyen An Dinh, ‘Nganh Than – nhin tu vung mo’ (Coal sector – view from the mining regions’), Lao Dong, July 19, 2000.

\(^{178}\) Ung Duy Ninh, Quang Chinh, ibid.


\(^{180}\) Mr. Nghiep, Director Personnel Department, and Mr. Cu, Deputy Director Personnel Department, Vinacoal, Interview, Hanoi, September 2005.

\(^{181}\) Barlow Jonker / Ernst and Young, op cit, p. 14.

of 1999 represented a rise of 4.5 percent compared to 1998.\textsuperscript{183} The fall in demand was in the \textit{domestic} economy, due to the economic malaise following the Asian crisis; above all, the large state-owned buyers – the cement, fertilizer, steel and electricity SOEs – steeply reduced their buying.\textsuperscript{184}

In fact, Vinacoal is mandated by the state to first sell coal, at \textit{a lower than market price}, to these four major state-owned parts of the economy. This makes their products, basic to the whole economy, cheaper throughout the country. In 2003, coal prices for these sectors were $4.50 per ton lower than the export price, and 0.2 to 5.2 percent under production cost, and the normal domestic price was $3 lower than the export price. What is left goes to export, where profits are made. The Miyazawa consultants advise this pricing system be scrapped in order to “maximize profitability”.\textsuperscript{185}

In this sense, Vinacoal’s \textit{non-profit role} may have played its own role alongside the errors caused by the drive for profit. The fall in sales to these major sectors led to the stockpile, and their non-profit nature drove Vinacoal towards bankruptcy.\textsuperscript{186}

In 1993, the World Bank complained about huge “overmanning” compared both to Western countries and to state-owned mines in India and China, and commented:

> In the recent downturn in production, many employees have been assigned miscellaneous work ... Laying off surplus labour creates a conflict with the mining companies’ perceived social obligation of maintaining employment.\textsuperscript{187}

The current situation suggests the attempt to break this in 1999 was unsuccessful. While there were 85,000 Vinacoal workers in 1999, the company now employs 95,000.\textsuperscript{188} The

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\textsuperscript{183} Duc Hung, ‘Coal corporation set for hefty losses of $3m’, \textit{Vietnam Investment Review}, September 20-28, 1999. Income from exports declined by 3 million dollars in the same period, but this was due to the fall in world prices: this thus contributed to the near-bankruptcy of the company, but not to the stockpile.


\textsuperscript{186} Hoang Thanh Phu, director of the Cua Ong mines, said the mines’ main customer was the power sector, “which is now making a profit;” the coal industry, however, cannot increase prices without government approval, ‘Coal workers mining an unproductive future’, \textit{Vietnam Investment Review}, June 7-13, 1999.


\textsuperscript{188} Nghiep and Cu, Interview, op cit.
Miyazawa report claimed Vinacoal is “required to maintain an excessive workforce to meet community and social objectives,” with “no flexibility to restructure their labour force,” and it has “no intention” of doing so, due to its “social responsibilities.” Further, “the circumstances in which employers can impose disciplinary action including dismissal are strictly regulated.” Even the method used in 1999 – laying off those on temporary contracts – is now more difficult, as the Labour Law of 2003 allows firms to hire temporary workers for only one contract – if renewed, it must be permanent.

According to the Miyazawa report, “average mine labour costs” are 2.5 to 3 million dong per month, “far higher than the average salary in Quang Ninh,” and this “impacts the salary of this region.” Salary and related expenses represent 33 to 54 percent of the cost of production, which “does not reflect the competitive advantage of low labour costs,” and increasing average labour costs have “outstripped the increase in productivity.”

Following serious accidents in the late 1990s, Vinacoal spent $US 500,000 on the latest safety technology, including warning systems and alarms. In 2004, deputy directors were put in charge of safety in each mine – previously this was done by technical staff. As a result, managers claim there have been no major accidents in Vinacoal mines since 1999, and Phuc claims mine safety has greatly improved, accidents “overwhelmingly” in the private sector. However, “major” or not, there were

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189 Barlow Jonker / Ernst and Young, op cit, pp. 13, 105, 54.
190 ibid, Appendix, p. 61. It explains that “under Article 84 of the Labour Code, an employee who breaches the labour contract or internal rules may be transferred to another position with lower pay for a maximum period of six months. After that time, the employee must be returned to their previous position.”
191 ibid, Appendix, p. 60.
192 Barlow Jonker / Ernst and Young, op cit, pp. 9, 54. Vinacoal explained these rises were due to cost of living increases and government decrees. The consultants called this “questionable business practice” which can “make a business uncompetitive.”
193 In January 1999, 19 miners died in a state-owned mine in Mao Khe. Greenfield quotes figures of 110 miners killed or injured in mine accidents in 1996 and 107 in 1997 (2000, pp. 252-3). It is unclear whether these refer to accidents in all mines (including bandit mines) or only Vinacoal mines.
194 Nghiep and Cu, Interview, op cit.
195 Nghiep and Cu, Interview, op cit. A casual reading of the Vietnamese media would suggest this was largely true at the time of interview in 2005. However, in early 2006, 15 miners were killed in four accidents, one of which killed 8 miners, the largest single toll since 1999.
196 Tran Trung Phuc, op cit.
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138 mining deaths in 106 accidents between 2001 and 2006, indicating a far from satisfactory situation.

Workers resist privatisation

Aside from injecting extra capital into SOEs, equitisation is aimed at “transforming management.” SOE management, with roles for the state, party, unions, mass organisations and workers’ congresses, is considered cumbersome and inefficient, as is the “old process of appointing directors, with elaborate steps of recommendation and voting.” By transforming SOEs into share-holding companies, the share-holders’ meeting becomes the management board; alongside directors becoming even stronger, this relegates other bodies to advisory roles at best.

Therefore, equitisation is the decisive threat to the current system of SOE management, but once again a struggle from inside the “party-state” has held up the process.

In 1992, the government selected 200 small to medium SOEs, but only 18 had been equitised by 1997. There was a heavy emphasis on providing shares to workers, both to transfer money “lying idle in the hands of the population” to production, and to make workers work more efficiently by “linking their interests with that of the enterprise.”

Of 18 equitised SOEs, 17 had combined state and worker shares of 80-100 percent. One was worker-owned, four majority worker-owned, in another four workers owned half, two had a state majority, and only one had 51 percent owned by outsiders.

In 1993, then CPV secretary-general Do Muoi claimed workers’ “mastery” could only be achieved via share-owning in SOEs, “and through this rid the system of the disease of

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197 '138 Vietnamese coal mining employees die in 5 years', Xinhua General News Service, April 12, 2006. It is unclear how many were in Vinacoal mines, as opposed to private or bandit mines. Some 6000 miners die annually in Chinese mine accidents. In both cases, these are official figures.

198 Anh Hieu, ‘PM’s new policies may alter SoC hiring process’, Viet Nam News, April 12, 2005.


bribery and corruption."\textsuperscript{203} This suggests Muoi thought workers' share-ownership was more than a mere device to make them work more "efficiently."

This conflicts with the views of neo-liberals, who believe many workers' shares still restrict "efficiency." Greenfield notes that Vo Van Kiet opposed Do Muoi's view, saying workers could merely buy shares as members of the public. When a majority share in the refrigeration company REE was sold to workers, the head of the Privatisation Bureau, Nguyen Van Tuong, recommended that "workers did not buy as many shares," warning against such a "misunderstanding" about "equitisation."\textsuperscript{204}

However, the 'worker-control' version also conflicts with the idea that the working class already owns state enterprises, so worker shareholding is only a step towards full privatisation.\textsuperscript{205}

Legislation in 1998\textsuperscript{206} further aimed partially at giving workers "a share in profits" to encourage them "to pursue efficiency, entrepreneurial opportunity and profits."\textsuperscript{207} By 2001, 776 small SOEs were equitised, accounting for only 2 percent of SOE capital,\textsuperscript{208} and 1706 -- one third of all SOEs -- were equitised by 2003, a mere 3 percent of SOE capital.\textsuperscript{209}

The vast majority of shareholders remained workers. Of 776 SOEs equitised by 2001, 453 had worker majorities, 66 state majorities, and 35 outsider majorities, and 61 were handed to the labour collective.\textsuperscript{210} Forty percent of shares went to workers, 9 percent to managers, 34 percent to the state, and 17 percent to individuals or private firms.\textsuperscript{211} Once

\textsuperscript{203} Greenfield, 1994, pp. 218.
\textsuperscript{204} 'Equitisation chief calls for more state involvement', \textit{Vietnam Investment Review}, December 13-19, 1993.
\textsuperscript{205} Greenfield quotes left theoretician Nguyen The Kiet, who said workers' share ownership does not alter the fact that they are exploited, but "by more subtle methods," 1994, p. 220.
\textsuperscript{206} Decree 44-CP, June 29, 1998.
\textsuperscript{207} Central Institute for Economic Management (CIEM), Viet Nams Equitised Enterprises: An Ex-Post Study Of Performance, Problems And Implications For Policy, Hanoi, August 2002, p. 42.
\textsuperscript{208} 'SOE's put back on equitisation track', \textit{Viet Nam News}, July 16 2002.
\textsuperscript{209} 'To consider pilot establishment of economic groups in some industries', \textit{VNEconomy}, April 23, 2004
\textsuperscript{210} Central Institute for Economic Management (CIEM), \textit{Viet Nam's Equitised Enterprises: An Ex-Post Study Of Performance, Problems And Implications For Policy}, Hanoi, August 2002, p. 7, 17.
\textsuperscript{211} Ibid, p. 38, 39.
taxes are taken into account, the share of profit going to the state rose to 56 percent, and to workers, 40 percent, with "a negligible four percent" going to others.\(^{212}\)

However, the percentage of workers' shares dropped from 40 to 35 percent by 2001, while private shares increased from 13 to 20 percent.\(^{213}\) Workers' "influence as stakeholders" did not rise, that of the state and party dropped but that of management shot up. The role of the management board in appointing the director also shot up, that of state bodies remained the same, but the role of workers fell.\(^{214}\)

Legislation in 2002\(^{215}\) and 2004 to deepen equitisation coincided with further global "integration," the Bilateral Trade Agreement with the US, Asia Free Trade Area (AFTA), and WTO membership. Trade liberalisation itself challenges workers' interests, while its requirements encourage the deepening of equitisation, moving away from the pretence of "workers' mastery" to fully profit-driven, anti-worker "efficiency."

The preferential share offer to workers was capped at 50 percent, while upper limits on share ownership for managerial staff, individuals or private firms were abolished,\(^{216}\) facilitating managers in buying out worker shares. In a survey of 400 workers in two HCM City firms, 220 had initially bought shares, but by 2004 only 52 had retained them.\(^{217}\)

One reason is that many workers do not understand the gap between share prices in the SOE and their market price. "When an SOE is undervalued, a motive among managers immediately emerges to collect and speculate on shares of workers."\(^{218}\)

\(^{212}\) Ibid, p. 38, 39.
\(^{213}\) Ibid, p. 53.
\(^{214}\) Ibid, 47-49.
\(^{215}\) Decree 64/CP, June 19, 2002.
\(^{216}\) Cl EM, 2002, op cit, p. 60.
\(^{218}\) Ibid. In one case the medical equipment and technology company in Ho Chi Minh City valued its land in central Saigon at USD100,000; the market price was USD7 million. Nine directors own 38.9 percent of shares, Truong Thi Minh Sam and Bui Duc Hai, 'An Overview Of The Most Crucial Period Of Equitisation In Vietnam,' conference paper, Workshop on Equitisation in Vietnam, Institute of Social Science, Ho Chi Minh City, October 2004, quoting Thanh Nien, September 1, 2004. Likewise, at the Trang Tien Company in Hanoi, company officials colluded with a speculator to buy most workers' shares, at 7-10 times higher than the official price, but workers did not know the market price was 30 times higher. By 2001, 66 percent of capital and 80 percent of shares were in the hands of this outsider, ibid, quoting Ha Noi Moi, August 2004.
Also, workers might sell shares “as soon as possible for a tiny profit” if they are not confident of a firm’s performance and “are afraid of losing money in a risky investment.”219 This should be borne in mind when evaluating discourse about “inefficient” SOEs rescued by equitisation: managers may have an incentive to make their firms look “inefficient” to encourage workers to sell their shares.

Even when workers retain a majority, managements violate the law by stipulating a minimum number of shares to participate in the shareholders conference, usually over USD 3,000. Based on this, 81 percent of workers could not participate.220

The deepening of equitisation is having a negative impact on workers’ ownership, wages, jobs and benefits. Once managers own the firm, the workers “as wage earners only, cannot interfere in the profit distribution plan, reinvestment plan, social insurance scheme ... Their rights are shrinking.”221 These repercussions do not square with the idea that workers benefit by gaining a share of profit, and claims that equitised firms have seen higher wages and have not seen job losses.

SOE workers already benefit from rising company profits, as their bonus and welfare funds rise in proportion with profits.222 Beresford points out that greater market discipline leads to pressure “to end the sharing of profits between worker funds and investment funds,” diluting “the culture of social or collective enterprise ownership.”223

According to unionist Dung Du Duc, there is “conflict over social obligations. As a state company, the union can organise many social activities for workers and their families. When equitised, all this goes.”224 Often the welfare fund is exchanged for workers’ shares in equitisation.225 Even having worked in the company for decades, thus being entitled to many shares, Duc is not convinced that he would be better off.

220 Nguyen Lan Huong, op cit.
221 Ibid.
223 ibid, p. 227.
224 Dung Du Duc, Interview, op cit.
225 Article 5 of Decree 44/1998/ND-CP in 1998 permits equitised SOEs to distribute part of the bonus and welfare budgets to workers to buy their own share.
The talk about wage and job gains needs to be deconstructed. A large CIEM survey claims “average wages grew about twelve percent per year” and “employment overall rose at almost four percent per year,” so “total labour costs rose sixteen percent.”\(^{226}\)

However, this survey was of enterprises equitised up to 2000, when most shareholders were workers.\(^{227}\) Another survey found 83 percent of equitised firms were paying higher wages, but were still under old management “who have not adapted their business philosophies and have failed to renovate the operations.”\(^{228}\) Such unadapted “philosophy” and lack of “renovation” may explain the good wages: workers and their organisations still have influence under “old management.” Chu Hoang Anh from MoLISA explains that if enterprises want to “make big changes, they have to convince workers to change or nullify their labour contracts. This is not easily accepted by employees.”\(^{229}\)

A 2004 survey by the Southern Institute of Social Sciences, suggesting wages in equitised firms had increased 13.8 percent, was deconstructed by its authors. Dr. Truong Thi Minh Sam noted that most redundancies “are manual labourers with low skills (who) ... have the lowest wage.” After redundancy, therefore, the omission of these workers wages bumps up the “average” wage, which is “therefore is just for a certain number of workers, who are relatively highly educated and skilled.” Less educated and lower-skilled workers “have no or very little opportunity to get their wage increased.”\(^{230}\)

At Bai Bang, which is to be equitised in 2010 with a state majority, Chien (an engineer) and Dung (who monitors enterprise needs via computer) are in medium positions, are very skilled, and will be able to buy more shares than those allocated. However, they note that unskilled workers made redundant will miss out on subsidised worker shares.\(^{231}\)

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\(^{226}\) Central Institute for Economic Management (CIEM), 2002, op cit, p. 30.
\(^{227}\) And as the CIEM report noted, as expected, “the rate of growth (of wages) was higher where worker control was higher,” ibid, p. 43.
\(^{230}\) Truong Thi Minh Sam, ‘Labour Issues In Equitised Enterprises,’ conference paper, Workshop on EQUITISATION in Vietnam, Institute of Social Science, Ho Chi Minh City, October 2004. The survey was conducted with 400 workers in textile and garment companies, and 60 redundant workers from a seafood processing company.
\(^{231}\) Chien and Dung, Bai Bang workers, site visit to local forestry farms near Bai Bang, April 2007.
Sam claims another reason for "higher wages" is increased working hours. One reason workers accept longer hours is their increased fear of losing their jobs after equitisation: 55 percent of workers feared this, their biggest anxiety.

Workers' conditions and benefits suffer with equitisation. The survey showed that "in SOEs, all welfare standards are secure, owing to the state regulations the enterprise leaders have to follow as well as coordination of the trade union," but after equitisation the firms "no longer pay much attention to welfare regulations." Two thirds of workers felt regulations relating to female workers were not implemented well after equitisation, and a quarter claimed maternity leave was not available. Very short contracts increase, and those "employed for 3 to 6 months do not have maternity leave. Even when they sign the labour contract for 1 to 3 years, they are asked to promise not to be pregnant."²³²

The second factor explaining alleged job or wage gains is that "the best-performing enterprises were transformed first,"²³³ where 'reform' was less likely to adversely affect workers. According to CIEM, the profitability of most SOEs "clusters slightly above zero," but "this is emphatically not the case" for SOEs that have been equitised. Most were highly profitable, many were in the red "and only a handful were in the usual range of zero to two percent."²³⁴

Vu Quoc Ngu writes that in equitised enterprises "there had been no lay-offs" or that "the average number of workers had increased by 13 percent," yet he also says at issue is "how to deal with" the 40 percent of workers he considers "surplus."²³⁵ The World Bank says the full program would lead to at least 250,000 "job separations" by 2005.²³⁶

Decree 64 in 2002 made it no longer compulsory to re-employ all employees after equitisation. As workers were resisting, a generous compensation fund was established. Glass company deputy director Tran Van Viet says retrenched workers get 40-70 million dong ($US 2,500 - 4,500). At the time, this meant 25-45 months average salary of 1.5 million dong ($US100) a month, or 42-75 months minimum salary of 900,000 dong

²³² Truong Thi Minh Sam, op cit.
²³⁴ Central Institute for Economic Management (CIEM), 2002, op cit, p. 33.
²³⁶ World Bank/ADB, 2002, op cit, pp. 28, 71. These workers would experience "a welfare loss."
($US60). Alternatively, they can retire early on a pension worth 75 percent of salary. The worker also receives one month extra salary for each year's work. 237

Some 74 percent of redundancies in equitisation are 'voluntary'. 238 Viet says workers are not forced to leave, but offered money to induce them (his wife left under this scheme). They leave "if can do something useful with the money." 239 However, some researchers believe this is not only due to the benefits of the fund, but because many workers "cannot adapt to the new environment of the workplace" after equitisation. 240

A survey of 2600 redundant workers found they made good use of their compensation, could reintegrate into the labour market, and two thirds said their standard of living had not gone down. 241 However, another survey found the compensation package only gave "temporary relief," and policies to help redundant workers re-integrate into the labour market were "very weak". 242 Most are middle-aged, had worked for the firm a long time, and three quarters were women, mostly unskilled, as equitised firms lay off the least skilled first. 243

Of only 73 per cent of redundant workers who had found employment, 59 percent of men and 70 percent of women went into the informal sector, where "they suffer instability, low wages and insecurity" and long hours. 244 They lose the "very favourable policies" such as social welfare, holidays, maternity leave, social and health insurance...
“they had in SOEs,” and also the social effects of “worker participation in their trade union, youth union and women’s union in the company.”

Due to this reality of equitisation, it is being held up by opposition from various quarters, and often reported to be “behind schedule.” Opposition comes not only from socialist-orienters in the CPV, often stereotyped as “conservatives” opposed to “reform”, or from SOE managers who some claim, incongruously, would lose privileged positions. Resistance from ‘below’, from workers, trade unions and the VGCL, is a major factor.

Duc says “workers worry about equitisation, about losing their jobs. In SOEs, they feel they have more power, and there is not much conflict between management and workers, but with equitisation, they come to blows.”

The World Bank complained equitisation was “difficult to implement without the consent of the director and a majority of the workforce.” The 2002 decree dealt with this. Binh explains “when SOEs could voluntarily choose equitisation, workers had a big say. But now when the government directs a firm to equitise, it has to.” Duc adds that if a director even slows the process, the state can sack him/her.

A growing conflict between organised labour, led by the Vietnam National Confederation of Labour (VGCL), and the equitising and equitised enterprises, is emerging. According to Binh, “as international integration, increased marketisation and equitisation of SOEs proceeds, there are increasing conflicts between managers and workers.”

245 Nguyen Lan Huong, ‘Redundant Workers in SOE Equitisation,’ op cit.
247 An example is the assessment of the Economist Intelligence Unit regarding equitisation that “there is a high risk that its progress will be hampered by recalcitrant managers and vested interests,” EIU, Outlook for 2004-05: Policy Trends, Sep 2004. From the left, Kolko (1997) asserted that SOE bosses opposed equitisation because it “threatens” the de facto “ownership” they already have (p. 60), though later notes that equitisation would “quickly result in managerial takeovers” (p. 61). In footnotes he notes workers were also opposed, “because a large part of SOE profits ... go to them in welfare payments” (p. 173).
248 Dung Du Duc, op cit. A survey showed SOE workers “are afraid of losing the benefits they have enjoyed in state enterprises, such as having enough work, a stable income or high salary, and an improved standard of living.” Boothroyd, P, and Pham Xuan Nam, Socioeconomic Renovation In Viet Nam: The Origin, Evolution, and Impact of Doi Moi, IDRC/ISEAS 2000, pp. 169-70.
250 Chau Nhat Binh, International Department, VGCL, Interview, June 2005, Hanoi.
251 Dung Du Duc, Interview, op cit.
Binh says the equitised firms “are curtailing the management role of trade unions and party cells. The workers’ congress is not abolished, but equitisation creates a new management structure in which the share-holders’ meeting makes all the decisions.” He adds “workers are bought off by the idea they are shareholders, that they do not need a workers’ congress. However, they control few shares and eventually sell them off, ending up with the ‘immature rice.’”

Phuc says this makes it “difficult for the union to get the company to abide by grass roots democracy.” The VGCL “is trying to give guidance to the state to issue regulations allowing workers to still hold a kind of workers’ congress’, but this would only discuss workers’ own issues, and even on these issues would have little power.”

Binh says equitisation also poses the question of unions in management. “Many workers want the unions right out of management, to clarify their role as defenders of workers, lest they start advocating on behalf of an even more market-driven management.”

The deputy chair of the VGCL in Ho Chi Minh City also says union and worker participation in management is being undermined by equitisation:

In the past workers could become managers – there were many notable examples … Post-equitisation the role of unions is unclear. The owners of production are now the controllers of production and workers are wage labourers. … (now) we really only supervise management and it is an illusion to talk of management of workers. This is undermining the concept of the workers state.

This is reflected in almost daily discussion in the VGCL’s mouthpiece *Lao Dong*. Articles denounce loss of union power and violations of workers’ rights in equitised firms in very forthright terms, with headings claiming unions are reduced to “functionlessness,” that workers’ rights are “forgotten” and so on. The workers’
congress “completely disappears.” With equitisation, “the position of workers has changed – the working relations are relations between bosses and workers for hire.”

In addition, *Lao Dong* reports favourably on strikes and struggles in equitised enterprises (as it does on strikes at foreign or private firms). The VGCL claims that 8 percent of strikes are in state firms. Following are a number of examples.

The first is a prolonged strike in October 2005 by over 400 workers at Minh Khai, a state textile company undergoing equitisation. Under the heading ‘The rights of workers are violated’, with a large photo of the striking workers, *Lao Dong* fully supports their grievances, which include harsh conditions, low salaries, no bonuses, no leave, and “no grass-roots democracy.” Furthermore, *Lao Dong* accuses the factory trade union of collaborating with management, and asks ‘Where is the grass-roots trade union?’ The
draft unified enterprise law: Forgets the rights of workers!'), October 26, 2005; Quang Chinh, Tran Nuong, ‘Quyen loi nguoi lao dong bi vi pham’ (‘The rights of workers are being violated’), October 27, 2005; Quang Chinh, ‘Tong LDDLDVN loi thao ve ‘Co phan hoa doanh nghiep nha nuoc va hoat dong cong doan’: Cong doan phai tham gia HDQT’ (‘VGCL workshop on ‘Equitisation of state enterprises and the activities of trade unions: The trade union should participate in the Management Board’), November 11, 2005; Quang Chinh, ‘Hau co phan hoa doanh nghiep nha nuoc: Vai tro cong doan dan bi vo hieu hoa’ (‘Post-equitisation of state enterprises: The role of the trade unions gradually becomes functionless’), November 21, 2005; Quang Chinh – Dang Tien, ‘Hau’ co phan hoa cac doanh nghiep nha nuoc: Vai tro cong doan dan bi vo hieu hoa’ (‘Post-equitisation of state enterprises: The role of the trade union gradually fades away’), February 23, 2006; Huong – Ngoc, ‘Cty co phan Que Huong (Hai Duong): ‘Quen’ quy loi nguoi lao dong’ (Que Huong joint-stock company (Hai Duong): ‘Forgets’ the rights of the workers’), March 3, 2006. According to Le Thi Ngoc Lan, union head of Cau Giat Commerce Joint Stock Company, “unions in joint stock companies no longer have control over management. All decisions are made by the president of the board or the stock holders. The trade union must protect workers rights, but it is now harder to do so.” Do Dang Tung, chair of the union for Ha Noi Investment and Construction Company No 2, said “regulations state that trade unions have the right and responsibility to review and enforce the law, but they have little right to influence the management board in a joint stock company,” “Trade unions lose power in joint stock companies’, *Viet Nam News*, February 25, 2005.


260 ‘Violations of Labour Law on the rise’, *Viet Nam News*, May 25, 2005. The VGCL figures show a total of 879 strikes between January 1995 and May 2005, of which 565 (65 percent) were in foreign-invested enterprises, 237 (27 per cent) in private enterprises, and 77 (or 8 per cent) at state-owned companies.

261 Thu Huong, Dang Tien, ‘Cong nhan cong ty det Minh Khai (ha Noi) dinh cong: Quyen loi lao dong bi vi pham’ (‘Workers at textile company Minh Khai (Hanoi) on strike: The rights of the workers are violated’), *Lao Dong*, October 21, 2005.

262 Thu Huong, Dang Tien, ‘Cong nhan cong ty det Minh Khai (ha Noi) dinh cong: Cong doan co so dung o dau’ (‘Workers at textile company Minh Khai (Hanoi) on strike: Where is the grass-roots trade union?’), *Lao Dong*, October 22, 2005. Chau Nhat Binh from the VGCL, who had been visiting the strike site, said both the state company management and the “pocket union” were “disgusting,” Interview, October 2005.
fact that the leadership of the party-controlled trade union movement stands with workers against a local union in league with an anti-worker SOE management undermines concepts of ‘new class’ formation within a ‘party-state.’

In another case, Lao Dong reports on a ‘coup de dat’ by a minority of shareholders in the process of equitising the state-owned hotel ‘Huu Nghi’. The local People’s Committee ruled in favour of the new HDQT, and the police were sent to seize the company seal from the old HDQT. However, the old HDQT, with a majority of worker-shareholders, resisted and the police could not take it. The article criticizes the actions of the People’s Committee and the police, and reports that the old HDQT is “suing” the police. Such ‘coup de dats’ by powerful private share-holders, who illegally seize control from worker-shareholders, is reportedly common.

In the third case, Lao Dong reports a similar situation in a former state concrete and construction materials company equitised in 2003. Workers discovered that management had colluded with outside interests to seize a larger part of company shares than they were entitled to, disenfranchising the majority. The court ruled in favour of the workers and declared the new management illegal. However, the People’s Committee said the company had to keep working until the problem was solved. When in 2005 the court demanded the new management hand the company seal over to the worker-shareholders, the deputy director took the seal home. For four months, no business could take place, workers were out of work, and the unused machinery was “paralysed.” Lao Dong cheered on dozens of workers who led a “sit-in” protest to the Peoples Committee.

In a final example, Lao Dong supports a new female member of the party unit in the state-foreign joint-venture Cong Ty Stanley, who exposes the misuse of trade union funds by the union’s accountant, when she comes under attack from the head of the party.

263 Cong Thang, ‘“Hinh su hoa” tranh chap cty co phan Huu Nghi’ (‘Conflict in share company Huu Nghi “criminalised”’), Lao Dong November 5 2005.
264 Chau Nhat Binh, International Department, VGCL, Interview May 2003.
265 Cong Thang, ‘Cty san xuat betong vat tu xay dung Ha Tay: Cong nhan “an va” UBND tinh’ (‘Concrete and construction materials company Ha Tay: Workers “stage sit-down” at province People’s Committee’), Lao Dong, November 26, 2005.
unit, who is also the company deputy director, who sides with the corrupt union official.\textsuperscript{266}

In these examples, the party-led VGCL has no problem supporting the actions of workers against state company management, roting shareholders, People’s Committees, the police, “bad apples” in the party unit, and “pocket unions.” In the last one, the VGCL is siding with a newcomer against a stereotype corrupt clique involving head officials of the SOE, the party unit and the official union.

Given that equitisation is official CPV policy, this boldness by \textit{Lao Dong} and the VGCL indicates a form of social opposition tolerated within the CPV structures – or perhaps this type of ‘pluralism’ is fundamental to the Vietnamese political system.

This is reflected more broadly in society. According Sam and Hai, for “the first time ever there is such strong criticism of equitisation in a national conference as well as in the mass media ... we are witnessing an emerging new thinking which criticizes evil aspects of (its) implementation, and even challenges the very idea of equitisation.”\textsuperscript{267}

This ongoing resistance, even from inside the ‘party-state’, can partly be explained by the ideological inheritance of the revolution. According to Sam and Hai the war:

\begin{quote}
left a great ideological impact on Vietnam, especially among the two million party members as a big force at the grassroots level (not the elites), and millions of other ordinary veterans ... this is a kind of civil society which has its own voice and influence from the local to the central level. They are working in equitised SOEs where they are suffering from worsened conditions or even made redundant ... the party’s intellectual old guards are forming a true civil society organisation to fight against corruption in the process of equitisation ... These voices could hamper adventurous steps of the National Assembly meetings.\textsuperscript{268}
\end{quote}

Aside from the mass base of former veterans, they also discuss “the party’s intellectual old guards.” Much discourse on Vietnamese politics sees such people as “conservatives”

\textsuperscript{266} Do Van, ‘Don doc cua ong Pho Tong giam doc’ (‘Extraordinary blow by deputy general director’), \textit{Lao Dong}, November 12, 2005.


\textsuperscript{268} Truong Thi Minh Sam and Bui Duc Hai, op cit.
out of touch with "reality." This analysis sees them as a "civil society" with a mass base committed to the ideals of socialist orientation, due to the very reality of growing exploitation and injustice created by the market and privatisation.269

However, the corruption of the process is also leading to an opposite neo-liberal critique, that the problem is "insider" privatisation. To avoid "tricks and frauds," it is necessary to move to full privatisation, with large private holdings, "strategic investors," and more control by the stock exchange. In 2004, deputy prime minister Nguyen Tan Dung said "the buying and selling of shares of equitised SOEs must be implemented openly in the market. We must stop "closed equitisation" in each SOE."270

This is not only because this is "more honest," but also because having large investors who aim to "get rich" is good for a company:

> We should sell the shares to rich investors who have good knowledge of doing business and the aspiration to get rich. In this way, the government can collect a large amount of money, enterprises have new and strong motives to develop.271

Moreover, when the state and the workers continue to maintain large shares, the enterprises still have the incentive problems allegedly endemic to socialist ownership:

> If the state keeps a majority of shares and other owners are only small shareholders, then ... equitised SOEs cannot get rid of the situation of a family with no head, a company with no owner. But if the state keeps only a minority of shares and other owners are big, strategic investors, the company will escape from the situation ... because it has its true owner with new and strong motives.272

These views represent the vanguard of the neo-liberal drive to junk any pretense of a 'social' equitisation. In some recent large equitisations, the new concept has taken hold. The main state-owned milk company, Vinamilk, was originally equitised with 80 percent

269 At a national conference on SOE restructuring on 15-16 March 2004, the assessment was made that equitisation was resulting in "the robbery of state assets, and ownership is moving into the hands of management, which leads to social discontent ... (it has) developed with tricks and frauds," ibid.
state stakes, 15 percent worker and farmer-owned stakes, and 5 percent owned by outsiders, but in 2005, it reduced the state-owned stake to 60 percent (aiming to go down to 51 percent), with nearly all the difference acquired by foreign capital.\(^{273}\)

Nevertheless, the process remains behind schedule.\(^{274}\) The fact that it is being held up not only by elite forces – the socialist oriented wing of the CPV – but also by SOE workers, trade unions and the VGCL, and possibly by a social base of former revolutionaries – is consistent with other events in recent Vietnamese history, outlined in chapter 3.

Because the more difficult cases remain in state hands with "old management structures," the current battles are likely just the beginning of a phenomenon that will escalate as equitisation and global integration dig deeper. The end result is not pre-ordained.

Conclusion

Despite various changes, the SOE management structure still combines roles for various actors, representing different forces in society. This includes a strong role for workers, traditionally seen as partial owners and controllers of state enterprises. Such a "complex" structure, containing checks and balances of interests, is more democratic than that advocated by neo-liberals. It represents a degree of social control over social production.

Therefore it is a constant target of advocates of SOE "reform," who believe SOEs need more autonomy and profit-orientation, and directors need greater powers to make business decisions without "political" (not purely commercial) interference.

The first changes after Doi Moi strengthened the director in relation to the state, the party unit, the trade union and the workers' congress. This reflected the relative autonomy granted to SOEs in the new commercial environment.

However, the party and state moved to re-impose a degree of control over SOEs and their managers. From the other side, the initial weakening of the power of SOE workers and their organisations in relation to the director was accentuated by the economic collapse at the end of the 1980s. However, the powerful SOE-led economic recovery in

\(^{273}\) Foreign investors acquire most Vinamilk shares', \textit{VDC Business Newsletter}, February 18 2005.

\(^{274}\) The Economist Intelligence Unit reported in April 2005 that 2,242 SOEs had been equitised, but they only accounted for 8 percent of SOE capital, EIU, \textit{Country Report - Main report}: April 1st 2005.
the 1990s often gave workers confidence to reassert their strength despite the formal changes.

Nevertheless, unclarity in their new role allowed SOE bosses to ride roughshod over workers, while engaging in large-scale asset theft. The mini-downturn of the late 1990s, a side-effect of the crisis of Asian capitalism, again weakened workers’ position.

At this point, in 1999, the state moved to upgrade the formal position of workers with a grass-roots democracy decree for state enterprises, reaffirming the central role of the workers’ congress and clarifying a wide range of decision-making powers for workers.

Equitisation aims at undermining this traditional management structure, more fully excluding the state, party, unions, mass organisations and workers’ congresses from management, so that ‘SOEs’ can be purely profit-oriented. While earlier versions emphasised workers’ shares, later versions stress large private investors, and claim too many state or workers’ shares maintain “old management structures.” Even where workers have a majority of shares, they sell them out to managers. As they become more profit-oriented, they attack workers’ traditional role, and a conflict with organised labour is developing.

The struggles taking place in the context of increased market pressure on state enterprises are not simply rank and file workers against the “party-state;” rather, working class and social opposition is also expressed via elements of the state and party, reflecting the origins of the ruling polity and the ideological basis of its continuing legitimacy.

Many believe the slowness of equitisation and the stubbornness of “old” SOE structures in is due to resistance to “reform” from self-seeking officials, in enterprises or state bodies, with “entrenched interests.” However, there may also be many self-seekers in management who have “entrenched interests” precisely in equitisation; and there are a great many others, both workers and in society at large, that have legitimate interests in the present structure, so its resilience in the face of the “reform” juggernaut can be looked upon in a different light.
Rather, the insistence by the socialist-oriented wing of the party on a leading role for the state sector reflects the real presence within society of the positive, if contradictory, role of that sector within the socio-economy, and of the social classes which benefit from its continued presence and traditional structure, in some form.

While this chapter demonstrates that elements of workers’ control exist in SOEs, and that social limits on managerial power can hold up or turn back the actions of corrupt or anti-worker managers, what is less clear is how this helps society as a whole. ‘Socialism’ and ‘workers’ control’ may have similar meanings in developed countries where the people are mostly workers. But in a country where most of the population are small peasants, and the semi-proletarian and petty-trader urban masses, with less secure conditions than SOE workers, socialism – wealth distribution to society – is not guaranteed by workers’ control of the state sector.

There may even be situations where the strength of SOE workers is converted into a worker-management alliance, ensuring benefits, security and profit-sharing to relatively privileged workers, but restricting the flow of surplus from socially-owned enterprises to society. Lenin, confronting such cases in post-revolution Russia, called this collective capitalism.275 This can occur both via worker-management collaboration in illegal diversion of SOE wealth, or simply the legal accumulation of SOE surpluses by the enterprise and its workers.276 The following chapter will focus on the social role of state enterprises.

275 According to Lenin, “the task of socialism is to make all the means of production the property of the whole people, not to have the ships handed over to the ship workers and the banks handed over to the bank workers,” Lenin, V.I., ‘Basic Proposition on Economic and Especially on Banking Policy’, April 1918, Collected Works, Volume 27. A ‘syndicalist’ kind of ‘workers’ ownership’ could lead to workers ignoring the welfare of other classes, for example, “... we hear complaints that warehouses filled with goods are under lock and key while the peasants are demanding, and justly demanding, commodity exchange, and are refusing to surrender grain in exchange for devaluated paper notes ...” Lenin, V.I., Speech To Second All-Russia Congress Of Economic Councils, December 25, 1918, Collected Works, Volume 28, pp. 375-381.

Chapter 6
The State Enterprise As Social Worker

‘You can’t win with SOEs – either they are accused of ripping everyone off and keeping big profits, or of being inefficient and not making profits, with the implication that someone has their hand in the till’

- A staff member of the World Bank’s Hanoi office with a ‘dissident’ view, 2005

The previous two chapters dealt, firstly, with the critique that state enterprises are inherently “inefficient”, and secondly with the critique that whatever efficiency exists is due to “exploitation” of workers, making SOEs little different from capitalist firms. However, demonstrating any socialist role of the state economy needs to go further.1 Economic efficiency is not irrelevant, to be sure. If the state sector were chronically inefficient, it would have no financial capacity to contribute anything socially, and would take resources from other areas. As shown in Chapter 4, SOE taxes till recently covered some 50 per cent of the state budget, far higher than the private sector’s; if inefficient as claimed, they would be in no position to play such a crucial social role.

However, some analysts with a more nuanced view on SOE inefficiency rightly question the methods by which many SOEs become profitable, claiming the commercialised state sector plays a negative social role. Gainsborough shows that SOEs in Ho Chi Minh City dominate economic growth there and are commercially successful, yet play no socially ‘developmentalist’ role, engaging in asset-stripping, corruption, patronage, speculation, and collusion with the political elite.2 Ngo Vinh Long, criticising the adverse social impacts of growth over 8 percent, claimed the state was following the same logic as private enterprise by concentrating investment in a few urban centers, creating high growth figures, but not the kind of growth needed. “Village uplift and rural

1 This chapter partially borrows its title from the article ‘The Oil Company as Social Worker’, Ellsworth, B, *New York Times*, March 11, 2004. This title refers to the way the government of Hugo Chavez has turned the state oil company from a purely commercial firm from which an elite siphoned off wealth, to a social enterprise which redistributes profits in the form of enormous social projects.

2 Gainsborough, M, *Changing Political Economy of Vietnam: The Case of Ho Chi Minh City*, Routledge Curzon, 2003, pp 3-4, 9, 11, 17-18, 21. Gainsborough’s study looked at locally-owned urban SOEs in the services area, highly exposed to the market; he did not conclude that the same applies to all kinds of SOEs.
industrialisation will be impossible unless the state tempers its ‘bigger is better’ approach and channels some of its resources to key sectors in the rural areas.”\(^3\) Such a move against market logic and “growth” would be socially beneficial.\(^4\)

Beresford highlights “effective privatisation” whereby large concentrations of capital in decentralised SOEs are “managed along very similar lines to those in a capitalist economy” making it “difficult to achieve social control over the economy.” Without democratic discussion, a “technocratic market-oriented approach (can) lead towards a new kind of dictatorship” of the market.\(^5\)

Another anti-social way to be more “efficient” is to exploit workers and slash wages and jobs, which Greenfield shows occurred in the state coal industry. However, the previous chapter demonstrated the significantly better conditions for SOE workers overall and showed that a degree of worker participation still exists.

While SOE workers are only a minority of the population, the benefits they enjoy are not irrelevant. Firstly, the extent to which SOEs pay social and health insurance to their own workers reduces the burden on the state in its program to expand health insurance to the population. Secondly, the wages and benefits in SOEs set a standard for workers in other sectors to measure what they are entitled to.

However, just as being “efficient” may be necessary but not sufficient for a socialist role, the same applies to pro-worker aspects. While workers’ participation may counterbalance management tendencies towards corruption and exploitation, it does not necessarily prevent ‘effective privatisation’. On the contrary, when workers feel like co-owners they may look after their own interests as partners with management.

\(^3\) Ngo Vinh Long, ‘A letter from Vietnam’, Challenge, Armonk, January-February 1997. Long details the negative social effects of foreign investment, such as driving small Vietnamese soft drink makers out of business and impoverishing small domestic hotels with its heavy investment in real estate, which created good growth figures but destroyed employment, without contributing to the country’s industrial base.

\(^4\) Contrast Long’s stress on social progress over very high growth with the advice of the Economist Intelligence Unit that Vietnam “will be unable to push its economic growth rate above 8 percent ... if the government does not speed up its economic reforms,” Country Report Vietnam, October 2003.

\(^5\) Beresford, M, ‘The political economy of dismantling the bureaucratic centralism and subsidy system in Vietnam’, Kevin Hewison, Richard Robison and Gary Rodan (eds), Southeast Asia in the 1990’s, Allen and Unwin, Sydney, 1993, pp. 229-232. Greenfield (1994, p. 206) singles out Beresford as an example of Left support for Doi Moi, for her claim that the market was not responsible for the abandonment of social programs in the late 1980s, but rather the already “severe fiscal crisis of the state” before Doi Moi.
Beresford believes that profit-sharing in the state sector, via welfare and bonus funds that rise as the economy expands, strengthens the “collective ethos” and the feeling that SOEs are workers’ property. However, in the context of autonomous SOE accumulation, this leads to “corporatisation” of SOEs under a worker-management partnership. SOE workers are a small segment of the population and are relatively privileged compared to those “at the bottom” who “have not participated in capital accumulation and who are largely excluded from state power: poor peasants, the unemployed and underemployed.”

Fforde and de Vylder note the potential for conflict, “well known from the old debate” about self-management, “between the desire of workers to raise their wages and the right of the formal owner (the state) to receive an adequate return,” noting the examples of Poland and Yugoslavia.

This is an important issue for socialist theory, since concepts both of ‘workers’ power’, and of solidarity with the poorer sectors, are considered elements of socialism. This contradiction is more pronounced in a poor, rural-based country where workers, particularly SOE workers, are neither the poorest nor the majority.

However, claims that SOEs have little social role are contradicted by those who complain that SOEs still have too many such roles impinging on their efficiency. Painter claims “financial profit is not the only ‘official’ objective of SOEs … objectives may include a magnitude of targets ranging from the maximisation of employment to regional policy goals … and non-commercial criteria can be imposed by bureaucratic and political fiat.” Vu Quoc Ngu complains SOEs “have not been entirely focusing on profits,” and advocates the elimination of “other social burdens,” such as those of “SOEs in remote areas where the local administration lacks resources to provide these services.” A major research into state corporations conducted by foreign consultants under the Ministry of Finance (Miyazawa project) found that SOEs “routinely have to carry out non-commercial activities”, and “cannot function effectively as profit-driven business

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entities.” The pressure “to adopt social and political objectives at the expense of commercial objectives” was claimed as a key reason for lower profit levels.¹⁰

Thus goals such as employment, regional development and providing social assistance are viewed as impediments to profit maximisation. This is an admission that lower SOE profitability is partly due to socially beneficial activities, rather than only SOE tendencies to corruption, lack of incentives or mismanagement. This is backed by several CPV interviewees who said that after tax, new investment and welfare, there is rarely much profit left, but this is not necessarily a bad thing, as it reflects SOEs’ role in producing for the common interest, which often involves big investment and low returns.¹¹

Fforde and de Vylder also claim SOE objectives were often “quite different from those of private enterprises,” particularly “in matters related to employment, new investment, accountability and so forth.” They posit this is due to conflicts of interest between the “multiplicity of agencies who represented the owner of a state enterprise,” which meant “bargaining, in which the profit motive was only one component, was still the rule.”¹²

A further critique is that such roles are counterproductive. In line with its critique of alleged SOE “monopoly pricing,” the World Bank claimed that the rice export quota and fertiliser import quota, and the preferences for SOEs in both areas, resulted in lower prices for farmers’ output and higher input costs, although the aim was to protect consumers from high rice prices, protect farmers from world market volatility, and protect SOE workers’ jobs.¹³ The Bank thus positioned itself as an advocate of poor farmers as opposed to relatively privileged urban rice consumers and SOE workers. While Beresford stresses the positive social aims of these policies; she also raised the problem that the extra profit these SOEs thereby gain would be unlikely to “be ploughed back into agriculture.”¹⁴

¹² Fforde and de Vylder, op cit, pp. 256-7.
This critique comes from opposite angles. The Bank claimed “SOEs everywhere are typically less efficient than private businesses in carrying out these activities,”\(^{15}\) so SOEs can only ever hurt the poor with their “monopoly.” That SOEs now have some autonomy is good, but it can never be enough; only unrestricted “market forces” can help the poor. For Beresford, by contrast, it is precisely the autonomy of post-Doi Moi SOEs that mitigates against social control of the state sector. Rejecting the view that a welfare state can be achieved while decimating the state sector, she claims “some degree of state ownership seems to be an essential prerequisite,” not only to avoid the dictatorship of the market, “but to maintain and legitimise public debate about the direction of economic and social development.”\(^{16}\)

This issue of SOEs and international trade in agricultural items will be dealt with in the following chapter. Meanwhile, many sections below will problematise the idea that SOE “monopoly” necessarily acts in the same way as private monopoly. As will be shown, the opposite is often the case, precisely due to a degree of social control remaining.

**Social roles of state enterprises**

This chapter will weigh up the degree to which the SOEs and their assets have been “effectively privatised.” It will show that SOEs play a wider social role, beyond that in relation to their own workers and the state budget, and there remains some form of social control over their operations, investment decisions, prices and after-tax profits. The record, however, is mixed, and “effective privatisation” appears more common in smaller and localised SOEs.\(^{17}\)

SOE social roles can be schematically divided into ‘top’, ‘middle’ and ‘lower’ levels of authority, though in reality the actual processes are much more intertwined.

At the ‘top’ level, major SOEs do not simply make autonomous market-driven decisions – investment beyond a certain amount is controlled by the state. SOEs have to take part in the production plan laid out in the 5-year socio-economic development strategy. Prices of major SOE products are not market-based; the government sets them at a level lower


\(^{16}\) Beresford, 1993, p. 232.

\(^{17}\) Though this does not mean only small amounts of money are involved, as many of these enterprises are heavily involved in the market economy, in areas of high ‘liquidity’.
than world-market prices. The state corporations are also required to take part in the Poverty Reduction and Hunger Elimination program: SOE profits and investment strategies are thus assigned to social goals.

At the 'middle level' are decisions about the implementation of these policies by the SOEs. Here many enterprises act in ways contradicting both the "commercially driven" and the "bureaucratically inefficient" discourses. The reasons are often unclear; they may be management decisions, policies pushed by the trade unions, worker congresses or mass organisations, the result of pressure by local governments or the Fatherland Front, due to a historical pressure for a state enterprise to act that way, or may result from state directives or pressures conveyed via less transparent channels.

At the 'lower level' is the issue of SOE after-tax profits – a substantial amount of which is spent on out-of-enterprise welfare. On top of building schools, health clinics, roads, and the like as part of the poverty reduction programs, there are many other funds SOEs contribute to, including the 'Day of the Poor' campaign to build housing, 'Heroic Mothers', and the Agent Orange Fund. This is connected to SOE after-tax profit distribution, in which a substantial part forms a 'Welfare Fund'. While mostly designed as welfare for SOE employees, a portion is directed to out-of-enterprise welfare.

Investment, pricing and production decisions of large SOEs

The idea that major SOEs and state corporations make entirely autonomous decisions is erroneous. According to Tran Tien Cuong, director of enterprise reform at CIEM, investment of up to 50 percent of the total asset value of the SOE can be decided by its Board of Management (BoM); for amounts over this, it must submit a proposal to the state. However, the BoM is itself appointed by the state, so even investment of under 50 percent is under some form of state control.

An SOE expert from the World Bank in Hanoi claimed the SOEs take part in the state production plan, as laid out in the party's 5-year socio-economic development strategy.

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18 Tran Tien Cuong, Director, Department of Enterprise Reform and Development, CIEM, Interview, Hanoi, September 2005. He said that in equitised firms, investment up to 50 percent of asset value can be decided by the BoM, but over that must be approved by the shareholders' meeting, not the state.
19 SOE expert, World Bank, Interview, Hanoi, October 2005. These plans have detail about what and how much of a certain product is to be produced each year etc.
Via these enterprises, the state "endeavours to make supply meet demand and stabilise the economy," seeing this as a modified form of 'planned economy'. A number of CPV interviewees agreed that SOEs must utilise their after-tax profit according to government guidelines and state priorities. If an SOE cannot justify how a large profit is spent within state-approved categories, profit can in some cases be returned to the state budget.\(^{20}\)

However, Cuong disagrees, claiming the 5-year plans are not compulsory. If the plan says 'the country will produce x tons of cement', this is only an intention, which state, private or foreign firms may contribute to; if a state cement company wants to put half its funds into real estate or hotels, it can do so. He disparaged the idea that SOEs would carry out the state plan just because the state appoints the BoM as a pre-Doi Moi idea.\(^{21}\)

However, it is difficult to reconcile Cuong's view with practice, or with continued SOE investment in areas under price control, or in low profit areas. Many SOEs do invest in hotels and other quick cash areas, but only a small part of their investment.

The confusion is exemplified by an interview with Mr. Thinh from the Tea Corporation (Vinatea). He claimed that before being transformed into a parent-subsidiary company, MARD "made the decisions about what Vinatea produced and everything," but now there is no administrative control; the state merely has the majority of shares, "a purely business relationship." However, MARD still decides on the make-up of the Management Board and appoints the director. Vinatea gives plans to MARD, "which might comment and give information about national and international trends, but the plan does not require approval, though MARD and MoF check the finances every three years."\(^{22}\)

\(^{20}\) Interviewee 1, December 2004; Interviewees 3 and 4, January 2005. This could include funds for expanding investment based on government guidelines, funds to improve conditions for workers, and donations to broader social funds.

\(^{21}\) Arguably, both experts start from a particular point of view – the World Bank emphasises the areas it believes are still not "reformed" enough, while the CIEM expert may be eager to show how dissimilar Vietnam is to its pre-reform past. However, this Bank expert was critical of the Bank's approach; while he criticised many aspects of state sector functioning, he also commented that "it works," and that as such a large part of the economy, can hardly be discounted as an element of the country's success. Pointing out that Vietnam defies market principles by trying to produce all its own major products, he remarked "I think it seems a very sensible way to run an economy." He stressed that was not the Bank's view, adding "the most successful economies at present, China, Vietnam and India, have ignored the World Bank."

\(^{22}\) Nguyen Khach Thinh, Vietnam Tea Corporation, Interview, Hanoi, July 2005.
However, despite this “pure business relationship,” Thinh put job creation and helping remote areas as Vinatea’s central objectives alongside profit-making – of which there is very little – and claimed investment in remote uplands, where most tea is grown, would not happen if profit were the only motive.

Moreover, the government has a plan of where to plant tea, and Vinatea chooses sites within that plan. Vinatea engages in a some non-tea activities, from which Thinh says most turnover comes, but the profit made helps support tea investment in poor areas. It is unclear why an independent company does this if not due to some state or social direction or tradition.

The prices of a number of major products in SOE dominated areas – oil, coal, cement, fertiliser and steel – are not market-based, but set by the state lower than the world-market prices, regardless of rising prices of imported inputs. This creates a flow-on effect throughout the economy. Private firms do not have to abide by these price restrictions, but given SOE domination in these areas, their ability to raise prices is restricted.

In these areas SOEs do have a partial “monopoly.” The rhetoric that SOE “monopoly” is bad for consumers, who would benefit from competition, is based on the concept that if a private company has monopoly, it will keep prices high to make more profit, and only lower them to compete. If major state companies with semi-monopoly keep prices lower, this indicates politico-social rather than market-driven price management.

In May 2004, the coal, oil, electricity, fertiliser and cement SOEs declared they would not raise prices for their products, despite a dramatic rise in the price of imported oil, big rises in the cost of imported fertiliser and inputs for cement, and demands by foreign investors in the power industry for price rises. The Vietnam Petroleum Import and Export Company (Petrolimex) was losing an average of 600 dong per litre of imported fuel, but pledged that “the local fuel market will remain stable regardless of world prices.”23 Among 170 countries, 140 have higher fuel prices than Vietnam, including all

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its neighbours.\textsuperscript{24} Even when oil prices were upped in 2005, the government ordered the electricity, coal, cement, steel and fertiliser SOEs to keep their prices frozen and bear the increased cost.\textsuperscript{25}

In 2005, the government told the Vietnam Cement Corporation to “reduce profits” while increasing production to cover demand, including in remote areas, at the same price it had sold at for over 5 years, despite sharp price increases for imported oil and other inputs.\textsuperscript{26} It would be difficult to conceive of a private firm deciding to reduce profits to better cover social demand in poor areas.\textsuperscript{27}

Referring to the 2005 competition law, whereby companies can be fined for undercutting competitors, a report said that the Southern Steel Corporation did not know how to avoid fines: state-owned companies “sometimes have to sell products below cost to stabilise market prices at the request of the government. Although they do not have the intention of undercutting competitors, their pricing will cause harm to every player in the industry. Many other State-owned companies have the same dilemma, especially the coal, cement, and telecommunications sectors.”\textsuperscript{28} This reveals how far the real dilemmas of SOEs are from the concept of “monopoly pricing;” it is the socially-controlled lower price of SOE “monopoly” steel that may damage the profits of private competitors.

In fact, some economists claim the low prices impinge on ‘reform’. “As the government ordered major state-owned corporations to keep their product prices artificially low, products such as electricity, coal, cement, steel, and transportation, people are concerned that this would be detrimental to the reform process to be competitive later on.”\textsuperscript{29}

This pricing mechanism is a major social contribution that defies profit orientation. Such state-directed decision making also applies to large-scale buying of crops at state-set


\textsuperscript{25} Nguyen Van Cam, ‘State lowers fuel subsidy’, \textit{Viet Nam News}, April 4, 2005.


\textsuperscript{27} This will be elaborated on below in Chapter 8.

\textsuperscript{28} Nguyen Van Cam, ‘New law could land firms in hot water’, \textit{Viet Nam News}, May 16, 2005

\textsuperscript{29} ‘Vietnam reaffirms economic growth target of 8.5% this year’, \textit{Asia Pulse}, June 16, 2005 (from VNA). “People” is a euphemism for “economists,” itself a euphemism for “rational economists we agree with.”
prices to maintain farmers’ incomes at the expense of profits, for example when the state directs its rice corporations to buy up crops at above-market prices when world prices crash. This is another ‘top-down’ pricing policy that the enterprises often do not like.30

**SOE ‘public service’ roles and directed subsidies**

Before 2003, SOEs were divided into business and public service SOEs, the latter including low-profit areas which had to show a social result rather than a profit. According to Cuong, a 2003 law abolished this division. Now all SOEs are businesses, but certain activities are specified as market-based, while others are low profit areas that the private sector “cannot do,” or involve state subsidies to poor communities directed through the SOEs, which they deliver as part of their public service role.31

For example, “SOEs must produce iodised salt for low profit,” because salt farmers are poor and the Salt Corporation is bound to pay better prices to farmers than private processors, “and transport it to the mountains at a low price,” which is a major role of the company as part of the state’s national program against goiter.32 The government subsidises the transport costs. Provincial fertiliser SOEs likewise get subsidies to transport fertiliser to remote areas, and to store fertiliser “for the stabilisation fund.”33

Since the salt and fertiliser SOEs are passing on subsidies provided by the state, they are arguably not doing it for free. However, the SOEs also gain little by delivering state-subsidised goods to remote areas. In addition, some fertiliser SOEs add their own subsidies to those provided by the state.34

In similar vein, the Gia Lai People’s Committee announced 3 billion dong ($195,000) in agricultural equipment subsidies for ethnic minority people, reducing prices by 30-50

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30 This will be elaborated on in Chapter 7. Thin from the Tea Corporation claimed that “several years ago, Vinatea couldn’t export, due to a glut on the world market, so it got a bank loan to buy up and store all the farmers’ tea and sell it at a later date.” The Cotton Corporation made a similar claim about a time world cotton prices crashed several years ago. Neither company gave specific details.

31 However, he reported that he visited enterprises to be equitised in Pho Tho, and his team “found it difficult to separate market and social roles.”

32 Nguyen Ngoc Thu, Salt Corporation, Member of HDQT and CPV cell, Interview, Hanoi, December 2005.

33 Bui Van Hung, ‘Rural Diversification’, in Beresford, M and Tran, N.A (Eds), *Reaching for the Dream: Challenges of sustainable development in Vietnam*, NIAS, 2004, pp. 204-5. In other words, these subsidies directly lower the price of fertiliser for poor farmers, as will be discussed in more detail in the next chapter.

34 This will be explored in the next chapter; these decisions appear to be made by the enterprises.
percent. Of the 700 million dong in 2003, 400 million came from the budget, "and the rest from state-owned equipment manufacturers to supply agricultural equipment."\(^{35}\)

A large state cement plant keeps its profits low by selling 60 percent of its products at a 20 percent discount to trading companies in the same corporation, who sell cement to the poor central highlands and northern mountains at discounted prices.\(^{36}\)

Finally, some SOEs noted quite specific public service roles. Thinh from Vinataea claimed that when flood waters rise in the Red River, Vinataea has to send labour to help with the dykes and relief work.

**SOEs and the prices of essential services**

The other area where SOEs have an effective price monopoly is in basic services where again the state keeps prices lower than market prices.

According to critics, the low state-set water price means that "investing in projects for water supply appears unattractive in terms of the amount of profits to be made."\(^{37}\) For example, a project involving the state-owned Water Supply Company (WSC) and the France-based, Lyonaise des Eaux "fell through because the partners could not agree on ... the price at which water was to be sold."\(^{38}\) Lyonaise wanted to charge 40 cents per cubic metre of water, compared to the current price of 11 cents. Other foreign companies offered to take over, but the Ho Chi Minh City People's Committee rejected their proposals due to the high prices they wanted;\(^{39}\) there were also "public protests" against the low buying prices the companies were offering.\(^{40}\) The government then restricted the project to domestic investors, but only a state company, Construction Corporation 1, was willing to take it on at state-controlled prices.\(^{41}\)

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\(^{36}\) See chapter on cement for details.


\(^{40}\) Tran Dinh Thanh Lam, op cit.

\(^{41}\) Duong Lien, op cit. The effects of water privatisation can be judged by the Bolivian experience. The water system in a large city was sold in 1999 to Bechtel, under World Bank threats to withhold debt relief and development assistance. Bechtel imposed huge price hikes. "Families living on the local minimum wage of $60 per month were billed up to 25 percent of their monthly income," sparking massive protests.
One common complaint is SOEs’ alleged advantage in gaining credit. One of the biggest consumers of credit is Electricity of Vietnam (EVN). As a World Bank representative explained, while “banks are officially not allowed to lend so much to one creditor, EVN goes to the government, which agrees.” However, he concedes, “this is sensible lending.” Electricity production is expanding at 16-17 percent per annum, which for an economy growing at 7 percent and trying to connect poorer regions, “is a very good rate.”

According to the World Bank, access of rural households to the electricity grid rose from 50.7 percent in 1996 to 90.7 percent in 2005.\(^{42}\) By 2006, 93.3 percent of rural households had access to electricity, and 99 percent of communes were connected to the grid.\(^{43}\) This puts Vietnam well ahead of many countries with higher per capita GDP, including the Philippines, Indonesia, Sri Lanka and India, achieved before any major foreign investment into the sector.\(^{44}\)

SOE domination also keeps prices low. Prices for business have been “relatively more expensive compared to that in almost all ASEAN countries” whereas “the consumer electricity price has been cheaper.” In Vietnam, “the consumer electricity price has been compensated” for by the business price, whereas “the practice in a number of countries” is for the business price to be “compensated for by the consumer price.”\(^{45}\)

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\(^{42}\) World Bank, *Reliable Electricity Sparks Change in Rural Vietnam*, http://go.worldbank.org/R4KJDL2BA0.


\(^{44}\) In 2001, when access to the grid stood at 77 percent, it was already well ahead of the richer Philippines (54%), Indonesia (53.4%), Sri Lanka (62%) and India (43%), and of countries of a similar income level, eg Pakistan (52.9%) and Bangladesh (31%). The only Asian developing countries surpassing Vietnam were Thailand (98%) and Malaysia (90%), Karaki, S, *The “Energy Access” Study*, Energy Research Group, American University of Beirut, Presented to Global Network on Energy for Sustainable Development, http://webfea-lb.fea.aub.edu.lb/fea/research/erg/web/GNESD%20Energy%20Access.pdf, January 25, 2005. Nearly all of Thailand’s increase in grid access, from 19 to 91 percent between 1978 and 1991, took place before power generation was opened to the private sector; since then transmission remains state-owned, Ram M. Shrestha, I S. Kumar, Sudhir Sharma and Monaliza J. Todoc, *Institutional Reforms and Electricity Access: Lessons from Bangladesh and Thailand*, School of Environment, Resources and Development, Asian Institute of Technology, http://www.afrepren.org/project/gnesd/esdsi/ait.pdf. Today 98% of urban and 97% of rural Thais have electricity access, compared to 98% of urban and 93% of rural Vietnamese.

This results in profits for EVN of under 3 per cent, "making it an unattractive gamble in
the eyes of both domestic and foreign investors."\(^{46}\) Therefore, foreign investors and
lending agencies demand higher prices and the reversal of this "irrational" preference for
consumers. The government agreed in 1998 to World Bank and Asian Development
Bank demands for price increases of 68.5 percent by 2001, \(^{47}\) but in 2001 prices for
consumers and local enterprises were raised only 13 percent.\(^{48}\)

Pressure stepped up in 2005. Foreign lenders demanded EVN "hike electricity prices to
pay for some US$2.6 billion in investment loans" and the ADB recommended rises "to
ensure its long-term financial health."\(^{49}\) The dramatic growth of industry is pushing
EVN’s demand for more investment in power stations, making it more vulnerable to
pressure for price rises. Foreign investment in power "picked up significantly" in 2005-6
"after Hanoi announced plans to gradually liberalise the sector and raise retail prices by
nearly 9 percent to around 5.4 U.S. cents per kilowatt hour"\(^{50}\) (though this was still well
below what the lenders had demanded be implemented in 2001). Truong Chi Trung,
Deputy Finance Minister, explained "foreign investors had been turned away" from
power generation "because of low returns." He said electricity would be fully liberalised
by allowing prices "to be based on the demand-supply mechanism of the market."\(^{51}\)

EVN maintains a monopoly on power transmission and higher level distribution, while at
the direct service end, private enterprises or cooperatives take part in distribution, the
government setting a ceiling price. The pressures created by big investors in power
production for price rises are a dilemma for a state company with a social role. On one

\(^{46}\) ‘EVN ordered to ensure 17% growth’, VNECONOMY, March 12, 2007,

\(^{47}\) ‘Plug pulled on electricity price hike decision date’, Vietnam Investment Review, May 22-June 7 2002

this ‘globalisation’ demand for higher prices to entice investors contradicts another ‘globalisation’ demand
for cheaper services for industry, foreign invested industries were excluded from the increase.

\(^{49}\) ‘EVN considers lifting power costs due to rising input prices’, VDC Business Newsletter, January 12
2005.

\(^{50}\) ‘Vietnam plans 74 new power plants to meet demand’, Reuters, March 15, 2006.

power plant, invested in by Finnish company Wartsila and EVN, fell victim to the foreign firm wanting
higher power prices. Both companies demanded release from their 20-year contract, signed in 1998.
Wartsila pushed for a price of 7.38 US cents per kWh over the first three years and 4.58 cents for the next
17 years, while EVN would only accept 4.09 cents for the entire duration, ‘EVN, Finnish partner want out
hand, investment in joint ventures means EVN can use this extra income “to invest heavily in our public service obligations – that is, power supply in rural areas.”

However, if 100 percent foreign power companies compete with EVN, they will not have any such “public obligations.” According to EVN General Director Dao Van Hung, “these investors sell electricity to EVN and EVN resells it to rural areas. While EVN has to sell electricity to rural areas at low prices, the Government forces us to buy electricity from these investors at higher prices.”

Vietnam’s success with electricity is matched by its extension of the public telephone network, being one of ten countries with the fastest growth in telephone subscribers. By 2006, 94.4 percent of communes had public telephone access. Some 11.7 million new subscribers were registered in 2006 (though mobile phone users accounted for 68.8 percent of this), projected to rise to 38 million, or 43 units per 100 residents, in 2007. By 2010 the government aims for all communes to have public phone services.

This success of the state-owned public network is being credited to the liberalisation of telephone services, including private sector entry. Pham Hoang Ha from CIEM says the state plans to raise non-state investment to 50 percent by 2010, claiming “the effect of competition on prices is evidenced by what has happened since telecommunications was opened to a number of players, even if other state companies.” However, these price drops are in ‘higher end’ services; reductions in 2002 “apply to international phone calls, package circuit data switches, frame relays, international channel hire, indirect Internet access, mobile network connection and nationwide pager services” – but not local calls.

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56 ‘Vietnams phone and Internet subscriptions to surge this year’, *Xinhua General News Service*, January 23, 2007.
58 Pham Hoang Ha, Central Institute of Economic Planning, Interview, Hanoi, September 2005.
However, the cost of standard fixed phone calls, which are entirely controlled by VNPT, are very low by world standards,⁶⁰ in contrast with the business related rates, which were previously high by world standards in order to cross-subsidise. Yet VNPT has still managed to spread telephone service to much of the country with this low profit.

Ha explained "it is the state’s social obligation" to spread telephone and electricity to the poor. This is paid for via a ‘universal service fund’, to which all enterprises in the sector must contribute, but VNPT is assigned to carry out the work.

However, he claims “we don’t have the data to know who would do the job best; perhaps a private company could do the social obligations just as well or better, and make calls cheaper, with less cost to the government.” However, given the reality that the state has been successful, and that a private enterprise would put more emphasis on profit, this abstract possibility appears an ideological construct. Even VNPT unsuccessfully asked the government to raise charges in 2003, claiming they were 50 percent of the cost price. The government licensed five other companies to provide local calls, but only one (the semi-state Saigon Postel) began a service in HCMC. “The others remain reluctant because of the low tariffs” which “made it unfeasible to provide the service.”⁶¹

The government allows foreign investment within state corporations in water, electricity and telephone infrastructure, and power generation, while private players take part in the direct service end under price regulation. The donors have not yet demanded privatisation of power transmission and the main telephone network. While the US-Vietnam Bilateral Trade Agreement and the WTO allow 100 percent foreign owned companies into these sectors at all levels,⁶² Vietnam will not allow competitors into power transmission until 2022; those investing in power production have to sell to EVN.⁶³

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⁶⁰ ‘Minister calls for lower phone charges’, Viet Nam News, November 39, 2002. The article also notes that “Vietnam has cut its telephone rates 9 times since 1990.”


⁶² WTO rules ban the State from “giving preference” to its own services over private or foreign players, even in health and education, Agreement Between The United States Of America And The Socialist Republic Of Vietnam On Trade Relations, Washington July 13, 2000, Chapter III: Trade in Services, http://www.ustr.gov/assets/World_Regions/Southeast_Asia_Pacific/Vietnam/asset_upload_file917_10731.pdf.

SOE participation in Type I poverty reduction

In the late 1990s, the government launched the Poverty Reduction and Hunger Elimination program (HEPR), targeted at poor people nationwide, and the Program for Socio-Economic Development in Communes Faced With Extreme Difficulties (Program 135), targeted at 2362 poor and remote communes. Funding comes mainly from the state budget and state credit from the Bank of Social Policies (BSP), and contributions from international organisations, NGOs, individuals, mass organisations and SOEs.

Decree 174 in February 1999 tied the large state ‘Corporations 91’ (covering the dominant areas of the economy) to this campaign. Each was assigned specific provinces where they had to help a number of poor districts.

Party theoreticians expressed differing ideas on whether SOE involvement in poverty alleviation was compulsory. Some claimed the idea suggested a pre-Doi Moi imposition; SOEs may “choose” to do “charity” work, just as an altruistic private firm might. On the other hand, Interviewee 7 claimed it was compulsory in the poverty program, while other roles were voluntary, such as helping heroic mothers. Vu Tuan Anh claimed it was voluntary for most SOEs, but compulsory for state corporations; or if they make a lot of profit, “it is put on them to contribute to poor communes.” It often appeared the facts presented expressed the opinions of what the interviewee believed the case should be.

According to Mr. Ngo Truong Thi, the Deputy Director of the Department of Social Protection in Molisa, who is in charge of these programs:

The government required these corporations to take care of the poor in these areas; Molisa decides which communes the assigned SOEs have to cover. If an

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64 HEPR is managed by Molisa, while Program 135 is managed by the Commission for Ethnic Minorities and Mountainous Affairs (CEMMA).
67 Such views were expressed by Interviewees 1, December 2004, and 3, 4 and 5, January 2005.
68 I’m not suggesting they were being disingenuous. Rather, while experts on political economy in general, many freely admitted they did not know all the details about actual mechanisms of SOE decision-making.
SOE has more money, it may choose to also help other areas; it must submit its idea to Molisa for approval (my emphasis)\textsuperscript{69}

The poor communes decide what assistance they require. They “might ask for housing, a school, health insurance for the poor, a bridge, cattle, forest or seed varieties,” says Thi. Molisa then asks for money from SOEs, who “may bargain over how much, but have to do it.” Thi produced copies of Molisa requests, for example, a request to the Tobacco Corporation on January 19, 2004 to provide one billion dong to Cao Bang for 100 cattle and 200 houses.

According to Nguyen Xuan Con from the Vinatex trade union, Molisa and the Fatherland Front “required Vinatex to take on several communes in Dinh Hoa district in Thai Nguyen,” where it spent 20 billion dong on primary schools, health stations, “dozens of concrete classrooms,” scholarships, textbooks and uniforms. The subsidiary May 10 Textile company contributed two tons of corn varieties, 25 bicycles and 25 sewing machines to the children of veterans.\textsuperscript{70}

The total contributed by SOEs is difficult to establish. According to Thi, for every billion dong contributed by the government, 300-500 million is contributed by SOEs. He estimates a total annual SOE contribution of 200-300 billion dong ($US 14-20 million), compared to 400-600 billion from the government, plus 1500-1700 billion in state-subsidised credit annually supplied by the BSP. This would mean $US 70-100 million contributed by state enterprises over the 5-year program.

State documents list central and local government, international, BSP, and community contributions. The two major components of the community contribution are funds mobilised by mass organisations, including the Fatherland Front’s Day of the Poor, and those mobilised by SOEs, but this figure is not broken down.\textsuperscript{71} The total community

\textsuperscript{69} Ngo Truong Thi, Deputy Director of the Department of Social Protection in Molisa, Interview, Hanoi October 14 2005. Vietnamese when speaking English often confuse “require” and “request” as the same word ‘de nghi’ is often used. Thi clarified that the meaning was that the SOEs were told, had no choice.

\textsuperscript{70} Nguyen Xuan Con, former head of the trade union of Vinatex, Interview, Hanoi, November 2005.

\textsuperscript{71} Based on various documents, eg, in one, apart from central and local governments, the only other sources listed are state Corporations 91 and the Poor Fund, Socialist Republic of Vietnam, \textit{Chuong Trinh Phat Trien Kinh Te - Xa Hoi Cac Xa DBKK Vung Dan Toc va Mien Nui Giai Doan 2006-2010 (Chuong Trinh 135 Giai Doan II)}, Hanoi, June 2005, p. 11; another document lists funds “mobilised by the community” including local government, “organisations and central and local enterprises,” Socialist
contribution was 5,500 billion dong ($US366 million), or 18 percent of the non-credit contribution to HEPR and 135 in 2001-2005, including 2000 billion ($US140 million), or 22 percent, of non-credit HEPR funds. If the SOE contribution was half this amount allotted to HEPR, or 1000 billion dong ($US70 million), it would be similar to the amount claimed by Thi (there are no contributions listed by non-state enterprises).

However, another Molisa report claimed the contribution of the 17 Corporations 91 was 310 billion dong ($US20 million) over three years (1999-2002). The discrepancy may partly derive from the difference in number of years, and the contributions from SOEs other than these 17; but also because part of the SOE contribution comes from ‘type 2’ poverty reduction, special investment and pricing decisions which reduce SOE profits (see next section), not only from ‘type 1’ direct finance, which these documents measure. Furthermore, local governments, whose contribution is listed separately, often lean on local SOEs to contribute funds (see below), while the BSP, while funded mostly by the government, also gets funds from “various centrally-run and locally-run enterprises.”

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Republic of Vietnam, National Targeted Program on Hunger Elimination and Poverty Reduction and Employment for Period 2001-2005, Decision 143/2001/QD-TTg, Hanoi September 2001; an evaluation in 4 provinces showed only contributions from central and local government, mass organisations, state enterprises and households. State enterprises were major contributors to both HEPR and 135 in Soc Trang. The report noted “it is difficult to get a sense of household contributions since these are usually applied directly to projects and not recorded,” and mainly involve labour contributions; “cash contributions are negligible.” Molisa/UNDP, Taking Stock, Planning Ahead: Evaluation of the National Targeted Programme on Hunger Elimination and Poverty Reduction and Programme 135, Hanoi, November 2004, pp. 59-63.

This is out of a total of nearly 41,000 billion dong, of which 28 percent (11,600 billion dong) was credit, Socialist Republic of Vietnam, The National Targeted Program on Poverty Reduction 2006-2010, Hanoi 2006, p. 41 (reviewing the previous program). For HEPR, total funds were 21,000 billion dong, of which 12,000 billion (57 percent) was BSP credit, p. 10. The Corporations 91 contribution of direct finance to Program 135 is considerably less, at only 181 billion dong ($US 12 million) between 1999 and 2003, of a total of 5,200 billion dong for that period, only 3.5 percent, though even this was more than the 164 billion dong mobilised for the Poor Fund by the Fatherland Front, and no funds from private firms are reported (Socialist Republic of Vietnam, Chuong Trinh Phat Trien..., 2005, op cit, p. 11). The central government budget plays a more dominant role in Program. 135 compared to HEPR.


Nguyen Dac Hung, ‘Using Credit as a Measure for Eradicating Hunger and Reducing Poverty’, Vietnam Social Sciences, National Center for Social Sciences and Humanities, 1 (87), 2002, p. 42. According to Thi, enterprises cannot fund banks, even the BSP. However, the author of the article is involved in state credit to the poor, and the words “centrally-run and locally-run enterprises” in Vietnam refers to SOEs, owned either by the central government or local governments.
SOEs and Type 2 poverty reduction

The second type of SOE involvement in poverty programs is via directed investment in poor regions, providing seeds, fertiliser, subsidised credit, technical assistance or infrastructure, and guaranteeing to buy poor farmers’ products at a favourable price.

In the first program (1998-2004), only the Tobacco Corporation, the Sugar Cane Corporation 1, the Vietnam Cotton Corporation (VCC), Vinamilk and the Mulberry/Silk Corporation were directed by the state to take part. In the new program from 2005, the Tea Corporation (Vinatea) was added. The program initially only involved a few SOEs “in order to build up a good model first.”

Molisa decides the locations and signs memorandums with SOEs, which then sign contracts with the farmers. These SOEs “signed contracts to link material zones with poverty reduction in 18 poor villages in 10 provinces, including interest free loans for inputs ... (they) provide capital, materials, technical assistance and infrastructure improvement for poor households to develop material production zones.”

SOEs also voluntarily take part, negotiating directly with a commune. The VCC carries out this program in 24 communes in four provinces, with some 12,800 poor households. Most projects come under Program 135, but some are done voluntarily.

The Tobacco Corporation carries out projects in Cao Bang, Gia Lai and Ninh Thuan, over 2000-2004 providing 3-5 million dong per hectare to help farmers with investment and input costs. “These are areas where the government plans to plant tobacco to help the poorer communes.” The Corp also provides roads, training schools and water stations, in total contributing 75 billion dong ($US5 million) over 1999-2002.

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75 Thi, op cit. Except for the Tobacco Corp, these corporations are ‘Corporations 90’, as opposed to the larger ‘Corporations 91’ which were mandated to take part in the first kind of poverty reduction.

76 ‘State giants pledge to raise spending in nation’s cash-starved provinces’, Vietnam Investment Review, July 1-7, 2002. Referring the new program, Deputy Minister of Molisa, Dam Huu Duc, claimed “many businesses coming from both the State and private sectors have joined in poverty reduction efforts ... apart from doing business,, enterprises have recognized their social responsibilities and have made contributions to poverty reduction,” ‘Poverty reduction plan gets revamp’, Viet Nam News, April 20, 2005.

77 Vietnam Cotton Corporation (VCC), Interview, HCMC, October 2005.

78 Deputy Director, Tobacco Corporation, Interview, Hanoi, July 2005.

The deputy director said “in theory this is voluntary, but as a state company we feel it is an obligation, unlike a private company which might choose to contribute.” It was “also related to the party presence in the SOE; the party has the plan, and the trade union implements it.”

Nguyen Khach Thinh from Vinatea claimed this work was voluntary, yet contrasted fifteen villages where “the state gives Vinatea the role” under the program, to what some subsidiaries “decide to do themselves, outside the fifteen villages.” He claimed Moc Chau tea company provided 200 million dong to 4400 local households to help replace opium, helping farmers with skills to plant tea, technical assistance, and “holidays.” It is a subsidiary, “but Vinatea does not command them to do this.” In 1999 Molisa requested help for farmers in Bac Can, and Vinatea “voluntarily offered to provide new varieties to farmers for 10 hectares, along with fertiliser, pesticides and techniques.” The implication was that there was something semi-compulsory about the fifteen villages where Vinatea was “given” this role, whereas in the other cases the SOEs felt a social obligation.

Decision 80 contracts and agricultural planning

When SOEs take part in poverty reduction outside the directed program, they often do so via Decision 80 on the ‘Cooperation of four houses’ (state, enterprises, scientists and farmers). This partial return to planning aims to protect farmers from world price volatility, provide new techniques and allow a more secure move into ‘high value’ crops. Within 6 months of this decision, “SOEs signed contracts with farmers to buy ... 40 percent of total rice output, 50 percent of total tea output, 90 percent of total cotton and milk, and 70 percent of total sugarcane.” Examples included the Lam Son Sugar Mill,

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80 Deputy Director, Tobacco Corporation, Interview, Hanoi, July 2005.
81 Nguyen Khach Thinh, Vietnam Tea Corporation, Interview, Hanoi, July 2005. Thinh said the program in the 15 villages includes technical advice with tea production and processing, introducing new varieties (“sometimes for free, but not often”), infrastructure, schools, classrooms, small roads, disaster relief etc.
82 According to Ngo Truong Thi, op cit; Decision 80/2002/QD-TTg, June 24, 2002.
the Song Hau Farm, Vinamilk, the Vietnam Cotton Corp (VCC) and the Northern and Southern Food Corporations.  ^{84}

Vietnam Textile Corporation (Vinatex) unionist Nguyen Phuong Hoa explains that in “project areas” under the poverty program VCC provides farmers “many benefits, including investment loans with no interest, cotton varieties, techniques etc, and the company buys the cotton at a reasonable price,” while in Decision 80 contracts in “non-project areas” it merely signs contracts with farmers at a price agreed by both sides.  ^{85}

The issue is not contacts as such, but the investment subsidising the farmers’ inputs, credit and infrastructure. The contracts under Decision 80 offer less than those under the poverty program, and other general contracts even less. However, many SOEs play a considerable role in agriculture and are often involved in the more favourable kinds of contracts. Even outside of Decree 80, many act in a variety of beneficial ways which contradict the stereotypes about SOEs.

In the 1990s for example, Vinamilk put 5 million dollars into paying diary farmers more for their fresh milk than the price of cheaper import replacements, in order to boost herds.  ^{86} General director Mai Kieu Lien explained that "a business should think of not only profits, but also social obligations ... since 1991 we followed a policy of using domestic dairy products, progressively reducing imports ... Though profits were thereby lower by an average of VND30 billion a year, Vinamilk effectively provided thousands of rural jobs.” The number of cows rose from several thousand in 1991 to 29,000 in 1999, creating “relief from social burdens and a rise in social security.”  ^{87}

According to Bui Van Hung from the National Economics University, many SOEs buy inputs from local farmers or small workshops that can be more cheaply imported. In Nam Dinh and Hoa Binh he found many SOEs aiding the development of rural SMEs.

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^{84} These companies “entered into contracts this year for 70,000ha of rice, 180,000ha of sugarcane, 10,000ha of pineapple and 30,000ha of cotton,” while the Northern and Southern Food Corporations have contracted to purchase 800,000 tons of ‘high quality rice’, ‘Govt eyes closely meshed farm sector’, Viet Nam News, December 18 2002.

^{85} Nguyen Phuong Hoa, Head of Trade Union, Textile Research Institute, Vinatex, previously head of Trade Union in a state garment company under Vinatex, Interview, November 2005.


The Hoa Binh dam, he claims, provides contracts to local businesses to produce components, which it could easily and much more cheaply import in bulk.\(^88\)

The SOE-led expansion of sugar production was driven by considerations of poverty reduction, but some of the worst problems have arisen in this industry.\(^89\) However, Lam Son Sugar in Thanh Hoa is widely held up as a model of SOE relations with farmers, with whom the company has long worked through beneficial contracts, providing large scale directed investment into sugar farms.\(^90\) Lam Son pays high wages – 1.7 million dong per month in 1997 – while paying good prices to farmers, who are organised in cooperatives and the Lam Son Sugar Association.\(^91\) This has resulted in “a higher average income level” in the region, especially sugarcane growers, whose “income level is high compared to that of other groups.”\(^92\)

Another example widely cited is the state-owned Song Hau farm in the Mekong, where 2800 farmer households are allocated land under a contract, based on the field-forest-garden-pond-cage (RRVAC) model.\(^93\) The farm provides ploughing, breeds, fertilisers and pesticides, operates de-husking, rice polishing and food processing workshops, and warehouses to store 100,000 tons of paddy. Farmers get an annual income of 40 million dong ($2,600), free medical checks, social welfare and annual leave, and children get free education from kindergarten to 12th grade.\(^94\)

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\(^88\) Bui Van Hung, National Economics University, Interview, Hanoi, June 2005.

\(^89\) For discussion of this, see below under the section on negatives.

\(^90\) For example, an ADB-led workshop noted “two cases featuring successful contract farming ... Lam Son Sugar Company, and An Giang Agricultural Technical Services Company (contract farming on baby corn and green soybean with Hoa Thuan collective), showed that production linkages between farmers and enterprises will be economically and socially effective once the interests of the two parties are closely linked, Asian Development Bank, ‘Linkages Between Farmers and Enterprises for Contract Farming Must be Improved,’ January 12, 2005, http://www.adb.org/Documents/news/vrm/vrm-200501.asp.

\(^91\) Action Aid/The Center for Rural Progress, Report on Trade Liberalisation and Sugar, op cit, pp. 39-41. The Lam Son Sugar Association “serves as the forum where representatives of sugarcane growers can discuss and bargain with the factory,” p. 45. The Lam Son website describes it as “a cooperative economic model of worker - peasant and intellectual alliance,” implying the kind of four-way ‘contract’ advanced by Decision 80, Copious And Diversified Feedstock Zone, http://www.lasuco.com.vn/Eng/nangluc1.htm.

\(^92\) ActionAid/The Center for Rural Progress, Report on Trade Liberalisation and Sugar, op cit, pp. 39-41.

\(^93\) Rice paddies combined with fish farming, fruit and vegetables, 350 poultry cages and thousands of pigs.

\(^94\) Ngoc Quynh, ‘Song Hau farm experiences’, Vietnam Economic News, No. 18, 2003, p. 37; ‘Impressive Vietnamese farmer dazzles among Asia’s greatest’, Viet Nam News, November 29, 2002. The latter refers to Song Hau director Tran Ngoc Suong, who was voted the most impressive businesswoman in Asia. The article makes no mention of the fact that she runs a state-owned farm business.
Song Hau appears the model of a non-equitised state agricultural enterprise, and Lam Son’s successful model long predated equitisation in 2000 – and even its equitisation takes a unique form, where the sugar-farmers are major shareholders. Both were engaged in these arrangements long before relevant poverty alleviation or Decision 80 decrees.

A joint donor report noted that the supply contracts linking farmers to SOEs trading in agricultural commodities like coffee contain “an insurance component” which “stabilises prices in “bad” times.” The restructuring of these SOEs “could lead to a change” in these contracts, making farmers “losers” from trade liberalisation. While “getting the domestic prices of commodities closer to the international prices” would be “good for efficiency,” the report admitted it “could affect the livelihoods of rural households.”

Another example is salt. In 2002, the market price dropped to 150 dong per kilo, due to unregulated imports, but the government maintained a floor price for the Vietnam Salt Corporation to buy from farmers at 330 dong. According to deputy director Le Nguyen Chuong, the corporation has spent 70 billion (US$4.4 million) helping salt farmers build roads, bridges, dykes and irrigation works.

While some large foreign firms have also signed contracts with good benefits for farmers, they are greatly outnumbered by SOEs. “Foreign invested companies in animal husbandry only signed contracts to sell animal food” to the farmers, but “there is no agreement in the contract to buy the output.” In contracts with foreign firms, “farmers become fully dependent on the company,” but in any case “only big farms can implement this type of contract, while poor people cannot access it.”

**Issues regarding SOE-farmer contracts**

SOEs may have their own interest in contracts, which provide them a stable material zone, so this may not demonstrate social commitment. Contracts may also encourage

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farmers into cash crops, and they may be at the mercy of enterprises as world prices fluctuate, if they can’t get out of them. Some general observations can be made.

Firstly, enterprises making purely commercial decisions to sign contracts with farmers would favour regions where infrastructure is better developed and which are closer to markets. Investing in poorer and more remote areas may indicate a social orientation, unless other factors allow for greater exploitation of these farmers. According to Thinh from the Tea Corporation, “socialist orientation stresses developing the whole society, so Vinataea plants tea in the remote uplands, where people are very poor; if profit was our only aim, we would not go there.”

The VCC likewise claims that cotton cultivation was initiated in poor mountainous areas in the north and centre specifically as part of the poverty alleviation policy. How valid are such claims?

Some private and foreign firms do invest in remote areas. However, foreign investment is overwhelmingly concentrated around large cities and a few coastal regions with well-developed infrastructure. Around 50 percent of FDI capital is in the southern focal economic zone, and another 22.7 percent in the northern zone. Of $US 21,616 million of FDI in 2002, 66 percent went into industry, 25 percent into services, but only 6.4 percent ($US 1,404 million) into agriculture. In 2001, there were only 52 foreign firms in agricultural processing and trade, compared to 927 SOEs. One third of these foreign firms were in the rich southeast; there were less than 10 in most regions and none on the poor north coast.

While there were more private firms (2520) than SOEs in agriculture, they are mostly involved in trade and services, or small-scale family-based processing. Large-scale processing tends to be low-profit, and takes time to get a return; thus few private firms

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99 Thinh, op cit. Cuong from CIEM (op cit) also listed “setting up a new tea processing plant” as an example of what only an SOE can do as art of a “public service” role, “as tea does not earn much profit.”

100 VCC’s total investment during 2002-2005 was VND86 billion, with VND77 billion going directly to poor farmers. In these four years, the project has helped the farmers raise their average monthly income from VND79,000 to VND215,000, VCC, Interview, op cit.


have taken part in poverty reduction contracts. Their concentration in 2001 was even more skewed than that of foreign firms; two thirds were in the highly commercialized Mekong, and another quarter in the rich southeast, over 90 percent between them; there were less than 10 in each of the four poorest regions.

This very skewed concentration of private and foreign firms suggests that SOE investment is partly socially determined. The large SOEs “are directed” to invest in the poor areas “as part of the state’s development strategy,” and this is “part of the ‘social benefit’ role of SOEs,” whereas “profit directs FDI and the larger private sector to the 2-3 large centres.” The 927 SOEs in agricultural processing and trade were far more evenly spread, with 187 in the poor Central Highlands and 163 on the poor north coast, not far behind the 206 in the wealthier Red River delta.

This market-defying spread of SOEs is also true of other industries. In contrast to the skewed concentration of industry in the more market-driven south around Ho Chi Minh City, the mostly state-owned heavy industry outside major cities in the north contributes 35 percent to national heavy industrial output, and the number of SOEs has tended to increase in the provinces while decreasing in Hanoi and Ho Chi Minh City. Thus even if not always altruistic, SOEs are a vehicle for state-led development in regions where otherwise the private sector would be little interested.

Contracts and small farmers

Secondly, state companies have an important relationship with the resilience of land reform in Vietnam – they are developing these agricultural industries with “inefficient” small farmers rather than giant plantations. According to an ADB-led workshop, “contracts may be suboptimal compared to market forms of procurement, due to high

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103According to Thi, op cit.
104 Dao The Anh and Vu Trong Binh, op cit.
105 Bui Van Hung, National Economics University, Interview June 2005.
106 Dao The Anh and Vu Trong Binh, op cit. Parts of the Red River region are poor, but much better off than the four highland and coastal regions, and the region includes Hanoi.
levels of transaction costs in coordinating small producers." That is, suboptimal for the enterprises obliged to bear these costs. Contracts encounter difficulties "because most companies do not have the capacity to organise farmers. This is a challenge for contract implementation with small-scale agriculture."

The growth of tea production in Vietnam, under an SOE-small farmer strategy, contrasts with the historical development of tea production in India and Sri Lanka, where large private estate owners developed their own plantations, using hired labour. Large private estates still dominate, and the firms owning them also often do the procurement, processing and export. Until 1971, 80 percent of Sri Lankan tea plantations were owned by British companies; yet after land reform in 1971 gave the state control of most plantations, the result has been that some 50 percent of Sri Lankan tea is now grown by small-holders. Similarly, small-holder tea plantations predominate in Kenya due to a state monopoly set up after independence.

Therefore, SOE-led development is often the only alternative for small-holders to develop independently of large estates. Such SOE-led development often precedes private investment in remote areas, as the low-profit pioneering work makes later investment more lucrative.

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110 Dao The Anh and Vu Trong Binh, op cit, p. 16 (my emphasis).
113 The story of Ceylon tea, http://www.angelfire.com/wi/SriLanka/ceyl_tea.htm. Historically, labour on these plantations was immigrant, workers locked into harsh discrimination and virtual bondage due to immigrant status. Even today, "there is overwhelming evidence that the most basic needs of the workers are not being met" and wages "are abysmally low," while entrenched discrimination remains; in Sri Lanka, "the vast majority of tea estate workers are 'tea Tamils' who are isolated even within their own community" and 300,000 remain without citizenship, Oxfam, op cit, pp. 18-20.
114 Oxfam, op cit, p. 16.
Contracts: In the interests of farmers or enterprises?

The third issue is whether contracts are more in farmers’ or enterprises’ interests. This could depend on market conditions, how beneficial the incentives are, whether farmers get trapped, and the ability of farmers to break contracts.

Dao The Tuan says given the power of enterprises, farmers are unable to drive a decent bargain unless they have cooperatives, which currently are weak. The best examples of contract farming, such as Lam Son and Song Dau, feature strong cooperatives. Yet this does not solve the problem of whether contracts benefit farmers, even without cooperatives, more than having no arrangement.

Others believe farmers have an objective need for contracts. “Due to almost doubling of agricultural output between 1993 and 2003, together with unstable markets and low prices, an institution that will provide a vertical link between farmers and market forces is an urgent need.” By contrast, “most enterprises exporting rice do not see the necessity to establish their material zone,” because “the consumption capacity of enterprises is low and does not meet the production capacity of the farmers ... therefore farmers need enterprises more than enterprises need farmers.”

However, once contracted, if the world market changes farmers may be trapped with little bargaining power. While farmers even in that situation may be better off in a contract than cash-cropping farmers with no arrangement, the contract push may merely be part of a questionable drive for cash-cropping.

\[116\] In the opinion of noted agricultural expert Dao The Tuan, Director of Research, Department of Agrarian Systems, Vietnam Agricultural Science Institute, Interview, August 2003.

\[117\] The development of these ‘vertical’ forms of cooperation, and the push for new ‘horizontal’ forms of farmer cooperation, are officially regarded as parallel and complimentary processes. “The support for contract farming is linked with government support for the development of ‘new cooperatives’ to organise smallholder production,” Central Institute of Economic Management, Linking Farmers to Markets through Contract Farming, Markets Development Bulletin, March 2005; “...there have been some successes, such as the linking of the Lam Son Sugar Company with farmers through contract and cooperative systems ... households are organised into groups or cooperatives to implement the contract while investment and purchase are the responsibility of the company,” Dao The Anh, Vu Trong Binh, ‘Agriculture contracts, cooperative action by farmers and poor people’s participation in northern Vietnam’, Asian Development Bank, Linking Farmers to Markets through Contract Farming, Hanoi October 2005, p. 15.

\[118\] Dao The Anh and Vu Trong Binh, op cit, p. 14

In fact, the Vietnamese government has tended to be "conservative" about cash cropping, insisting some rice cultivation remain as food security when areas are converted to cash crops.\textsuperscript{120} This policy has been criticised the World Bank, which advocates a "free response" to "market signals."\textsuperscript{121}

Vietnam has had its cash crop catastrophes, notably the coffee crash of 2000-2001. As the largest processors and exporters, SOEs played a role in this, but SOE contracts only cover one fifth of coffee growers. The big turn to coffee was caused by the mass response by farmers to "market signals" in the 1990s.\textsuperscript{122} Vietnam's coffee trade was already fully open to the private sector.\textsuperscript{123}

Fortunately, not all localities followed this route. Some maintained a "conservative" regime of keeping areas for rice and alternative crops, and fared better.\textsuperscript{124} This may be common among local governments planning cash cropping.\textsuperscript{125} In any case, SOEs claim local governments plan the mix of crops, so they cannot be accused of pushing cash

\textsuperscript{120} The CPV called for "allowing the change of land use purposes" for industrial crops "on the basis of respecting planning and ensuring food security," Communist Party of Vietnam (CPV C), 'Five Year Plan for Socio-Economic Development,' 8\textsuperscript{th} National Congress 1996, in 8\textsuperscript{th} National Congress Documents, The Gioi Publishers, 1996, p. 195.

\textsuperscript{121} The Bank advocated abolishing "restrictions on alternative uses of paddy land," which "inhibit diversification into higher valued crops." Instead, "farmers (should) freely respond to changes in market prices and unbiased incentives ... a better approach to food security is to allow openness in consumption, production, stock holding, and trade and investment regimes, thereby allowing full expression of comparative advantage to generate the economic wealth that can lead to true self-sufficiency," World Bank, Advancing Rural Development in Vietnam: A Vision and Strategy for Action, 1998.

\textsuperscript{122} MARD noted that Dak Lak farmers planted coffee "responding to price signals," and "responding to market signals, tens of thousands of labourers moved from different regions to the Central Highlands," International Center for Agricultural and Rural Development (ICARD), The Impact Of The Global Coffee Trade On Dak Lak Province, Viet Nam, September 2002, pp. 13, 23; Fforde agrees this was "extremely good responsiveness to market signals", but "too responsive", 'Light Within the ASEAN Gloom?', Southeast Asian Affairs 2002, Institute of Southeast Asian Studies, Singapore, 2002, pp. 367, 376.

\textsuperscript{123} Private firms already had "the right to buy, sell and process coffee for export as well as domestic consumption," ICARD, op cit, p. 10.

\textsuperscript{124} In Lam Dong, Lam Ha district secretary Nguyen Quoc Trieu claimed the district had reserved 2,600ha for mulberries, 500ha for tea and a large area for rice and other crops. Lam Ha encourages "every household to set aside" areas for other crops, "so they are less affected when coffee prices fall," said Van Thao, chairman of the district People's Committee. In 2001, the district harvested 18,543 tons of rice and 6,333 tons of corn, 'District rides high despite coffee's dive', Viet Nam News, April 23 2002.

\textsuperscript{125} Pham Tuong Vi, 'Community, State and Markets: The process of agrarian transformation in upland villages in Vietnam,' seminar paper, RMAP, Australian National University, August 2004, discusses the control local communities and the state have over paddy land, which is redistributed every few years. Litchi (the main cash crop in Luc Ngan, Bac Giang) is barred, only being produced outside the main paddy fields.
cropping.\textsuperscript{126} Even the government plan is voluntary; “farmers might only use 30 percent of their land for cash crops, and keep the rest for vegetables or other crops.”\textsuperscript{127}

Even in the coffee crash, farmers leasing land from SOEs “were in some ways cushioned, because state firms supply their inputs, so they don’t have as much investment cost as other farmers, and they also buy their produce.”\textsuperscript{128} SOE processors also use ‘wet processing’, which gets a higher price, and “facilitates co-operation among farmers in co-operatives and autonomous communities” as it requires farming activities “follow similar techniques and timing.”\textsuperscript{129} Private processors use “dry processing,” which produces the lower quality coffee responsible for the world glut.\textsuperscript{130} While they help a lot of peasants sell their coffee, more SOEs investing in this planned manner would be beneficial.

**Breaking exploitative or detrimental contracts**

Reports from around the world speak of ruthless exploitation of contracted farmers by large corporations once farmers are trapped and dependent on their inputs.\textsuperscript{131} Plantations are often owned by subsidiaries of multi-national companies which dominate world market input supplies, output procurement, processing, export and distribution.\textsuperscript{132}

\textsuperscript{126} Thinh, Vinatae, op cit.
\textsuperscript{127} Nguyen Dieu Tuyet, Vice-President, Vietnam Farmers’ Association, Interview, Hanoi, August 2005.
\textsuperscript{128} Ms Hanh, Interview, Hanoi, November 2005. Hanh was one of the main researchers/authors of Oxfam’s major report into the great coffee price crash, Oxfam Great Britain and Oxfam Hong Kong, Impacts of Coffee Prices Under Trade Liberalisation On Coffee Farmers In Daklak Province Vietnam, April 2002.
\textsuperscript{129} ICARD, op cit, p. 17.
\textsuperscript{130} Ibid; Ms Hanh, op cit. A similar claim is that private tea-processing firms have undercut SOEs “by making the planters harvest five leaves from one bud instead of three, for bigger profits, tossing quality out the window,” ‘Tea exporters see chance’, Viet Nam News, September 17 2002.
\textsuperscript{131} In India, “unequal and unfair contracts” lock farmers “into a new forms of bondage.” Punjab farmers contracted by Pepsico “to grow tomatoes received only Rs.0.75 per kg while the market price was Rs.2.00.” When farmers rejected Pepsico it abandoned them and sold its processing plant, Shiva, V, ‘Globalisation and Food,’ conference paper, Globalisation, Food Security and Sustainable Agriculture, Third World Network, Delhi in July, 2001.
\textsuperscript{132} Three companies control 85 percent of the world tea market. In 2003 Uniliver’s profits of were one third larger than Mozambique’s GDP, ActionAid International, Power Hungry: Six Reasons to Regulate Global Food Corporations, 2005, p. 13, http://www.actionaid.org.uk/_content/documents/power_hungry.pdf. Yet prices paid to tea farmers have fallen for two decades; less than 3 percent of the consumer price in the west goes to the farmer, but 80 percent “to the exporter, trader and/or manufacturer,” Oxfam, The Tea Market: A Background Study, June 2002, pp. 3, 33, http://www.maketradefair.com/assets/english/TeaMarket.pdf. In India, farm gate prices dropped 33 percent between 1998 and 2004, but dividends in Hindustan Lever (HLL), Unilever’s Indian subsidiary (and big plantation owner), quadrupled and consumer prices rose 20 percent. Over 800 tea garden workers starved to death in West Bengal in 2004, and tens of thousands have
While it would be difficult to state that SOEs are immune, Vietnamese farmers appear free to break contracts when they are no longer in their interests, with no apparent penalty.\textsuperscript{133}

Both farmers and enterprises break contracts.\textsuperscript{134} Enterprises often claim farmers' products are not the correct quality.\textsuperscript{135} Nguyen Phuong Vi, director of MARD's cooperatives and rural development department, claimed businesses "just use the quality excuse to defer payments to farmers."\textsuperscript{136}

Reports focus on "wanton contract breaking by farmers," if the market price rises after the contract is signed. When world rice prices began rising in 2001, farmers sold their produce at new above-contract market prices.\textsuperscript{137} When low prices hit, sugar farmers burnt their fields or changed crops, making it difficult for companies to retrieve loans or recoup investments."\textsuperscript{138} The Tien Giang Agricultural Materials Company provided equipment to farmers, but "farmers reneged on their contract by selling produce to businesses offering higher prices." Director of Song Hau Farm, Tran Ngoc Suong, said
policies aimed at protecting farmers, such as the floor price for rice, harm enterprises, yet "farmers break contracts to force higher prices on businesses when crops are scarce."  

Breaches are common among Mekong rice farmers. In An Giang in 2003, 90 percent of paddy contracts were not fulfilled. Farmers sign contracts merely as a guarantee of a minimum price which could rise if conditions change, and which can be broken with no consequences, as they nearly always are.

The Mekong is a highly marketised region, and rice prices have been buoyant since the 2001. It might therefore be assumed that farmers there are well off, do not need contracts, and so the government wisely does not force them.

In reality, many Mekong farmers are poor, and "recognise the potential benefits of contracts," but many enterprises offer lower than market prices, or require farmers to deliver the paddy, which they do not have the means to do; the farmers thus lose out to the intermediaries who transport it. In these cases, it appears the enterprises are not interested in contracts, and offer poor conditions so that the farmers will break them.

SOEs and funding 'mobilisation'

Another social benefit provided by many SOEs is local funding of schools, hospitals and infrastructure. This is relevant in the context of Vietnam's strategy of 'socialisation', or mobilisation of extra health and education funds from local people and enterprises.

In the 1990s, the Lam Son Sugar plant built hundreds of kilometers of roads, 226 bridges and provided electricity to 21 villages. From 1992, the company funded multi-story

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139 'Problems crop up for farm produce contracts', op cit. Nguyen Van Giau of the Dong Nai Department of Agriculture and Rural Development claimed many businesses were now reluctant to sign contracts.

140 By contrast, implementation of other contracts in this province, including corn seedling, young corn, soybean, seedling rice, cassava, young pigs and cows were 70-100 percent successful, Nguyen Tri Khiem, 'Agriculture contracts in An Giang province', op cit, p. 29.


142 In one case, the company provided free fertiliser - a significant benefit - but did not pick up the produce as was agreed in the contract, so farmers sold it to traders, Roberts and Nguyen Tri Khiem, op cit, p. 21-24.

143 This is a vexed issue, as discussed in chapter 3; whether or not it helps the poor via funds from richer individuals and enterprises, or the poor themselves are objects of 'mobilised' funds, remains unclear.

schools in 16 communes, supplying schools with "computers, teaching belongings (sic), and rewards for good pupils and good teachers." It also ploughed profits into the commune budget, which were invested in schools and medical centers, its contribution rising from 75 to 695 million dong between 1990 and 1999; in the same period, its own investment in infrastructure rose from 675 million to 6.7 billion dong (aside from its taxes to the central government, which stood at 32 billion dong in 2002).

Of the 4 trillion dong ($US266 million) for the project to get rid of bamboo classrooms, build 67,000 new classrooms, and better equip them, half was to come from state funds and the rest from enterprises. Late Deputy Education Minister Le Vu Hung said each SOE would build one classroom, and contribute "between 1 and 2 percent of their after-tax profits, while other enterprises would contribute 0.5 percent." According to Le Quang Trung from the Government Office, "enterprise contributions play an important role in the socialisation of education."

In 2003, the Song Da corporation provided 1.6 billion dong ($US106,000) to build 31 classrooms, aiming to build 100 classrooms by 2005. The funding had been upped to 3.78 billion dong by 2005. Song Da also builds health centres in poor provinces.

The Vietnam News Agency gave 158 million dong ($9500) to build and repair classrooms for Trung Yen Primary School in Tuyen Quang. The money was donated by "reporters, sub-editors, and employees." Viet Nam News reporters said the idea came from employees, was taken to a union meeting, and contributions were voluntary.

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149 'Schools set goal of putting an end to evening classes', Viet Nam News, July 20, 2003.
150 Ibid.
151 Party Committee, Song Da Corporation, Political Report to the 6th Party Conference, September 2005; Mr. Tinh, Party Committee, Song Da Corporation, Interview, August 8, 2005.
152 According to Mr. Tinh, op cit.
A free vocational training course for recovering drug addicts was initiated in Danang by Investment and Construction Company No. 579, which bore the 1.6 million dong cost for each student. After finishing, students are offered construction work with Cienco 5.\textsuperscript{155}

In addition, some SOEs still run schools or hospitals for their workers. Vinatea runs four hospitals. “Because tea is planted in remote areas, hospitals are needed to treat workers and farmers, but they also treat local residents,” according to Thinh from Vinatea.\textsuperscript{156}

One unexplored area is the contribution to the state by SOEs which had previously run schools and hospitals, which they gave up to the state after Doi Moi. In addition to these four hospitals, Thinh explained that Vinatea used to have 27 health stations in teagrowing areas, which in 1996 “were given back to the Health Ministry.”\textsuperscript{157}

Social spending from after-tax profits

Unlike the social roles played via investment, pricing and production decisions, the above funding comes from SOE after-tax profits. SOEs also contribute to many other funds, including the Fatherland Front’s ‘Day of the Poor’ campaign to build housing for poor communities, ‘Heroic Mothers’, Agent Orange victims, and disaster relief.

In the last five years, apart from 20 billion dong contributed to the poverty program, Vinatex has contributed 10 billion dong to disaster relief, the Children’s Fund and the Day of the Poor, and built a hundred houses for martyrs’ families while contributing to the building of 400 houses for poor employees. Vinatex maintains 150 heroic mothers, and the union raises twenty poor children. The union called on workers to contribute labour days to build a primary school in Quang Ninh, and Ha Nam province asked Vinatex to contribute labour days to build a bridge.\textsuperscript{158}

Over 2000-2004, the Tobacco Corporation built 88 houses for the poor and 153 houses for martyrs’ families, provided a “living pension” for 114 heroic mothers (100-500,000

\textsuperscript{156} Nguyen Khac Thinh, Head of Administrative Department, Vietnam Tea Corporation (Vinatea), Interview, July 2005, Hanoi.
\textsuperscript{157} Ibid. A similar example is cited by Tinh of Song Da Corporation, op cit. He says Song Da used to have multi-level schools for all workers’ children; this often meant construction projects in provinces (eg, the Hoa Binh dam). After Doi Moi, these were handed over to the Education Department. Now Song Da has schools for workers on the Ya Ly dam in the central highlands, which will later be handed over to the state.
\textsuperscript{158} Nguyen Xuan Con, former head of the trade union of Vinatex, Interview, Hanoi, November 2005.
dong per month, plus Tet bonuses and "savings accounts"), and gave 7 billion dong to other funds, including Agent Orange and disaster relief, on top of its major contribution to the poverty program and its particularly large budget contribution.159

Even small enterprises contribute. The Northern Airlines Services Company (NASCO) pays pensions to six heroic mothers and puts money into the poverty reduction fund of its district; in 2004, it built 15 houses for martyrs’ families and war disabled.160

Any enterprise can voluntarily contribute, and some private and foreign firms are good contributors; some party theoreticians thus claim state ownership makes no difference. Interviewee 3 claimed “enterprises contributing to social programs is a general trend around the world, also in capitalist countries.”161

SOEs, however, are more major contributors. Comparing the $2 million contributed by the Cement Corporation over 4 years,162 or the $20-100 million contributed by state corporations to the poverty program over 3-4 years, the total social contribution of all foreign investors in Vietnam was $US3.5 million in 1997.163

According to Ha Van Nui from the Fatherland Front, “more private firms than state firms contribute, as there are far more of them, but the total contribution from SOEs is greater.” The amount of cash might even be greater in some areas from the more numerous private firms, but “the amount ‘per individual’ is much greater from SOEs,” when total contributions are divided by the number of enterprise workers. In addition to cash, SOE employees also contribute labour days, making the overall SOE contribution greater.164

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159 Deputy Director, Tobacco Corporation, Interview, Hanoi, July 2005.
160 There were previously nine heroic mothers, but three have since died, Phung Du Duc, Head of Trade Union, Northern Airlines Services Company (NASCO, subsidiary of Vietnam Airlines), Interview July 2005, Hanoi. Duc stressed there are no tax write-offs for these donations; he notes that if he contributes one day’s wage, about 250,000 dong, he still has to pay tax on his full managerial wage of 5 million.
161 Interviewee 3, January 2005.
163 ‘All in a good cause’, Vietnam Economic Times, March 1998, p. 30. Some foreign and private firms, such as BP and Prudential, are big contributors, but this depends on the whim of the particular company.
164 Ha Van Nui, Director of External-Economic Department of the Vietnam Fatherland Front, Interview, Hanoi, November 2005.
Moreover, SOE contributions are more systematic, for the following reasons.

Firstly, pressure for funds often comes from local governments or the Fatherland Front.\textsuperscript{165} The Dapcau Glass Company "does not have any special obligations, but provincial authorities ask all companies in their area to contribute, to the Poor Fund, Agent Orange, Heroic Mothers, poverty alleviation, anti-flood fund – they ask a kind of fee." It is "voluntary, but not entirely, we always have to give."\textsuperscript{166}

As a state company, Dapcau feels it is under more pressure, because its profit is seen as society’s money. "Private firms easily evade it, claiming it is not profitable activity, or they haven’t made enough profit.” The money comes from the Welfare Fund, "if it has a profit; however, the company must contribute even if there is no profit,” finding the funds “from wherever.” Each year Dapcau contributes about 150 million dong, “whether it makes a profit or not.”\textsuperscript{167}

The Miyazawa consultants claim SOEs “often feel obliged by local government to contribute … they may be ordered by political superiors to use their own funds to build a road for the local community, as in the case of a rubber SOE, or to provide an interest-free loan to a People’s Committee to build a bridge, as in the case of a cement SOE.”\textsuperscript{168}

This view that SOE money is society’s money is reflected in many construction SOEs having outstanding bank debts because they cannot collect debts from “other investors or partners,” who “are all local authorities.” These authorities put infrastructure projects up for tender “despite a lack of funds,” but the construction SOEs bidding believe the projects are “guaranteed by the state budget.”\textsuperscript{169} In other words, local authorities “borrow” money from the SOEs in order to get public infrastructure up and running.

\textsuperscript{165} Phung Du Duc, op cit, also listed other ways that his SOE may be approached, including being approached by the army, the local People’s Committee, the Women’s Union, or the media.

\textsuperscript{166} Tran Van Viet, Deputy Director, DAPCAU Glass Company, Subsidiary of Viglacera, Interview, Bac Ninh, June 2005.

\textsuperscript{167} Ibid.

\textsuperscript{168} Le Anh Tu Packard and VICA consultants, A Diagnostic Audit of Vietnam’s State Enterprises: Final Policy Paper, Prepared for the Ministry of Finance, June 2004, p. 22.

\textsuperscript{169} Tower of Babel: Construction sector tumbling, VietNamNet, accessed September 2007, http://english.vietnamnet.vn/reports/2003/09/219840/. For example, Cienco 5 owes a large sum of money, but “would have been able to cover its debts if it had recovered debts from other investors or its partners,” who owe Cienco 5 VND 1,930 billion, according to Nguyen Ngoc Dong, Cienco 5 chairman. “Cienco 1 owes banks VND1,000 billion, while being the creditor of another VND700 billion.”
Secondly, social spending is facilitated by the legal structure of SOE after-tax profit, of which a substantial part forms a welfare fund. While this is mostly for SOE employees, a portion is legally directed outside the enterprise.\(^{170}\) The fund is managed by the trade union, and its spending decided on by the workers congress. A private firm may decide to act in a charitable way, but there is no legal requirement for a welfare fund.

When mobilising from enterprises, the kind of linkage the Fatherland Front has with them comes into play. Funds can be mobilized from private firms because local business associations are members of the Front’s local branch. “In preparing for the Day of the Poor, the Front invites local businesses to a campaign meeting, thus they cough up in that atmosphere.”\(^{171}\) In SOEs, the trade union, party cell and mass organisation cells are members of the local Front, and so bring the campaign into the enterprise.

Nui says this does not always make it easier to mobilise funds from SOEs. “Sometimes it is easier from private enterprises because one person makes the decision, whereas in SOEs, it has to be agreed to by workers as it is their common fund.” However, it is also easy for a private boss to not make that decision, so in some cases, the Front uses direct methods: “if a local business is known to be profitable, we knock on the door.”\(^{172}\)

This structural encouragement of solidarity by better-off SOE workers is arguably just as important as the amount being spent. According to Duc, the trade union meets with the directors and suggests the company donate a certain amount for some cause, and management “usually agrees.” They then put this to the workers’ congress, the workers vote to accept or otherwise, and then sign a joint memorandum.\(^{173}\)

According to Con, the director or trade union may call on workers to contribute labour days (generally contributing a day’s wage rather than working extra days), but it is “quite acceptable for some to say they are too poor and cannot contribute.”\(^{174}\) Duc gives an

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\(^{170}\) Interviewee 7 claimed SOEs had to set up three funds from after-tax profit, one for development and research, one for workers’ welfare, and a “fund for society, because these are social enterprises that are responsible for the greater society.” In fact the third fund does not exist, but such funding comes from the second fund. However, his belief that there was a third fund fitted in with his overall views, February 2005.

\(^{171}\) Ha Van Nui, op cit.

\(^{172}\) Ibid.

\(^{173}\) Phung Du Duc, op cit.

\(^{174}\) Nguyen Xuan Con, op cit.
example that there may be a plan to donate three days to build houses for the poor. The workers can agree or not, "but often do," sometimes under pressure of example; Duc, as vice-director, puts in money, so workers follow his example, "but it's voluntary."¹⁷⁵

This may not fully explain why workers would vote to give some of their welfare fund to outside welfare. However, this encouragement of solidarity questions the 'corporatist' interpretation of SOE workers and managers jointly sharing the spoils of the decentralised SOE social surplus.

Thirdly, SOE management is also influenced by mass organisations, which are connected to local bodies and programs outside the SOE and are also linked to the Fatherland Front. According to Mr. Hiep from the Youth Union, a "major activity is mobilising funds from enterprises for social programs – SOE workers have stable jobs and decent income, but no time, so they participate by mobilising funds." The clothes or notebooks that student volunteers take to a disaster site have often been mobilized by SOE workers. Each SOE has a social fund, which "we tap for youth union programs." He claimed the youth union was often instrumental in "establishing a relationship between the SOE and wards or communes." It is "very different in the few private firms where the union exists."¹⁷⁶

A 'Women's Unit' (Ban Nu Cong) exists in each trade union and at every level of the VGCL. The head of the BNC in the VGCL is a member of the Central Committee of the Women's Union (VWU); the BNC looks after women workers while the VWU looks after other women.¹⁷⁷ The BNC is mostly in SOEs "not only because most unions are in SOEs," according to Tran Thi Van Anh. In private firms that have unions, Van Anh is "not sure" whether they have BNCs, but workers are "much busier" in private firms, so only one person can spend time "taking care of everything," and there are more violations of workers' rights in general, and thus little time to focus on women's issues.¹⁷⁸

¹⁷⁵ Phung Du Duc, op cit.
¹⁷⁶ Mr. Hiep, Young Workers Department, Ho Chi Minh Communist Youth Union, Interview, Hanoi, September 2005.
¹⁷⁷ Tran Thi Van Anh, Editor, khoa hoc phu nu (Journal of Women's Studies), November 2005. For example, even in her Institute, the Institute of Women's Studies, three union members form the union committee, and one is the BNC representative.
¹⁷⁸ Ibid.
According to Van Anh, the local women’s union may request funding from an SOE for a program, but she did not think the VWU-BNC connection facilitated this, as the BNC organises its own programs for women workers, and joint activity with the VWU in outside activity is “very rare.” Tran Thi Hoa from the VWU says the VWU sometimes gets financial support from SOEs but only for “special campaigns and programs,” such as ‘building charity houses for poor women’ or the ‘savings day for poor women’.

Fourth, Vu Tuan Anh said that SOEs must be connected to their localities and help the development of the area, giving examples of his Institute, “which has no money.” This is not written in any document, but is a party question; the party cell pushes the SOE to take part in social campaigns. As private firms rarely have party cells, or those that exist play no management role, this is again a structural element of SOEs facilitating this work.

Finally, being an SOE facilitates carrying out these tasks. According to Duc, in an SOE, trade unions and youth unions can have meetings in work time to discuss these issues; if they have to travel a long distance to take money to some heroic mothers or poor people, they can do that in work time, and the cost of the car is a company cost, as it is seen as work. “If equitised, share-holders won’t want to do that.”

**SOEs and job creation**

Job creation is often cited as an area where SOEs are less socially beneficial than private firms. The private sector does provide more employment, especially for unskilled workers in labour-intensive plants. This is its primary assigned role in the Doi Moi consensus.

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179 However, given that a request for funds from an SOE goes through the union, and one member of the union committee is head of the BNC, it seems unlikely there is no connection. Van Anh reported a story from around Hai Phong, where the VWU noticed migrant workers at the village level going to and from a factory, and saw no-one helping them or explaining their rights, because the BNC only works inside the factory. So the commune level VWU organised a club and activities for them, gave them information about their rights at work etc, but this caused friction as some in the VWU leadership said it was the BNC’s job.

180 Tran Thi Hoa, Deputy-Head, International Cooperation Dept., Women’s Union, Interview, Hanoi, November 2005. Workers at Bai Bang paper plant gave examples of outside social work conducted by the SOE via the women’s unit and the youth and veterans’ unions in the firm, see below Chapter 8.

181 Vu Tuan Anh, Economics Institute, Vietnam Academy of Social Sciences, Interview, Hanoi, March 2005. He said “private firms also donate to these campaigns, but SOEs must play the leading role.”

182 Phung Du Duc, op cit.
Chapter 6: The State Enterprise As Social Worker

The World Bank claims the "labor/capital ratio of private enterprises is ten times greater than that of SOEs."\(^{183}\) According to CIEM, "a private enterprise requires only 70-100 million dong to create a job; while the figure for SOEs is 210-280 million."\(^{184}\)

Those arguing that private sector "flexibility" makes it a bigger employer are really arguing that its ability to be "flexible" with labour laws allows it to better employ unskilled rural labour with low wages and conditions; and that SOEs' better wages and conditions may prevent them from being big employers of new workers. Since farmers are poor and insecure, wage employment of any sort represents social improvement. Critics also argue that SOEs invest in capital intensive heavy sectors that create few jobs, while private firms invest more in light consumer goods industries, which create many jobs.

However, these contentions contradict the claim that "inefficient" SOEs keep on large numbers of "redundant" employees and that the private sector can "efficiently" downsize more easily. They also conflict with the stereotype of inefficient SOEs not investing in technology to reduce labour costs, keeping redundant workers employed instead.

These mutually contradictory assertions obfuscate rather than inform. Any rational plan would need to balance between the efficiency necessary for market survival and the social role of maintaining employment, and between heavy and light industry.

Firstly, some industries require less labour than others; this does not make them unnecessary. The fact that light industries require little capital can lead to ideological arguments against any investment in heavy industry. Referring to the Hoanh Bo cement plant, Pham Chi Lan from VCCI claims it "needs $230 million investment and will create only 7000 jobs." If this "was invested in 230 small to medium enterprises (SMEs) in handicrafts, aquaculture and food processing, then each million dollars would generate jobs for some 3000 people," ie, 700,000 jobs.\(^{185}\)

\(^{183}\) World Bank, Advancing Rural Development, 1998. The report also states that non-farm (private) establishments and non-farm household (enterprises) yielding profit/capital ratios of 20 percent and 17 percent, respectively, while the average ratio for SOEs in the same year was 11 percent.


\(^{185}\) "Free trade zone forces rethink", Pham Chi Lan, vice president of the Vietnam Chamber of Commerce and Industry, Viet Nam News, January 18, 2002.
Regardless of the accuracy of this economics, enterprises employing 3000 workers would not be SMEs, and large firms invest more in technology to shed jobs (see below). Moreover, it is one thing to argue for a relative shift in resources, and another to argue against any heavy industry. This alleged employment potential cannot negate society’s need for electricity, coal, steel, cement, and other products produced at low profit, and sold at low prices, by SOEs. Private firms are less likely to invest precisely because of this low profit. The SOE role in heavy industry is thus an issue of state needs.

In any case, the number of jobs is restricted by the ability of the world market to absorb products. Aquaculture has grown very rapidly but faces severe environmental, food security and world market limitations to endless growth. The value of food processing has risen from 34 to 50 per cent of agricultural production in 1990-2002. But processed fruit exports face fierce global competition, and the quality and efficiency demands of import markets mean large private or state processors will survive, not ‘SMEs’. Handicrafts employ 10-13 million rural dwellers in 2000 craft villages, traditionally selling to the domestic market. They now increasingly export, but exports have slumped in the current world crisis; in global competition they suffer from “poor infrastructure, low marketing and management capacity, a shortage of capital and unsustainable techniques.”

Secondly, the post-Doi Moi order has been built on the state sector holding the strategic heights of the economy, employing ten percent of the workforce, and a private sector free to expand through the rest of the economy, employing the other 90 percent. But why should it be assumed that these roles are contradictory rather than complementary?

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186 'Food processing industry gearing up to serve domestic and foreign markets', Viet Nam News, May 14, 2002.
187 ibid; ‘Hanoi to overhaul food processing sector’, Viet Nam News, August 1, 2002. Including ‘food processing’ is ironic, given the SOE-led over-investment in sugar processing; large-capacity sugar plants are able to produce cheap and survive, while SME’s will have to close under trade liberalisation, Ministry of Agriculture and Rural Development/International Support Group (MARD/ISG), Impact of Trade Liberalisation on Some Agricultural Sub-sectors of Vietnam: Rice, Coffee, Tea and Sugar, Hanoi, 2002.
188 Up 40 per cent in 2002 to around $300 million , ‘Handicrafts rise above export slump’, Viet Nam News, September 27, 2002.
189 ‘Handicrafts supplant farming in north’, Viet Nam News, December 18, 2002. This suggests in a ‘modern, efficient’ handicraft industry, ‘SMEs’ get bigger, destroy traditional craft village structures, invest in higher technology and shed jobs to better compete globally.
In reality, small private firms often perform the less capital-demanding side of operations, while the SOE performs the more capital-intensive, often lower-profit, side. For example, while a few large SOEs control pulp production, hundreds of small private paper-producing firms, fed by SOE pulp, create many jobs. There is no reason to believe that large private pulp-producers would provide a better deal to the small secondary industries. More concerned with profit than an SOE, they may even be more detrimental. Nor would a large private pulp producer create more jobs than an SOE. On the contrary, neo-liberal bodies demand the large state-owned heavy firms act like “efficient” private firms by massively retrenching “excess labour.”

Arguing for the role played by SOEs, Bui Van Hung writes:

There are many business linkages between SOEs and the non-state SMEs in rural areas ... (SMEs) receive many of the benefits that go to SOEs in the form of capital, information, supply and marketing contracts and other resources obtained through connections with SOE(s). Many SMEs are subcontractors for the SOEs or supply input and other services to them, and job opportunities and incomes to rural people are therefore indirectly offered by SOEs through the SME channel ... SOEs (are) to some extent leading the SME sector in rural industrialisation.”

The discrepancy between the amount of investment needed by private and state firms in creating jobs confuses the investment necessary for heavy industry and that necessary for cheaper operations; it may also be partly explained by SOEs’ better observance of labour conditions.

Above all, it confuses the investment needed for a job in the petty ‘individual’ sector and the private ‘corporate’ sector; and this extremely varied nature of the “private sector” allows us to deconstruct the figure of “90 percent of the workforce in the private sector.”

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192 This term used in the CIEM report (following note) is synonymous with “household” sector.
To start with, this figure includes the 60 percent in agriculture, mostly self-employed farmers. Further, 75.4 percent of the workforce – employed or self-employed, rural or urban – are in the ‘individual’ rather than ‘private corporate’ sector. These two figures have some cross-over, because some of the agricultural workforce are farm labourers, while many of the non-rural workforce are working owners of ‘individual’ businesses. The figure of those employed by the ‘individual’ sector (urban or rural) is only 12.7 percent of the workforce – but this is much higher than the 3.3 percent employed by the corporate private sector, or the 1.3 percent employed by foreign firms. Moreover, the 8.4 percent employed by the ‘collective sector’ is also included in the “90 percent private employment.” From this angle, the 10.4 percent employed in the state sector looks different: ‘individual’ small owner-workers make up 65-70 percent of the workforce, meaning the state sector accounts for one third of those in wage employment.

This figure looks even better if we separate ‘formal’ business enterprises from the ‘informal’ household economy. Employment by SOEs accounted in 2002 for 46.1 percent, compared to 38.6 percent in the domestic ‘non-state’ sector (including 3.6 percent in cooperatives), and 15.3 percent employed by FDI.

While the rapid growth of the private corporate sector is changing the above ratios within ‘private sector employment’, they remain within the ninety to ten percent private to state ratio; there has even been a slight increase in the proportion employed by the state. Given the very rapid expansion of the private sector, this indicates that state sector employment has continued growing.

In addition to its traditional areas, SOEs also invest in dynamic areas like garment, and are just as good as other sectors at creating new jobs, investing in new technology and

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193 This and all figures in this paragraph are from Central Institute for Economic Management, *Vietnam’s Economy in 2003*, National Political Publisher, Hanoi 2004, pp. 56, 114.
195 From 8.7 percent of the workforce in 1998, the state share of employment rose to 10.4 percent by 2003, higher than in 1991; the employment share in the domestic non-state sector declined slightly from 90.5 to 88.3 percent in 1998-2003, Molisa figures, Vo Tri Thanh and Pham Hoang Ha, ‘Vietnam’s recent economic reforms and developments: Achievements, paradoxes and challenges’, in Taylor, P. (Ed.), *Social Inequality in Vietnam and the Challenges of Reform*, ISEAS, Singapore, 2004, p. 79.
improving quality. One study of export-oriented garment and textile firms showed that "state enterprises are more profitable than both private and foreign enterprises," even though they "use more employees than both." SOEs have also expanded into agricultural processing, providing "off-farm employment in a variety of activities including the production and processing of sugar, rubber and coffee and in artificial insemination and fertilisers" and further "alleviate rural unemployment" in "cement blast furnaces, tunnel brick making, beer companies, state-owned farms and state forestry farms ..."

Employment creation is a semi-official aim of SOEs, which maintain many jobs in poor and remote areas where few private employers venture, considering them unprofitable. This significant social role, for little profit, poses no barriers to private and foreign firms creating new jobs in more profitable regions.

One survey showed that "profit maximisation was put on a par with creating employment for workers as the first operation targets of SOEs." A report into transport SOEs claimed they "often bid at a very low rate" which they know "would not make a profit" because "social goals, such as providing stable jobs for workers, has long outweighed the making of profit for the career promotion of state directors." Many construction firms continue take on new projects despite debts due to "the demand for job creation."

The growth of the sugar industry had the specific goal of creating rural employment. The Mission Statement of the Binh Duong Sugar Company states that it "has dual

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200 'Govt orders shutdown of ineffective firms', Viet Nam News, April 28, 2005.
202 The Miyazawa research claimed the crisis in the sugar industry was caused by "conflicting commercial and social objectives" because "to build an effective and profitable sugar industry, the mills should be large in order to take advantage of economics of scale," whereas, "to use sugar mills as a means of alleviating rural poverty on as wide a scale as possible, many small mills should be built, spread over a wide area," which was what happened, Ministry of Finance/Danida, Diagnostic Audit of large SOEs in the Rubber and Sugar Industries, Project Completion Report, December 2002, p. 53.
objectives," business and social; sugar companies have a specific "status within the government's poverty program." Its objectives include "stable employment for a maximum number of company employees," "providing stable income for thousands of poor in the countryside" and "maximising income for employees and cane farmers."\(^\text{203}\)

The final issue is that research conducted by the DFID debunked the view that state preference for SOEs and SOE preference for capital intensive industry was the cause of low growth of employment. Rather, the main cause was the elimination of jobs due to greater efficiency, particularly in sectors most involved in global competition. Thus "more efficient" private firms are good at eliminating jobs, despite also being big job-creators. This study also debunked many standard myths regarding SOEs, foreign invested enterprises (FIEs) and domestic private firms in relation to employment.\(^\text{204}\)

The study divided enterprises into 'highly capital intensive' (creating few jobs), 'moderately capital intensive', and 'highly labour intensive', with a low level of investment in technology. The greatest number of SOEs (38.7 percent) were 'moderately capital intensive', investing in technology to become efficient, but not to the extent of eliminating too many jobs. This showed more SOEs closer to a 'socialist oriented' balance than to either opposing SOE stereotypes, on average walking the fine line between employment and technological investment better than either highly capital intensive foreign firms or low-tech, labour intensive private firms.

Foreign enterprises created few jobs, as 38.8 percent fell into the highly capital intensive area, compared to 30.9 percent of SOEs They also rely heavily on cheaper imported components rather than buying or investing locally.

A greater percentage of private enterprises (33.2 percent) than SOEs (30.5 percent) or FIEs (30.1 percent) were highly labour intensive. However, the largest percentage of private enterprises, surprisingly, were highly capital intensive (35 percent), more so than SOEs (30.9 percent). Private firms thus rely on either lots of cheap labour or, as they

\(^{203}\) Ibid, Section: Diagnostic Audit Report: Binh Duong Sugar Company. According to a World Bank SOE expert (Interview, Hanoi, September 2005), "most mills are tiny and unprofitable, but farmers do OK, because there are lots of mills in the south where there is not much cane grown."

become larger, invest heavily in technology to better compete on the world market and *shed labour*, the logical outcome of profit orientation.\(^{205}\)

**Some examples of social negatives of SOEs**

The wealth of social roles played by the state sector does not mean it has no serious problems, that all SOEs play useful roles, or that the anti-SOE stereotypes don’t have some basis of truth.

SOEs exist in the world capitalist market, and their social role is affected by deepening globalisation. An example is when prices of imported materials drop due to massive US and EU subsidies to their cash crop industries. The logic of profitability is for SOEs to buy the imports and allow farmers to go to the wall.

Vinamilk’s policy of focusing on local development despite cheaper imports\(^{206}\) ended when “funds dried up in the face of stiff foreign competition,”\(^{207}\) that is, price dumping by foreign firms and imported powder harmed its capacity to keep subsidising farmer prices. Thus while the SOE had at least attempted to defy commercial logic, global competition ultimately forced it to act in way to the detriment of social goals.

When equitised in 2003, Vinamilk remained 80 percent state-owned, 15 percent owned by workers and farmers, and only 5 percent went to private individuals. Turning down pressure to list on the stock market, Vinamilk offered farmers preferential shares at a 30 percent discount.\(^{208}\)

However, in 2005, the state share fell to 51 percent, the difference grabbed by foreign capital, and Vinamilk became the largest company on the stock exchange.\(^{209}\) The effects

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\(^{205}\) All the above from ibid. Another study also showed that foreign enterprises were over four times more capital intensive than SOEs, while showing SOEs to be only one-and-a half times more capital intensive than private firms. As the ‘private firms’ were not divided in the way the DFID study was, this would include both larger and more technologically advanced private firms as well as the more low-tech, labour intensive firms, Nguyen Manh Cuong, op cit.

\(^{206}\) As discussed above on page 253-4.

\(^{207}\) Nguyen Van Hong, ‘Dairy investors turning sour’, *Vietnam Investment Review*, January 25-31 1999


\(^{209}\) In the first bid, for 11.5 percent of the company, eight foreign investors purchased 1,826,900 shares, leaving only 100 shares for one domestic investor, ‘Foreign investors acquire most Vinamilk shares at auction’, *VDC Business Newsletter*, February 18, 2005.
were immediate, farm-gate prices crashing: “dairy processing plants are now paying 20-30 per cent less than they paid last year for fresh milk.”

Another example is the reaction of textile and garment SOEs to dumped US cotton imports, which led world cotton prices to plunge to $390 per tonne in 2002, from their peak during 1992-1996 of around US$2000.

According to one report, garment firms have “taken advantage of these low prices, importing 115,000 tons of raw cotton for just $113 million.” However, Nguyen Huu Binh, director of the Vietnam Cotton Corporation (VCC) and deputy director of Vinatex, said “the company has promised to protect cotton farmers from losses and will honour all its contracts” it had signed with farmers.

These contradictory statements suggest that Vinatex and VCC, being SOEs, had to fulfil their obligations to farmers, while private firms imported cheaper cotton. However, another article claimed Vinatex had “planned to buy 8,000 tons of cotton from VCC,” but, reneging on its subsidiary, “it changed its mind, citing cheaper import prices.”

Former Vinatex unionist Nguyen Xuan Con explained that “Vinatex ordered each subsidiary to buy a quota from VCC when many were considering scrapping the agreement.” However, fellow unionist Nguyen Phuong Hoa claims Vinatex “proved incapable of preventing its companies from importing more cotton;” it was “an issue of business and the subsidised US prices were too good.” However, the government provided VCC subsidies to continue buying cotton at the guaranteed price.

According to the VCC:

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210 Tran Quoc Tuan, a Dong Thap dairy farmer claimed “that even after selling all six of his dairy cows, he didn’t earn enough money to pay off the loans he used to buy cows … Thousands of dairy farmers in the Mekong Delta share Tuan’s plight,” ‘Dairy cow farmers in Delta feel squeeze of mounting debt,’ Viet Nam News, August 13, 2005. Nevertheless, Vinamilk still aims to raise the proportion of milk it buys from farmers from 30 to 40-50 percent, ‘Dairy sector looks to cut imports’, Viet Nam News, February 5, 2005. This is unlikely with these price cuts and WTO tariff cuts on imports. Continual attempts to get an interview with Vinamilk in 2005 were unsuccessful, as it was reportedly too busy getting ready for the stock exchange. Finally, it offered a written response to questions, but did not come through with this. 211 ‘Cotton growers fret as prices plummet’, Viet Nam News May 27, 2002.
213 Viet Nam News also reported that “the government stepped in to subsidise farmers’ selling prices to keep them at a floor price of VND15,500 per kg,” ‘Vietnamese farmers have a boll with new cotton growing incentives’, Viet Nam News September 13, 2002.
As prices fell, local firms imported cotton to stockpile. This was reasonable as local supply only meets 10-15 percent of demand. As for VCC, serving its first purpose of assisting farmers, we still bought the cotton at the contract prices. We have fixed floor prices (agreed with the state, farmers and local firms). At a meeting with the Industry Ministry and Vinatex we asked SOEs buy our cotton at agreed prices. Strong ones were able to help with a larger quantity. Meanwhile, we always buy farmers' cotton at market prices when the world price rises.214

Nevertheless, the amount of local cotton that Vinatex uses remains low at around 10-15 percent, but the total cotton crop is bought. SOEs buy 60 percent of VCC output and private firms 40 percent; in 2003 Vinatex bought 7,000 tonnes and private traders 5,200 tonnes, suggesting a stronger social commitment, but not outstandingly so.

World market problems were also part responsible for the sugar crisis, there is also much justification for the criticisms of haphazard planning of the state sugar industry. In some areas there are too many sugar mills but not enough sugar, and in other areas there are sugar plantations but not enough mill capacity,215 the distance greatly increasing costs.216

The government outlined a plan for a million tons of sugar in 1995, but planning of small projects was decentralised, encouraging the construction of small mills:

To quickly get a project started, many provinces opted for a smaller project ... the government is vulnerable to various lobbying pressures (especially from People's Committees in the provinces) ... People's Committees went ahead with the development of raw material areas before planning and submitting a detailed feasibility study ... where a proposed mill was not first approved by MARD ... provinces exerted considerable political pressures to proceed, even knowing that such mills might not be viable.217

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215 According to then deputy prime minister Nguyen Tan Dung, "We must end the situation in which factories are being built where material supplies are insufficient, and where cane producing regions are being developed in areas without factories or where cane production already exceeds the capacity of factories, causing losses to farmers," Thu Tra, 'Could be sweeter', Vietnam Economic Times, June 2003.
216 "In dozens of mills, materials comprise up to 60-70 percent of production costs because they must be brought from 60-70 kilometres away," Thu Tra, 'Could be sweeter', Vietnam Economic Times, June 2003.
While a valid critique of an instance of "state planning," such planning anarchy is arguably the reverse of any "socialist planning," even if most enterprises were SOEs.

Despite the justified criticisms, the industry created jobs for 35,000 workers, and 555,000 sugar growing households. By plunging into sugar in the 1990s, the state was "responding to market signals" with "higher value crops," as it is told to do: world sugar prices rose from $US200 to $300 a tonne between 1992 and 1995. The problem was the crash in world prices in 1999 to under $150, resulting from huge EU subsidies.

Decentralised planning mainly resulted in processing plants increasing much faster than cane-growing. This made many plants unprofitable, but initially worked well for farmers. In the 1998-1999 "battle" for sugarcane, "factories paid farmers in advance (and) sugarcane planters earned a high profit." However, in 1999-2000, these high prices led households to "flock into sugarcane plantations" without planning, and "the price fell drastically" (alongside the concurrent world price crash), and many could not sell their sugar. In turn, this oversupply led in 2000-2001 to farmers "shifting to other crops, cutting down sugarcane ... though factories kept raising the price, even up to 270–300,000 VND/tonne, no sugarcane was available." This back and forth response to "market signals" indicated the lack of state planning, causing the near bankruptcy of most small state-owned mills. Far from a problem of state ownership, by 2001, the six

"one province sought approval to build a mill with the capacity to process 1000 tonnes of sugar cane a day but built a mill to process 6000 tonnes," ‘Sugar industry plan did not fail’, Viet Nam News, July 8, 2003.


In the late 1990s farmers demanded refineries pay cash up front, otherwise refusing to honour contracts "seriously depleting the amount of cane that factories need," ‘Sweet payment plan for sugar farmers’, Vietnam Economic Times, February 1999. According to a World Bank SOE expert, "farmers do OK, because there are lots of mills in the south where there is not much cane grown," thus the mills need the farmers more than vice versa" and "the mills are kept alive somehow," Interview, September 2005.

“In Dak Lak, many households had to cut down and transport sugarcane to sell to private traders at the price of 110,000 VND/tonne,” ICARD/MISPA, 2004, pp. 37-38. By 2002, this led to “severe competition among refineries to buy sugarcane, pushing prices up to VND390,000 per tonne, much higher than the ceiling of VND240,000 per tonne,” ‘Local sugar refineries get a raw deal’, Viet Nam News, May 16, 2002.
foreign plants, having accumulated losses of $60 million, called for state help to stay afloat!\footnote{224}{Hoang Mai, ‘Foreign sugar sector feels the pinch’, \textit{Vietnam Investment Review}, July 15-21, 2002.}

The low productivity of sugar is partly due to most farmers having plots of less than half a hectare, highlighting the resilience of land reform and SOEs’ roles in dealing with small farmers.\footnote{225}{ICARD/MISPA, 2004, pp. 23, 107. “Vietnam’s cane growing regions have been developed from small farming areas, chiefly distributed in remote localities,” Thu Tra, ‘Could be sweeter’, \textit{Vietnam Economic Times}, June 2003.} Also, “only in a few regions” did farmers put everything into sugar; sensibly, “sugarcane is cross-cultivated with other plants or bordered by rice and other cereals.”\footnote{226}{ICARD/MISPA, 2004, p. 23} Further, where farmers did not want to plant cane, the presence of state mills could not pressure them; mills in Ha Tinh and Hue had to move. This was a waste of public funds, but these farmers had the independence to not suffer from bad planning.\footnote{227}{Thu Tra, ‘Could be sweeter’, \textit{Vietnam Economic Times}, June 2003, p. 10. MPI Minister Vo Hong Phuc claimed Sugar Corp No. 1, not the state, would pay the costs as “the state didn’t invest in this project. The corporation borrowed investment capital” for the project,” and “no research was done before choosing Linh Cam to grow and process sugar cane” ‘Sugar industry set for shake-up’, \textit{Viet Nam News}, June 19, 2003.}

However, state ownership was thus not solely responsible, failed state planning did play a role. Bankruptcy of mills is ultimately also not good for farmers; some switched crops, but that is not always easy. While the reverse situation in 2000 – too much sugar – was a response to the market rather than state planning, there is no evidence the state or SOEs warned farmers not to flock to sugar. Some farmers even claim they were told to grow sugar then.\footnote{228}{This was the case with some cane growers in Gia Lai in the central highlands, and the SOE mill had reneged on its promise to buy their cane, RRA Research Team, IUCN Vietnam, \textit{Resource use, Environmental Degradation and Poverty: Rapid Rural Appraisal of Two Communes in the Se San Watershed}, Presented to ADB/RETA 5771, Hanoi, 2000.} In the central highlands, there tended to be more sugarcane than mill capacity in general, in contrast to the national trend. Lack of planning is generally seen as incompatible with socialism; the critique thus ought to be that SOEs were playing the same game as private firms, rather than any inherent problem with state ownership.

Another area where the nexus between bad planning, the market and the private sector damages the state’s social role is in distribution. Where sugar farmers are contracted to SOEs like Lam Son, their produce is collected by farmer cooperatives, but in much of the
country, farmer produce passes through private intermediaries before reaching the SOE processor or exporter.

This problem affects both the sale of inputs like fertiliser\textsuperscript{229} and farmers’ output of many crops. Despite the dogma that competition among traders means better prices, there are far fewer traders than farmers. Medium-sized traders have transport and storage facilities, so can hoard inputs to force up prices, while poor farmers have no storage so must sell straight after harvest, when prices are low, and usually have to sell then anyway to pay debts.\textsuperscript{230}

In the south, 95 percent of sugar goes through private assemblers; at one plant in Can Tho, where the agreed price in 2003 was 220 dong/kg, farmers got only 150 dong/kg.\textsuperscript{231} Similarly, Mekong fruit is “exported to China by small traders who pick up the fruit at rock-bottom prices from farmers.” Competition between many traders carrying bumper crops lets China drive a hard bargain.\textsuperscript{232} The litchi price in the harvest season, when poor farmers sell, is one-third that at other times.\textsuperscript{233} Salt traders buy cheap from poor salt farmers and hoard large quantities to make a killing later.\textsuperscript{234}

NGO consultation showed that Mekong rice farmers wanted direct links to SOE exporters, as private middlemen “have too much power to set prices and costs.” Some want the state to directly buy their produce.\textsuperscript{235} The problem can occur even if the state offers higher prices. Although the Salt Corporation offered a high price of 1,000 dong/kg in 2001, it “could not purchase enough for its domestic sales,” because poor salt farmers

\textsuperscript{229} See Chapter 7 on rice and fertiliser.
\textsuperscript{230} Extensive evidence in Oxfam Great Britain/Oxfam Hong Kong, *Rice for the Poor*, 2002.
\textsuperscript{231} ICARD/MISPA, 2004, p. 32
\textsuperscript{232} Longan prices at the border are little higher than in the Mekong, so traders sometimes do not even buy the fruit, ‘Mekong farmers stare ruin in the face as longan prices plunge’, *Viet Nam News*, July 4, 2002
\textsuperscript{233} From the *Viet Nam News* articles ‘Plunging litchi prices sour the outlook for Luc Ngan producers’, May 19, ‘Litchi centre to stabilise prices’, May 10, 2002, and ‘Bumper litchi harvest yields a bunch of marketing difficulties’ October 23, 2002. A new MARD trade centre is planned in Luc Ngan, and “is expected to help limit the downward pressure on prices caused by distribution through too many middlemen,” ibid.
\textsuperscript{234} One trader says she has made hundreds of millions of dong from such deals, ‘Big salt shake up for Ninh Thuan’ *Viet Nam News*, September 18, 2002.
must "sell their products as soon as possible even if the price is low," and flexible traders get to the farm-gate more quickly. The salt farmers' "most fervent wish" is for a SOE to directly buy their salt "at a fair and stable price, so that they no longer have to rely on the private traders who always pay too little."

It is difficult for SOEs to reach thousands of households, so they often have to rely on traders, and perhaps cannot be blamed for the problem. (The alternative is farmers setting up cooperatives). However, it is widely rumoured that many SOE managers have personal connections with private traders, which may mean a cut for both. It is unknown how widespread this is, but the current gaps in the system suggest this may be one explanation for the apparent lack of interest by SOEs in addressing this problem.

Similar accusations are heard about construction. It is often suggested that there is too much focus on infrastructure compared to other needs. One interpretation is that local governments act under pressure of the commercial interests of construction SOEs, or of private construction firms with SOE connections.

Construction SOEs perform little visible social role. While office blocks, expensive hotels and resorts go up daily, housing for the poor takes a back seat. The state Song Da company is highly profitable, making 250 billion dong (US$16 million) in 2003-4, yet is not required to put any of its surplus into housing for the poor. Any investment under 500 billion dong can be decided without state approval; Song Da can expand into any area outside construction it chooses, with no limit to how much, as long as it fulfils its main role of building hydro-electric plants. Even for these plants, investment comes from

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238 For example, when sugar growers demanded a higher price than the 160,000 dong SOEs were paying, the SOEs used 'dau nau', a kind of speculator, who bought the cane for 170-200,000 dong a tonne, and sold it to the plants for 300,000 dong. "Corruption occurs when the official at the plant pockets much of that 300,000 dong," 'Sweet payment plan for sugar farmers', Vietnam Economic Times, February 1999. However, this raises the question of why the SOEs could not directly pay the farmers a higher price when they ended up paying the speculator much more.
239 State import-export companies are another example, discussed more in chapter on rice and fertiliser.
Electricity of Vietnam, not Song Da.\textsuperscript{240} This appears an example of effective privatisation of state-owned assets.\textsuperscript{241}

Some critics charge that it is not only the state-private nexus and profit-driven SOEs that obstruct SOE social roles. Agriculture expert Dang Kim Son claims conversely that the lack of commercial orientation of SOEs means they do little to search for markets. Vinatea, for example, has a trademark “but can’t be bothered using it,” and does nothing to seek new markets for farmers.\textsuperscript{242} If agricultural SOEs were equitised, they would have a greater interest in chasing markets. However, Son agrees that greater profit orientation could be detrimental to farmers in other ways, and that foreign and private investors show little interest in agriculture due to low returns.

Therefore, he proposes a specific type of equitisation for agricultural SOEs, where farmers take a large percentage of the shares, “to ensure their interests are served” and to heal the contradiction between profit and farmers’ interests. This was introduced in 1998 in some SOEs, with farmers entitled to a 30 percent share discount.\textsuperscript{243} According to Lam Son Sugar chairman Le Van Tam, “ninety percent of the sugarcane farmers can buy shares” and participate in management “for the first time.” The government holds 37.6 percent of capital, the staff 32.4 percent, farmers 22.5 percent and outsiders 7.5 percent.\textsuperscript{244} La Nga Sugar was equitised with farmers gaining 25 percent of shares (along with 29 percent for workers and 46 percent for the state).\textsuperscript{245}

\textsuperscript{240} Mr. Tinh, Party Committee, Song Da Corporation, Interview, Hanoi, August 8 2005.
\textsuperscript{241} Song Da does make a good contribution to the state’s classroom program. Nevertheless, as Song Da is highly profitable, this program accounts for only 2 percent of after-tax profit. Given its huge profits from projects for the rich, the lack of a public housing component indicates a gap in state planning via SOEs.
\textsuperscript{242} Dang Kim Son, General Director, Institute of Policy and Strategy for Agriculture and Rural Development, Ministry of Agriculture and Rural Development (MARD), Interview, Hanoi, December 2005.
\textsuperscript{244} Le Van Tam, Chairman, Lam Son Sugar JSC, ‘An overview of cooperation with farmers in the establishment and development of the Lam Son Sugar material zone’, \textit{Linking Farmers to Markets Through Contract Farming}, Asian Development Bank, Hanoi October 2005, p. 35.
\textsuperscript{245} Ministry of Finance/Danida, op cit, p. 93/111. The state-owned share had increased to 51 percent by 2004, Lam Hue Nu, ‘Cong ty mia duong La Nga sau co phan hoa’, \textit{Nhan Dan}, December 14, 2004, p. 2.
However, Son believes individual shares are not good enough to protect farmers. Instead, real cooperatives should take over part of the SOEs’ shares, but this is just “too new” for the government and “no-one is interested.”

Ownership of shares by farmers, or cooperatives, sheds a different light on equitisation. Equitisation may drive the company away from social goals; even worker shares may only make SOE workers more privileged. However, the scope of most agricultural SOEs is local, not national, so their “community” that social goals are most oriented towards are local farmers. In this sense, significant farmer shares can be viewed as a special kind of community management.

Limitations of community control

This leads to the issue of what may be missing in management of social enterprises. From the point of view of social control, the model including roles for the state, management, workers and their organisations appears to lack a clear and institutionalised role of the community in state enterprise management.

Bureaucratic errors, paternalistic attitudes, nepotistic linkages and simple mistakes are hardly unique to Vietnam. However, a role for community management, while no panacea, may be able to correct certain errors from the point of view of affected communities, and strengthen the social nature of SOEs.

While the state theoretically represents society, this is at the macro level; in the case of sugar for example, alongside the central state’s ‘One Million Tonnes’ program, local state and SOE planning was shown to be – alongside the market – haphazard and detrimental to real community needs.

There are elements of involvement from society. The party cell extends beyond the SOE, being linked to party members who live in local neighbourhoods, villages and communes, and to a program stressing social goals. Yet defining the role of the party unit was extraordinarily difficult. Most replies were very general, claiming the party unit...
ensures the enterprise follows “the law” or carries out government policies, which does not explain why it is more equipped to do this than government-appointed managers.

A more coherent reply was that the party balanced the interests of management and unions, as both were led by party members: if management violated workers’ rights to drive up profits, the party would side with workers and the “law”; but if workers believed their power in the enterprise meant not having to work hard, the party would remind them that the enterprise belonged to society. While reasonable, this does not explain the party’s connection to the broader society.

A very small number of interviewees did claim the role of the party unit was to keep the enterprise attached to society, by pushing party programs and campaigns such as poverty reduction within the enterprise; other interviewees, however, explicitly denied this when it was suggested. There appears a great deal of unclarity about this question.

The mass organisations represented in the SOE, the youth and women’s unions, also connect the SOE, its workers, and to an extent its funds to outside campaigns; but again the evidence for a clear, consistent role was limited.

SOE trade unions play the major role in harnessing funding for out-of-enterprise welfare. This directly links workers with the poorer layers outside the enterprise, encouraging social solidarity. However, their motivations for pursuing such a role remained unclear.

When asking workers, they tended to reply that “charity” was simply a natural, humanitarian thing, and the ‘Vietnamese way’. Vietnamese society stresses funding mobilisation and social solidarity, and this may simply be its reflection among SOE workers. It may also be related to party leadership of the trade unions, though this was rarely spelled out.

Finally, the Fatherland Front provides an institutionalised connection to the greater community, since the local chapter of the Front, which covers local mass and social organisations, also includes local SOE trade unions and local branches of the CPV and the mass organisations, which both represented in the SOE. However, while the Front

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248 For example, Phung Du Duc, op cit, gave this view.
249 For example, Vu Tuan Anh, Professor, Economics Institute, Vietnam Academy of Social Sciences, Interview, March 2005, cited above under ‘Social spending from after-tax profits’.
250 For example, Worker 4 at Hoang Thach Cement plant, site visit, Hai Duong province, November 2005.
mobilises funds from SOE surpluses for social campaigns, this still does not involve a community role in *the planning process* of SOE investment and its connection to local people.\(^{251}\)

**Conclusion**

The more negative analyses of the state sector are not entirely wrong, but they tend to be simplistic, one-sided and often self-contradictory. The pressures on the state sector are varied and contradictory; when looking at something as large, complex and varied as the state sector, there is much room for different realities. One SOE may be involved in corruption and another in commendable work; or both behaviours may exist within the same SOE.

Partly, the question is whether the negatives dominate the socio-economic reality to the extent that the state economy plays an overall negative social role. If everything often claimed were correct, then the “leading role for the state sector” would have little validity; SOEs would be a detrimental feature of Vietnam’s socio-economy. In that case, the axis around which the socialist-oriented wing of the political leadership revolves would be questionable, and theories that they are “conservative” ideologues not accepting new “realities,” or representatives of officialdom corruptly profiting from surviving elements of the old system, would have greater credence.

However, such theories miss the elephant in the room, of a state sector stubbornly remaining the preponderant part of the socio-economy throughout the years that Vietnam has made both economic progress and significant advances in public welfare. Rather than a ‘paradox’, where everything else is creating this progress except the dominant element, the evidence suggests that the state sector’s role must be seen in an overall positive light, consistent with, if not leading, the country’s social and economic advance.

The picture presented in this chapter reveals a state enterprise sector with a great variety of social roles. Policies may sometimes be contradictory; progressive social policies may at times be implemented badly, bureaucratically or paternalistically; there are obviously many exceptions; and the pressures of the market and globalisation have their impacts on

\(^{251}\) This can be linked to the overall situation of socialist democracy in Vietnam: more democratic than stereotyped, but within a framework still restrictive of open democracy, as discussed above in Chapter 3.
state enterprise social policy; yet none of this can invalidate the overall reality that the presence of a dominant state sector plays an overall positive role in relation to socialist orientation. This deeply embedded reality is the social base of the socialist-orientation wing of the CPV.

The following chapters will highlight the state sector’s important social role in a number of key areas of the economy.
Chapter 7
Global Agricultural Trade:
The Great Debate on Quotas and SOEs

One common complaint is that SOEs hold ‘monopolies’ on prices paid to farmers for produce for export and on costs for imported farm inputs like fertiliser, and this negatively impacts the poor: that is, the very social roles these SOEs are assigned are charged with having an anti-social effect. In a wide-ranging attack on the state sector role, the World Bank in 1998 criticised the semi-monopoly given a number of SOEs in rice exports and fertiliser imports, as well as the rice export quota and the fertiliser import quota, which favoured these SOEs. The Bank claimed these policies “result in lower prices and higher costs for farmers.”

The Bank claimed that if more private exporters and importers compete with the SOEs, it would mean better prices for farmers. In addition, the rice export restrictions lowered the price farmers got for their rice compared to what they could have received if more rice could be exported, because world prices were higher than domestic prices. Thus, if Vietnamese people want to buy rice, they would have to compete with wealthier consumers abroad, and hence pay higher prices to farmers. Only the exporting SOEs profited from high world prices, at the expense of farmers. Likewise, fertiliser prices would be lower for farmers if the amount that could be imported were not restricted; these quotas merely protected “inefficient” SOEs and the jobs of privileged SOE.

1 This should be distinguished from prices on the domestic market, which have long been market-determined; and from the prices of SOE-run essential services, which the state keeps lower than market prices. Pre-Doi Moi, SOEs had distribution monopolies on domestic trade, but in a different context. The lower prices the state paid farmers represented a kind of ‘tax’; the peasants were supposed to get back subsidised inputs, irrigation etc. In conditions of grinding poverty, war and embargo, what peasants got back often did not seem worth it. Simply raising the state price paid for grain in 1980 had a huge impact on state grain procurement (Ngo Vinh Long, ‘Some aspects of cooperatisation in the Mekong Delta’, in Marr, D and White, C.P. (Ed), Postwar Vietnam: Dilemmas in Socialist Development, Southeast Asia Program, Cornell University, New York, 1988, p170-171). The inefficiency of a poor central state in supplying inputs and buying outputs would also make flexible private traders an improvement, regardless of price. Post-Doi Moi however, complaints by poor peasants about exploitation by private traders are legion.

workers. Hence “farm incomes, including those of the poor, would rise,” as the “vast majority” of the poor are rice sellers rather than rice buyers.

In contrast to the Bank, Beresford claims these policies were aimed at helping not only rice consumers but also rice farmers, by preventing uncontrolled export gluts that could lead to prices crashing. However, she also raises the problem that the high export prices in practice benefited SOE exporters rather than farmers. The crux of her argument was that the extra profit made by these SOEs was “unlikely to be ploughed back into agriculture,” as it belonged to the autonomous state enterprise, rather than the state.

If the peasants’ interests are in conflict with those of SOEs, it would raise serious questions about how such enterprises could play a socially beneficial role – especially in a country where peasants are the majority of the population.

This chapter argues that, while these concerns have much validity, there is considerable evidence that the operations of these SOEs have not been entirely autonomous, and the degree of political direction has been focused on social outcomes. While these social aims have often been far from successful, the indications are that privatisation would be distinctly negative in relation to the welfare of farmers.

The state food companies and rice farmers

The major SOEs in the rice business (export, processing and large-scale domestic distribution) are the Northern and Southern Food Companies (Vinafood I and II), in addition to a number of smaller state farms and exporters. These SOEs are assigned the role of carrying out their business “in accordance with overall State planning, to meet domestic demand for rice and to purchase all marketable rice products” of farmers.

A deputy director of Vinafood I described the social roles of the two corporations as:

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3 Ibid.
6 Decision 311-TTg, May 24 1995.
- When there are floods and other disasters, the SOEs supply food from the large amount they keep in reserve
- When there is a shortage of food in some area, the SOEs distribute rice, “not free, but cheaply”\(^7\)

A World Bank staffer explained:

The Food Corps have a role to ensure the farmers get a decent price, whatever the world market situation, while keeping control of exports and adjusting if necessary to ensure the domestic price is under some kind of control, though domestic distribution is controlled by private traders. In no way can this be considered as running on a profit-driven basis.\(^8\)

Such claims contradict the criticisms by the World Bank. In reality, the Bank’s policy recommendation that domestic prices should be tied to the world market and SOEs should be excluded from current role is flawed in its assumptions.

Firstly, the majority of rural dwellers are *net rice buyers*, not net rice sellers.\(^9\) The minority of net rice sellers include the wealthier large farmers in the Mekong. The rural net rice buyers - who do not grow enough rice - comprise the bulk of the rural poor, while rural *absolute rice buyers*, including the landless, are almost all poor. The urban poor are often former or part-time rural dwellers. The four poorest regions (Northern Mountains, Central Highlands, North and South Central Coast) are rice deficit regions, while the rice surplus deltas are the second and third wealthiest regions.\(^10\) Rice accounts for 51 percent of total expenditure by the poor.\(^11\)

Most of the rural poor would be negatively affected if rice prices were determined only by world prices when they are high, as in 1998-99 when the above advice was given.

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7 Deputy Director, Northern Food Corporation, Interview, Hanoi, June 2005.  
8 World Bank, SOE expert, Interview, Hanoi, October 2005.  
9 This is very clearly spelt out in Oxfam Great Britain/Oxfam Hong Kong, *Rice for the Poor*, Hanoi, 2002.  
10 The wealthiest region is the South-East, which includes Ho Chi Minh City, but this region also has massive inequality and huge numbers of urban poor. In addition, it should be borne in mind that this refers to relative wealth only, and is an average. While the Red River Delta is the second wealthiest region, this is largely because it includes Hanoi, and there are many poor people in this region; however, even the peasant population excluding Hanoi is relatively better off than most peasants in the four rice deficit regions.  
Secondly, while there are also many poor rice sellers who would be threatened by landlessness if rice prices were too low, they benefit little from high export prices. They have to sell straight after harvest, when prices are lowest, to pay debts and buy essentials, and they have no storage capacity. Hence private traders who have transport and storage can drive a hard bargain and reap the rewards of higher export prices. Even net rice buyers often sell rice for needed cash at harvest. Both groups buy rice later, when prices are high. So for poor sellers and buyers, a stable price is most desirable.12

Thirdly, price highs are temporary. In 1998, the high world price was caused both by the collapse of the Indonesian economy13 and massive Chinese rice imports.14 Pegging rice prices to world prices pegs rice producers and consumers to world market volatility. As Beresford explains, in the early 1990s “rice exporters in competition with each other drove down the price.”15 These exporters were mostly a large number of SOEs, but given that they were in wild competition with each other and that this export craze had few state restrictions, this should have benefited farmers according to neo-liberal thinking. In reality it glutted the world market in 1992 and caused a massive price crash, which adversely affected small producers. Meanwhile, the export expansion had far surpassed the growth of local consumption, at a time when malnutrition was increasing.16 The state’s attempt to regulate rice exports was aimed at protecting both poor producers and poor consumers from such volatility, a difficult task which at times might favour one over the other. The number of SOEs allowed to export was drastically reduced (and private exporters banned) in 1992, and the export quota was introduced in 1994,17 aimed precisely at protecting high export prices from causing any new gluts, while also maintaining relatively low domestic prices.18

13 The devaluation of the rupiah led to a 6-fold increase in the domestic rice price; bankrupt consumers could not afford to buy from their own farmers. This artificial “rice shortage” boosted world prices, so Vietnam could sell to Indonesians at a high price (for Vietnam) which was still “cheap” compared to local Indonesian prices.
15 Beresford, 1999, op cit, p. 23.
17 Niimi, Vasudeva-Dutta, Winters, 2002, Appendix 1, Table 4.
18 Beresford, 1999, op cit, p. 23.
The view that these changes were negative for rice farmers does not sit well with the drastic fall in rural poverty over 1993-98. The argument is that the lower domestic price disadvantaged rice sellers, yet even though the quota kept prices 14-22 percent below export prices, domestic rice prices still rose 20-30 percent throughout the period. Apart from seafood, rice rose more than any major consumer product, many of which fell.

However, the Mekong Delta, the main rice surplus region, showed the lowest national drop in poverty. Yet this can hardly have been caused by the export quota if domestic prices were rising; rather it suggests these rising prices barely reached them. ActionAid found that the poor did not see price increases as likely to benefit them “because they never had any rice to sell.” Similarly, Oxfam found that poor farmers see rice as a means to subsist, and prefer concurrent diversification into livestock or other crops, or paid work, to raise cash. Even in the rice surplus Red River, handicrafts have aided poverty reduction more than rice sales.

One key problem is that the Mekong has the greatest degree of land concentration and landlessness in the country. With little land, the poor can neither diversify, nor have much rice to sell, nor have bargaining power with traders; the Mekong rich, by contrast, often have enormous holdings.

In contrast to claims that SOEs profited at the expense of farmers, former CPV leader Nguyen Van Linh blamed Mekong farmers’ poverty on the private intermediaries, who buy farmers’ rice, and process, store and transport it to the retail market or the SOE exporter. Le Kha Phieu, who at the time was the CPV leader, similarly claimed that while SOEs buy farmers’ rice and sell them fertiliser, “because the channels for

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22 Ibid pp 13-14, 32, 36. 43 percent of all people falling into poverty were in the Mekong, p34
23 ActionAid/centre for Rural Progress, Rice and Trade Liberalisation Report, 2002
24 Oxfam Great Britain/Oxfam Hong Kong, Rice for the Poor, Hanoi, 2002.
contacting every peasant household are imperfect, the actual direct purchases are made by private business people who impose their own prices. Phieu suggested “forms of cooperation” would “certainly benefit” both the farmers and the SOEs.

It may be expected that the World Bank would focus blame on SOEs, and people like Linh and Phieu on private intermediaries, yet ironically one study found that the rice farmers, not the private and state firms, get the biggest cut of the value added. The consulting company Agrifood found that in 1996, farmers in the Mekong and Red Rivers were getting 30 and 18 percent profit margins respectively, or 62 percent of total profit made by all players from farm-gate to retail. In 2002, when world prices were very low and exports down, farmers were making a 37 percent profit, accounting for 82 percent of the total profit of the rice trade. Private collectors, huskers, millers and transporters were making a 2.8-4.9 percent profit per kilo, meaning 19.6 percent of total profit. Exporters were losing 1.6 percent, though Vinafood made half a percent per kilo profit, or one percent of total profit.

Thus farmers make the lion’s share, and private intermediaries make most of the remainder. Of course this is deceptive, as each private intermediary handles many more kilos than each farmer, and each export company handles many more than each trader. However, SOE exporters, with huge capital costs, were clearly not making anything like super-profits. In 1998, in fact, Vinafood II ran at a loss; high world prices led to profits in 1999, yet even this was only half a percent, dropping to 0.1 percent in 2000, and back to half a percent in 2003. The 19.6 percent of total profit made by traders and millers is a full one quarter of the proportion made by all farmers; the one percent of the total made by Vinafood is only one twentieth of the proportion made by private players.


Ibid.


Agrifood, op cit, noted that in 2002, margins for SOEs were “relatively low” and “not all are making a profit on rice sales.” It quoted net profits of millers of 20-50 dong per kg, while SOE export sales “yielded a net profit of US$1-2 per ton,” which translates to 0.1 to 0.2 cents per kg, lower than “their domestic sales which provided a margin of US$4-5 per ton,” which again however was only 0.4 to 0.5 cents per kg. One provincial food company “in the best case scenario made just US$54,000 on 200,000 tons of rice exports” while “in the worst-case scenario, it incurred losses of nearly US$1.6 million,” p. 68.
Further, the figures show average prices for farmers; but the small decrease in poverty in
the Mekong suggests many Mekong farmers did not get these prices, and that the greater
degree of landlessness and semi-landlessness in the Mekong may have been a factor.

It may also point to differences between the private intermediaries in the Mekong and the
Red River. Agrifood calculated “profit margins for collectors at US$8.62/tonne and
US$4.99/tonne” in the Mekong and Red River regions respectively in 1996, which
“equates to 2.9 percent and 1.6 percent of retail price” in these respective regions. 32 Thus
traders took double the cut in the Mekong. There is also a difference in scale:
“Assemblers in the northern and central regions use bicycles and “cyclos” to collect the
paddy and handle 30 to 100 tons per year. In the south, they use carts and boats, allowing
them to move 200 to 1,000 tons per year.”33 Similarly, the assets of “small pure millers”
were valued at US$8,463 in the Mekong, but only US$1,000 in the Red River in 1996,
while “miller-polishers,” almost exclusively in the Mekong, had assets “of well over
$200,000.”34

Consultation with the poor in Mekong provinces Tra Vinh and Vinh Long revealed they
want direct links to the SOE exporters, rather than through middlemen “who have too
much power to set prices and costs”. They wanted subsidised prices and guaranteed
markets, and some wanted the state to directly buy their produce.35

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32 Ibid, p. 64.
33 Ibid, p. 63.
34 Ibid, p. 67. Many descriptions of private traders do not sound like rich capitalists, but often ex-farmers,
often women, using primitive transport, with small margins, Oxfam, Rice for the Poor, op cit, which
showed that in some regions farmers see small traders as “friends”; ‘Bac Hoai’, rice farmer in Hai Hung,
interview March 2007, who said traders normally make 300 dong per kilo, but often make nothing or even
negative profit, as long as they can sell the by-products.
35 Oxfam Great Britain, Poor people’s feedback on ‘Comprehensive Poverty Reduction and Growth
Strategy’ in Tra Vinh, Hanoi, 2001; Catholic Relief Services (CRS), Poor people’s feedback on
wanted subsidised credit and loans without collateral, and want the country to import less of what can be
produced at home. Similarly, in Ha Tinh, the poor called for government agricultural land mapping for
suitable crop selection, state assistance in identification of species of crop or livestock suitable for local
economic and natural conditions, increased agricultural prices, price support policies, and provision of
long and short term credit, including continuation of current preferential interest rates for poor households,
ActionAid Vietnam, Poor people’s feedback on ‘Comprehensive Poverty Reduction and Growth Strategy,
Report from Can Loc, Ha Tinh, December 2000. These requests of the poor run counter to WB advice,
suggest few illusions in export as a solution to poverty, and can be described as state interventionist,
subsidy-based and redistributive.
The difference may also reflect the fact that Red River farmers maintain low-level forms of cooperation, more so than farmers in the Mekong. In addition, the Red River region has tended towards concurrent diversification into other crops while maintaining rice security. In contrast, the tendency in the Mekong has been to either rice mono-cropping for export or complete “diversification” into another export mono-crop, especially shrimp. According to a rice farmer in Hai Hung in the Red River region, farmers have maintained a margin of 600 dong per kilo over many years, despite rising costs, because in her area farmers have more bargaining power. They grow other crops as well as rice, so they do not have to sell at harvest time or at the beginning of the school year to meet expenses; they can sell other crops then, and decide whether to sell the rice later or keep it for private use if the price remains low.

In any case, when the world rice price rose so high around 1998 that SOEs actually made some profit, threatening to widen the gap between SOE surpluses and farmers’ prices, the government expanded private sector export rights and relaxed the quota. Relaxing rather than abolishing the regulations was aimed at aiding rice sellers at that moment, while still being able to use these tools to protect poor consumers.

The high world price encouraged increased exports, glutting the world market, so world prices crashed again in 2000-2001. So whatever the merits of World Bank advice in 1998, it was now irrelevant. When the price crashed, the SOEs were required to subsidise farmers’ prices by paying the government’s ‘floor price’ of 1300 dong per kilo, 200 dong over the market price, barely breaking even. This was not ‘good business sense’ and would have resulted in ‘low profitability’. Naturally, private traders or exporters did not rush to compete by paying more than the market price. Even the SOEs were reluctant, but had no choice. According to Duong Thi Ngoc Tranh, Vinafood II’s director, “our member companies are hesitant to enter such contracts, but they are virtually forced to do so because they are state-owned enterprises whose function is to some extent politically-oriented.” Thus SOE profits from the previous period were “ploughed back into

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36 This general description of the difference was made by Professor Dao The Tuan, Director of Research, Department of Agrarian Systems, Vietnam Agricultural Science Institute, Interview, Hanoi, August 2003.
agriculture.” It would have been more difficult for the SOEs to do this if their profits had suffered further from competition from private exporters when prices were high.

The government also subsidised the interest on loans for the SOEs to buy up large amounts of rice to maintain farm-gate prices. This is an example of SOE debt being accrued due to social obligations rather than “inefficiency.”

The government did finally take World Bank advice and lift the export quota and licensing restrictions in 2001. At this time, however, world rice prices had crashed, so there was no leeway for exporters, state or private, to compete by offering better prices. In late 2001, rice prices began rising again, but in October 2002 were still 30 per cent lower than in 1997.\(^{39}\) Despite this slight increase, and the absence of the quota, exports to October 2002 had decreased by 9.4 per cent from the same period the previous year.\(^{40}\) Farmers were not exporting more as the world price was still affordable to Vietnam’s domestic rice buyers.

However, from 2004, Vietnam’s annual inflation began rising dramatically to around 10 percent. A deputy director of Vinafood I claimed the rising rice price was “higher than inflation, and the main driver of inflation.”\(^{41}\) This was driven partly by soaring exports as world prices again approached 1998 levels.\(^{42}\)

While this adversely affected the urban poor, the question remains whether farmers benefited. In the 2002 Agrifood survey, when world prices were still low, farm-gate paddy prices were 1600 per kilo, giving the farmer a profit of 600 dong.\(^{43}\) In 2005, farm-gate prices ranged from 2000 to 2500 per kilo, but according to the Vinafood I deputy director, farmers’ profit still amounted to 5-600 per kilo, due to the rising cost of fuel.

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\(^{39}\) As of October 2002, Vietnamese export 25 per cent broken rice is trading at $173 a tonne, compared to $245 in 1997 and $273 in 1998.

\(^{40}\) While increasing 24% in value due to better prices, ‘Rice exports reach 3 m tonne mark’, \textit{Dau Tu}, October 28 2002.

\(^{41}\) Deputy Director, Northern Food Corporation, Interview, Hanoi, June 2005. Also, Vietnam’s consumer price index (CPI) in January 2004 rose 1.1% over the previous month and 9.7% year-on-year, of which food and foodstuffs recorded the highest growth by soaring 1.7% over the previous month, ‘Soaring food prices lead CPI up 1.1% in Jan’, \textit{VDC Business Newsletter}, January 24, 2004.


\(^{43}\) Agrifood, op cit, p. 179.
fertiliser, pesticides and other inputs. The retail price of processed rice ranged between 4000 and 4300 dong, suggesting small but varied margins for traders and millers on the domestic market (1 kilo of paddy is equivalent to 0.7 kilo of processed rice). Vinafood paid traders 2500 dong per kilo of paddy for export, suggesting a range from 500 dong to almost zero in their margins.

By 2007, a rice farmer in Ninh Binh said the farm-gate price was a minimum of 3500 dong/kilo, up from 2000 dong in 2005, and another from Hai Hung said the price was now 4000-4200 dong, up from 2700-3200 in 2005. By 2007, a rice farmer in Ninh Binh said the farm-gate price was a minimum of 3500 dong/kilo, up from 2000 dong in 2005, and another from Hai Hung said the price was now 4000-4200 dong, up from 2700-3200 in 2005. Both, however, said farmers' profit was almost the same, some 600 dong, as input prices have also risen, and other prices have risen in the market. The top farm-gate price of 4200 dong/kilo would have equaled 6000 dong/kilo for processed rice, whereas the lower paddy price of 3500 dong/kilo would have given a price of 5000 dong per kilo for rice. As the retail price in Hanoi in March 2007 was at least 6000 dong per kilo, intermediaries got little with the higher paddy price, but made margins of 1000 dong per kilo with the lower price. These farmers claimed the traders make on average only 300 dong/kilo, but even this is double the 150 dong traders were getting in the 2002 Agrifood survey.

All this suggests that the end of the quota, the entry of private exporters and the export boom have had no beneficial effect on rice farmers' margins. However, it also appears that their margins haven't dropped. Thus issues other than export liberalisation might be in play.

One important factor is that liberalisation was only partial. The Government Price Commission regulates domestic floor and ceiling prices based "on the cost of production in order to ensure a fair price for both farmers and consumers." Similarly, the Trade Ministry regulates floor prices for export rice, and SOEs still largely dominate here.

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45 As above, based on 1 kilo of paddy being equivalent to 0.7 kilo of processed rice.

46 Though again this is only an average — sometimes, they claim, they have to accept getting nothing, but they make money processing and selling the by-products of processing the rice — they get 2000 dong from each kilo of chán produced.

47 Though they would have in real terms considering inflation since 2005.

48 Agrifood, p. 80.
While the quota is gone, the state still regulates the amount exported, and intervenes to protect consumers or producers. According to Deputy Minister of Agriculture and Rural Development, Diep Kinh Tan, the government has to consider expected domestic demand, the need for rice seeds for planting, and food security. “After we meet these demands, leftover rice is set aside for export.” In addition, “every year we have to save 20 per cent of the rice produced as food reserves in case of natural disasters.”

It thus appears consumers still have a measure of protection from export-driven price rises.

For example, following hurricane Damrey in September 2005, which damaged over 200,000 ha of rice crops and led to losses of 3-400,000 tones of rice in the north, retail prices temporarily jumped 300-500 dong per kilo, to 4300-4800 dong. The government declared a halt to signing of any new rice contracts “to ensure national food security.”

Though some might argue that this continued state intervention prevents farmers from benefiting more from export liberalisation, the state also intervenes to protect farmers when prices drop. In 2002-2003, it guaranteed to purchase all paddy if prices dropped below 1300 dong per kilo. This floor price has since risen. When the farm-gate price in the Mekong fell from 2500 in 2005 to 2000-2300 dong per kilo in early 2006, foreign buyers did not “rush to sign deals” because they “expected prices to fall further.” However, the government stepped in to stockpile three percent of expected annual exports, giving Vinafood I and II collateral-free loans to stock 150,000 tonnes, “in a bid to boost prices.”

As high export levels can just as easily lead to price dumping as to good prices, the Trade Ministry and the Vietnam Food Association operate “a mechanism which prevents rice exporters from dumping Vietnamese rice export prices.” The government further

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50. MARD urges halt to rice contracts’, Viet Nam News, October 5, 2005; ‘Ministry asks for measures to control rice exports in fear of food shortage’, VNECONOMY, October 5, 2005. However, later in the year, when supplies were assured, exports were resumed and the country finally exported 5.2 million tones, the largest amount for 17 years. Given these controls, it is likely that the sharp rise in domestic rice prices may be only partially pushed by export liberalization, and perhaps as much by rising input prices.
52. KPMG, op cit, Section 3, p. 31.
allows farmers to store paddy in state-owned warehouses, and the State Bank to lend to farmers “to help them retain paddy in anticipation of higher prices.”

It is true that Vinafood I and II still account for 80 percent of exports, while other state farms and private exporters account for 10 percent each. This is related to the fact that most Vietnamese exports are government-to-government contracts. The Ministry of Trade and the Vietnam Food Association “nominate state-owned food enterprises to deal with Vietnam’s key rice export markets.”

However, the idea that these government contracts via SOEs restrict the market and lower export prices is erroneous. The price is normally lower in commercial contracts as “customers usually order at the time in the harvest cycle when supply is abundant and thus the price is lower.” The government intervenes through these SOEs to “moderate market forces” and to ensure that “excess production over domestic consumption requirements are absorbed to ensure the general population has income.”

SOEs also account for 80 percent of the large-scale domestic distribution, mainly from the Mekong to the north and to remote provinces with rice deficits, while private traders account for the rest. In 2000-2001 some 2.3 million tonnes of rice needed to be shipped from the Mekong to other provinces to clear rice deficits.

According to Oxfam, “stabilization of the domestic rice market” remains a major state objective, “particularly in rice-deficit areas.” In Nghe An, SOEs supply and stabilise the rice market “by being reactive to local conditions and increasing the supply when most needed, like before Tet.” Local SOEs “ship milled rice from the south to Cua Lo and bring it to mountainous districts” during rice shortages. The Nghe An Food Company “also keeps 5-7,000 tons of rice in stock for emergencies.”

However, at the lower level of distribution, SOEs are absent. A Vinafood I deputy director claimed private firms are more efficient as they “are more flexible, do not have

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53 KPMG, op cit, Section 3, p. 32.
54 KPMG, op cit, Section 4, p. 16.
55 KPMG, op cit, Section 3, p. 30.
56 KPMG, op cit, Section 4, p. 20, my emphasis.
57 KPMG, op cit, Section 3, p. 24.
58 Deputy Director, Northern Food Corporation, Interview, June 2005.
59 Agrifood, op cit, p. 70
to pay award wages, don’t have to cover welfare and social security, and are often able to avoid tax.”61 Backing the last point, the Miyazawa consultants note the ability of SOEs to sell on the local market “is limited because they must charge VAT 5 percent whereas most local traders can sell without VAT.”62 Paying tax and award wages are thus important social roles performed by SOEs better than the private sector.

The Miyazawa consultants conclude that while “basic supply and demand forces” operate on the domestic market, nevertheless the state “intervenes in the market through a variety of measures” which “distort the development of competitive advantage”, and “some market forces are minimized.”63 However, since they admit that such market distortions “strengthen rice suppliers’ bargaining power,”64 there is no pretense that the more “liberalised” industry would benefit farmers or the poor. This contradicts a possible neo-liberal conclusion that rice farmers’ continuing problems can be blamed on continuing elements of regulation and SOE dominance.

Nevertheless, the state rice industry is not without problems. The market economy puts great pressure on SOE operations. A common accusation – not only in the rice industry – is that SOE personnel often cultivate corrupt or otherwise favourable links with particular traders. The Agrifood study quotes one informant that SOE mills prefer to accept paddy “only from middlemen with whom they have a business relationship,” thus “arranging localised monopsonies” to reduce purchasing costs. At the beginning of the harvest season “millers arrange with collectors to collect from remoter regions first, where the price is lower, before collecting from areas closer to the mill. The increased supply and delayed sale of paddy forces producers to lower their sale price.”65

This indicates a deficit in social control over SOEs. However, this is a problem of the market rather than of SOEs as such. The best example is the operations of these private traders themselves, which should theoretically present the advantages of “good prices via perfect competition.” The study notes there are clear

61 Deputy Director, Northern Food Corporation, Interview, June 2005.
62 KPMG, op cit, Section 4, p. 15, 16.
63 KPMG, op cit, Section 3, p. 32-33.
64 KPMG, op cit, Section 3, p. 33-34.
65 Agrifood, op cit, p. 64.
economies of scale in collecting activities and significant imperfectly competitive market constraints due to spatial effects. This is despite large numbers of people involved in the trade. Each collector might have their own particular collection region and there is scope for asymmetric information effects.66

Even the degree of liberalisation that Vietnam has undertaken reveals problems. Agrifood notes the current system “prevents adequate quality control and standardization in varieties milled because of the numerous actors involved in the chain.” While the industry was earlier dominated by “a few large SOE exporting mills and a large domestic milling sector,” following “the liberalisation of the export quota and export license system” many medium size mills now export. Because of “their capacity constraints” these mills “prefer to obtain brown rice from smaller millers to cut down transportation costs and milling times.” This will make it “more difficult” for Vietnam to export more high-quality rice; even if farmers “maintain quality in the field, there is no guarantee that assemblers, traders, or small millers will not mix varieties purchased from farmers.”67

Finally, if one area where liberalisation is incomplete is continued SOE dominance, this simply reflects the fact that large-scale exporting requires large-scale operations. If the two Vinafoods SOEs collapsed, they would be replaced by foreign transnational corporations (TNCs), or large domestic private firms, rather than the fantasy of lots of small private firms competing with each other and thus providing good prices for farmers.68

There is little reason to believe that large private firms would pay better farm-gate prices. Their efforts to increase their own profits may in fact include paying low farm-gate prices; and big firms often deal with competitive pressures by banding together into de facto cartels. One report from the Philippines claimed the withdrawal of the National Farm Authority (NFA) led to control all aspects of rice procurement and distribution

66 Ibid, my emphasis.
67 Ibid, p. 68, my emphasis.
68 Oxfam suggests that the domination of exports by foreign firms could threaten the national interest, and to avert this, the state may have to subsidise large domestic private exporters instead. According to what logic should the state subsidise private firms rather than its own enterprises, which it uses to achieve social goals? Though noting this problem, Oxfam appears however to reluctantly endorse this ‘level playing field’ approach, Oxfam Great Britain/Oxfam Hong Kong in Rice for the Poor, Hanoi, 2002.
falling to an alliance of large private companies known as the ‘Big 7’. Farm-gate prices fell and farmers ended up in a worse position.\textsuperscript{69}

When Indonesia was hit by the 1997 crisis, the IMF demanded an end to “the monopoly of the state food agency, Bulog, on food imports and marketing, and cutting the rice import tariff to zero.” Rice imports then doubled between 1996 and 1999 “and Bulog was unable to defend the floor price.” In 2003, Bulog “was turned into a more profit-oriented company.” Oxfam found that as a result it lost interest in such unprofitable activities as buying rice from small farmers, who “had to sell to middlemen at prices 25–40 per cent below the promised floor price.”\textsuperscript{70}

This example of a “liberalised” SOE losing interest in buying farmers’ rice can be amplified when private concerns dominate. In Honduras in 1999, leading importers and millers “used their power to force the government to cut the tariff on US rough rice to 1 per cent.” This was because millers believed “it wasn’t profitable to buy domestic rice, but to import.” Prices crashed as rice imports “arrived just at harvest time.”\textsuperscript{71}

In Africa, by 1984 most countries “had lifted restrictions on market participation, and the share of production marketed by state agencies had fallen to insignificant levels.” The resulting “sudden increases in imports” led to rice producers seeing “their livelihoods destroyed.”\textsuperscript{72}

Agribusiness TNCs can also replace SOEs in domestic sales and procurement for export.\textsuperscript{73} When the Indian government stopped procuring grain, Cargill, Continental and Nestle began procuring from public stocks at low prices, for domestic sale and export. Yet the low prices were not passed on to consumers. “Producers had to sell at Rs 3000-

\textsuperscript{70} Oxfam, Kicking Down the Door: How Upcoming WTO Talks Threaten Farmers in Poor Countries, Briefing Paper, April 2005, p. 28. Oxfam quotes Udin, who farms rice in Karawang District with his wife and four children. ‘Bulog should have bought our rice at the floor price set by the government, but they do not do anything,’ he said. ‘As a result, prices always fall because the middleman dictates them... Farmers are helpless because they need the instant cash for daily subsistence.’
\textsuperscript{71} Ibid, p. 42.
\textsuperscript{72} Ibid, p. 27.
\textsuperscript{73} In the Honduran example above, Oxfam comments that “if the US rice industry continues to establish interests in Central American milling, it will be US-owned agribusiness benefiting from this trade at both ends of the deal,” ibid, p. 42.
3250 per tonne (the government’s earlier minimum price was Rs 5400), but poor Indians had to pay Rs 11,300; exporters got it for Rs 5650.”74

A final flaw in the argument that more private exporters competing with SOEs would mean better farm-gate prices is that it assumes nothing beyond the all powerful SOEs. Yet six giant TNCs largely control world trade in cereals beyond national borders.75 Neither state nor private domestic exporters can provide better prices to farmers if they cannot sustain their own operations, based on the price these TNCs are prepared to pay them.76

It is ironic that the calls to abolish export quotas and restrictions on private sector exports aim at pumping out more exports, given Vietnam’s experience with the massive coffee price crash of 2000-2001, caused precisely by unregulated exports. Coffee exports had already been highly liberalised; private enterprises had “the right to buy, sell and process coffee for export as well as domestic consumption,” when they were still restricted with rice and other crops.77 Since this crisis, few question the necessity of qualitative restrictions on coffee exports.

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75 Action Aid, Crops and Robbers, October 2001, these six being Aventis, Dow, Du Pont (which includes Pioneer), Mitsui, Monsanto (which includes Cargill) and Syngenta (formerly Novartis and AstraZeneca), who control 69 per cent of the global rice, maize, wheat, soybean and sorghum market, 98 per cent of the global market for patented GM crops, 70 per cent of the global pesticide market.

76 It could be argued that one benefit of this is that when the world price is low, rice may be cheaper for poor food importing countries. Yet NGOs claim trade liberalisation has increased food prices to poor consumers. Again this can be explained by TNC monopoly. Cargill and Continental “are buying wheat at $60-100 per tonne from India and selling it at $230-240 per tonne on the international market, making a neat $130-170 profit per tonne, while India is losing $100 million in exports” (Shiva, V, Holla R, and Menon, K, ‘Globalisation and Agriculture in India,’ conference paper, Globalisation, Food Security and Sustainable Agriculture, Third World Network, Delhi, July 30-31, 2001). Yet rich countries adopt the reverse policy when they have surplus grain and want to break into the market of a poor grain producer. Kenya was self-sufficient in the 1980s, but now imports 80% of its food. “In 1992, EU wheat was sold in Kenya at a price 39% cheaper than it was purchased from European farmers … In 1995, Kenyan wheat prices collapsed through oversupply (Feyissa, R, Director of the Biodiversity Institute of Ethiopia, conference paper, Globalisation, Food Security and Sustainable Agriculture, Third World Network, Delhi, July 30-31, 2001).

77 International Center for Agricultural and Rural Development (ICARD), The Impact Of The Global Coffee Trade On Dak Lak Province, Viet Nam, September 2002, p. 10. This may have worsened the crisis. According to Vietnam Coffee Association president Doan Trieu Nhan, ‘Small-scale exporters are easily affected by the pricing crisis and they are willing to sell their products at cheap prices to liberate their stockpiles, regardless of the resulting negative impact on the whole coffee export industry,’ ‘Bigger exporters targeted to filter out coffee losses’, Vietnam Investment Review, June 22-28, 2002.
Fertiliser SOEs and the question of farm input prices

As noted, in 1998 the World Bank alleged that the semi-monopoly held by a number of SOEs in fertiliser imports, alongside the import quota on fertilisers, “result in higher costs for farmers.” More private importers competing with SOEs would lower costs for farmers; the fertiliser price would also be lower if no quotas restricted the amount of fertiliser that could be imported.

As import prices were then lower than those of locally produced fertiliser, these import restrictions were said to merely protect “inefficient” SOE-dominated, heavy industry and the jobs of a few relatively privileged SOE workers at the expense of farmers who paid more for essential inputs. The Bank predicted “removing the current bias in favor of SOEs” would lower fertiliser prices by US$ 5 per ton.

To first briefly deal with the discourse about privileged SOE workers: the only urea-producing SOE at that time, Ha Bac, in Bac Giang, was the biggest employer in that poor province, which had no foreign and very little private investment.

In any case, far from being lower than local prices, world fertiliser prices continually rose in the 1990s, reaching a record high of $190 per tonne in 1996. At this time, Vietnam was only able to produce a fraction of its needs, but took advantage of these high prices by investing in local fertiliser production.

As with rice exports, the Bank gave this advice when world urea prices had temporarily crashed, to $100 per ton in 1998 and $80 in 1999, due to a number of factors: oil prices were at a record low; China, which accounted for 30 percent of world imports, had

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78 World Bank, *Advancing Rural Development*, 1998. According to the Bank, all quantitative restrictions on the import of fertilizers, seeds and sugar should be removed, and international marketing of these products should be opened to private businesses.

79 ‘America lost capitalism won’, *The Economist*, print edition, April 28 2005, http://www.economist.com/world/asia/displaystory.cfm?story_id=E1_PITQRG. This article implies the absence of private capital was due to Ha Bac’s presence, claiming “the local economy relies more on state-owned firms than on private enterprise … the biggest employer is a government fertiliser factory. No wonder that between 2000 and 2003 the province received no foreign investment at all, and only $24 per head in domestic private investment.” This implies either that there were no other farmers wanting paid work, or the state was blocking private sector entry, both spurious ideas. As elsewhere, this SOE was playing a social role in employment in a poor area where the private sector was not interested in investing.


81 Ibid.
temporarily stopped imports, leaving a huge surplus on the world market, and the other countries in the region, affected by the 1997 crisis, had depreciated their currencies, which lowered prices. In 1998, urea was imported for 1875 dong per kilo, while local production costs stood at 2400 per kilo.

In 1998, the government had already expanded the quota and loosened private fertiliser import restrictions. According to ActionAid, quotas are allocated to “a large number of importers” but in any case are “non-binding as fertiliser is perceived by policymakers to be a crucial input for agricultural production.” While a 5 percent import surcharge is “frequently applied to some items that can be produced domestically,” the government waives this “when agricultural production is in difficulties.

Moreover, in practice it was difficult to restrict imports because local producers could not produce enough to have much bargaining power. Thus the reality was a huge rise in fertiliser imports, “creating constantly fluctuating prices in local markets.” In 1998 the country imported 3 million tonnes, up from 2.4 million the previous year. As a result, over several years up to 1999, “local production of all fertilisers dropped by about one-third; production of urea fertiliser dropped by half.”

Oxfam analyses the fertiliser market in Vietnam:

In recent years, Vietnamese farmers used annually about 6 million tons of manufactured fertiliser, of which nearly 2 million tons is urea fertiliser, 1.4 million tons is NPK, 1.2 million tons is phosphate, and the remainder is kali and DAP (i.e. not included are local organic materials, bio-fertilisers). The import volume of fertilisers is around 3.5 million tons annually, of which the biggest is urea fertiliser (about 1.8 million tons). Domestic production (capacity) now

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82 ‘The Bilateral Boost’, *Oman Economic Review*, 2000. This article explains that “during the 1990s, barring 1993 and 1994 when price tumbled following Russia and other former Soviet republics dumping their export surplus (caused by drastic reduction in domestic consumption following sudden withdrawal of subsidies) and again during 1998 and 1999 when there was ban on urea imports by China (besides India substantially reducing its imports), the prices have remained high.”


85 Ibid.
satisfies just 4 percent of urea and 50 percent of phosphate fertiliser demands, but can satisfy (much more than) 100 percent of NPK demand.\textsuperscript{86}

Far from merely privileging SOEs in the process of strengthening the local industry, the government launched joint ventures with foreign capital and allowed widespread, small-scale private production. In 1998, three foreign firms signed joint ventures with SOEs to produce hundreds of thousands of tons of fertiliser.\textsuperscript{87} Dozens of private firms were producing over 1000 brands of NPK by 2001. However, Oxfam claimed the quality was assured only of the NPK produced by “big manufacturers such as (state-owned) Binh Dien”, with many fakes on the market.\textsuperscript{88} MARD found that 150 of 200 producers did not have standardised technology and could not ensure quality.\textsuperscript{89}

Oxfam explains that to reduce costs for farmers, the government in April 2000 exempted import taxes for urea, super phosphate, kali and DAP fertilisers. In early 2001, it cut the import tax for NPK from 5 to 3 percent and for phosphate from 10 to 5 percent. Finally, in April the government ended all import quotas and licensing restrictions as recommended by the World Bank.\textsuperscript{90}

This full removal of all quota and licensing restrictions could have led to the collapse of the local fertiliser industry if world prices had remained low. Yet arguably the maintenance of a local state industry is in the longer-term interests of farmers because world prices are not always low.

Within a couple of years, world prices were rising again – in 2000, prices of imported urea increased by 10-30 percent, while “the prices of domestic fertilisers have been

\textsuperscript{86} Oxfam Great Britain/Oxfam Hong Kong, \textit{Rice for the Poor}, pp. 44-45.
\textsuperscript{87} Thu Ha, op cit, 1999. During another world price plunge in 2002, these foreign firms called for state protection from dumped South Korean fertiliser! The Vietnam-France fertiliser joint venture, Baconco, claimed to be facing losses of 30 billion dong due to South Korea dumping of NPK fertilisers. General director Maurice Galibert asked the government to conduct an investigation, and called for state action to prevent dumping and create “a healthy playing field for local producers.” South Korean fertilisers were selling for 1,700–1,800 dong per kilogram compared with over 2,000 dong per kilogram of Baconco’s fertilisers, ‘Baconco faces 30b dong loss due to fertiliser dumping’, \textit{Cong Nghiep}, November 6, 2002, p. 2. Also, ‘Investigation into Korean fertiliser dumping’, \textit{Nong Nghiep Viet Nam}, October 29, 2002, p. 2.
\textsuperscript{88} Oxfam Great Britain/Oxfam Hong Kong, \textit{Rice for the Poor}, Hanoi, 2002, p. 45. Oxfam notes that “recent quality audit of MARD in several provinces shows that up to 80 percent of domestic NPK fertiliser brands under examination fail to conform to prescribed quality standards.”

\textsuperscript{90} Only with NPK fertiliser, where local companies can satisfy demand, are proposals to restrict imports often raised, eg, Oxfam, \textit{Rice for the Poor}, 2001, op cit, p. 45; Thu Ha, 1999, op cit.
stable.” As Oxfam explains, the urea price depends on world oil prices, “which peaked and were still high in mid 2001.”

Prices continued to rise sharply after China entered the WTO in 2001, as this led to massive imports to fuel its frenetic growth, and loss of protection for its own fertiliser plants, leading some to close. The logic of this is that it is precisely the existence of a fertiliser industry in China (and hence in Vietnam) that keeps world prices lower. Following a sudden price crash in 2002, world fertiliser prices shot up again in 2003 due to high oil prices with the onset of the Iraq war, urea rising from $120 to $156 per ton. Then as world prices of inputs continued their relentless rise, world fertiliser prices rose 77 percent in 2004 and 111 percent in the first half of 2005, reaching $280 per ton, three and a half times higher than in 1999.

In this situation, the state moved to strengthen its capacity to stabilise the market. In 2001, construction of a massive urea plant in Phu My-Vung Tau began, with annual capacity of 740,000 tons, greatly increasing the proportion of domestic state production. Critics, however, questioned this investment, especially if a large “inefficient” state firm is unable to compete in price with imports. Yet the reality has been that Phu My gave the state a more strategic ability to keep local prices lower. In June 2004, it launched its first urea onto the market at 500 dong per kilo lower than the import price. In April 2005, domestic prices were $20 cheaper per tonne than imports.

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91 Oxfam Great Britain/Oxfam Hong Kong, Rice for the Poor, Hanoi, 2002, p. 45.
92 According to Condon, M, “The biggest impact on fertiliser prices is coming from an unexpected source - China gaining entry into the WTO. They're tipped to now import a massive 5 million tonnes of fertiliser, in an attempt to boost agricultural production. As a result, fertiliser companies are warning that prices are set to rise by up to 15 per cent in the next few weeks,” ‘China Pushes Fertiliser Prices Up’, ABC Rural News, November 20, 2001, http://www.abc.net.au/rural/news/stories/s421021.htm. Similarly, according to ‘The Bilateral Boost’, Oman Economic Review, 2000, “Following entry of China into World Trade Organisation and the resultant freeing of imports, a large portion of its high cost domestic capacity is likely to be wiped out. This would lead to further tightening of global situation and, in turn, higher prices.”
95 The World Bank had forecast in 2000 that world prices would rise to only $130 per ton by 2005, World Bank, Global Commodity Markets: A Comprehensive Review and Price Forecast, January 2000, p. 79
97 200,000-tonne urea fertiliser shortage looms’, Viet Nam News, April 19, 2006. Similarly, the June 6, 2005 Viet Nam News (‘Urea market slows after price hikes’) reported that “wholesale prices at Tran Xuan Soan market have remained stable at VND4.89-4.92 million (US$310-312) per tonne for imported urea fertiliser and VND4.72 million per tonne for Phu My urea.”
As prices of imported oil, fertiliser and inputs soared through 2004-5, the fertiliser SOEs continually declared local prices would not rise. When asked if a price rise reflecting increasing world prices was “a compulsory requirement for profitable business,” Nguyen Tien Thoa, Deputy Director of the Price Management Department of Phu My, responded that “the most important thing is how to harmonize the benefits of State – Enterprise – Consumer. The enterprises’ profit should be the whole economy’s profit. They must share the difficulties with the State in the context of (such) challenges.”

One major pressure on domestic fertiliser prices is the price of coal, a key input. The coal price is also determined by the state, particularly where it applies to major state-dominated parts of the economy. In 2005, the Coal Corporation applied for a price rise after years of freeze. It asked for the price paid by fertiliser firms to rise 31-57 percent, pointing to the difference between high world fertiliser prices and lower domestic prices as a justification. The Chemical Corporation accepted a rise of only 12-15 percent, and the Finance Ministry compromised on 20-25 percent.

If Vietnam had abolished, rather than lightened, import quotas and licensing restrictions in 1998, and the flood of imports had bankrupted fertiliser SOEs, the private firms with the capacity to dominate imports would most likely have been giant TNCs who control world trade and production in fertilisers and other aspects of the food industry. Once the world price, controlled by these TNCs, began rising, farmers would likely have been paying higher prices, thousands of workers would be unemployed, and the state would have lost the ability to control price volatility.

Even with Phu My, the domestic urea industry by 2005 was only able to produce 750,000 tonnes; another 1.25 million tonnes still needed to be imported. MARD plans for domestic producers to cover national demand by 2010, with the construction of a

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100 ‘High coal price: Challenge against fertiliser production’, VNEconomy, January 12, 2005.
plant in Ca Mau with a capacity of 800,000 tonnes per annum, a factory in Ninh Binh with a capacity of 560,000 tonnes, and a tripling of Ha Bac’s capacity to 480,000 tonnes, plus a 330,000 tonne DAP factory in Haiphong, at a cost of $174 million.

Unclear in the World Bank’s comments is whether it was accusing SOE importers or SOE producers of profiting from a “privileged” position. While the quotas gave SOE importers “monopoly” over private importers, the aim was to protect SOE producers; SOE importers could have profited more if there were no import restriction. Before 2001, the SOE importers thus sacrificed profits for what the state considered a social purpose.

Thus while liberalisation opened up to private importers, it also allowed the SOE importers to freely operate on the market, import as much as they desired, and engage in profit orientation.

The results were far from those predicted. World price volatility led to periods when SOE and private importers bought in bulk or did not import at all. When world prices plunged in 2002, importers bought huge volumes to outdo local producers. The state chemical corporation, Vinachem, reacted by slashing domestic prices – which it was able to do due to its planned stockpile – so importers then ended up with huge inventories and losses. They again bought massively when prices spiked in early 2003, as they expected them to continue rising; but prices crashed in April, allowing rival importers to import and sell more cheaply, again leaving the first group with stockpiles and losses.

In response, ten import companies set a common price higher than the import price “to prevent price dumping.”

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101 Industry plans production of 900,000 tonnes of urea’, VNEconomy, October 4, 2005. In a discussion with a World Bank staffer in October 2005, he expressed his “worry” about large SOE projects such as Phu My and Ca Mau. When I pointed out that Phu My was now selling fertiliser cheaper than the world market price, he said “that also worries” him. “Why would you want to sell it cheaper, that’s not good for the bottom line of the company.” When I pointed out that it may be good for farmers however, and that this reality was the opposite of the Bank’s analysis of several years earlier, he replied “yes, it might be good for farmers, but they’re supposed to be moving towards a market economy.”


The SOE producers then complained, claiming the importers “were creating a monopoly controlling the domestic urea market in the absence of a developed urea industry.”

This appears odd, as producers could also presumably profit from higher import prices. Yet Hoang Van Tien, director of Ha Bac, complained “we have to set our prices in accordance with world prices. But if we increase them too much more, farmers will be out of business.” This begs the questions of why Ha Bac would “have to” keep up with world prices, rather than sell at a lower price if it desired, and why it would it care that higher prices affected farmers.

The answer is also connected to liberalisation. When SOEs produced at lower domestic prices, this negatively affected the profits of importers (including SOEs), which reacted by not importing. High domestic prices in 2003 were “due to speculation by the private sector … some importers are hoarding their stocks.” Pham Quang Ton from the Vietnam Farmers Association claimed “private importers are unwilling to sell to farmers for less than they’ve had to pay for the fertiliser themselves,” creating false shortages and artificial price rises, since SOEs were far from able to cover demand, and even their sales go through many players in the distribution market. Thus given importer hoarding, if Ha Bac sold too far below the world price, it would lose but farmers would not gain.

Phu My’s arrival strengthened the power of SOE producers significantly. The deputy director of Vigecam, a major state fertiliser importer, claimed the rise of the local urea industry, rather than the legalisation of private importers, had most dented Vigecam profits, both due to the amount now locally produced and because local fertiliser is “now much cheaper than the world price.” In 2005, importers argued for a floor price because local SOE prices were so low that importers were threatened with bankruptcy. SOE importers are going into other areas, particularly real estate, and are being equitised.

Aside from deregulated imports, another major problem is the domination of distribution between SOE producer and farming household by private traders. During the world price crash of 2002, farmers did not benefit from the flood of dumped imports. According to

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106 Tu Hoang, 2003, op cit.
107 Nguyen The Bang, Assistant to General Director, Vietnam General Corporation of Agricultural Materials (Vigecam), Interview, Hanoi, October 2005. Bang questioned why I was interested in researching Vietnamese socialist orientation, because “we just want to know more about capitalism.”
the Vietnam Farmers Association (VFA), although fertiliser was plentiful, farmers faced a shortage and were paying high prices, yet fertiliser firms had difficulty selling fertiliser. Pham Quang Ton from the VFA explained that this occurred because “the State controls the production of fertiliser, but fertilisers are supplied to farmers by private traders (who) only aim to make a profit.”

One way of dealing with this is for farmer cooperatives to distribute rice output and fertiliser inputs. Oxfam notes that in one of its research sites, Tra Vinh, there were hundreds of “solidarity groups” and 20 “new cooperatives” in just one district, dealing largely with inputs, but in their other site in Nghe An there were almost none. However, in the latter site there were more extensive state subsidies on fertilisers and inputs.

A second approach is to connect farmers and fertiliser SOEs. The Vietnam Farmers’ Association negotiates contracts with the large SOEs, which provide large quantities of inputs in advance (6 months interest free), farmers paying later. The VFA vice-president, Nguyen Dieu Tuyet, explains that SOEs have a reserve of 3-4 years of fertiliser and seedlings, and thus they do not increase the price. She says the VFA only does this with SOEs or joint ventures, but “not with private firms, who only have a small amount, and there are often problems of quality with their products.”

A third solution is for SOEs to directly distribute to farmers. The main SOE distributor in Nghe An, the Agricultural Materials Company, does this, but it “has not been done by other provinces so far” according to the Finance Ministry. Oxfam claimed this “is the only state trading enterprise in the country that can organise a distribution system down

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109 Oxfam Great Britain/Oxfam Hong Kong, Rice for the Poor, Hanoi, 2002, p47-48, 59-60. Oxfam recommended cooperatives for rice sales and fertiliser purchase to help farmers drive a better bargain, cut out middle people, pool resources for new technology or invest in cash cropping while keeping rice land.

110 For example, she claims in Thai Nguyen, the VFA recently negotiated 7000 tons of fertiliser in advance from a state firm, and “had to go there and sign up with the SOE and with provinces, districts etc,” Nguyen Dieu Tuyet, Vice-President, Vietnam Farmers Association, Interview, Hanoi, August 2005. Pham Thi Tuong Vi, a long-time Hanoi-based researcher in rural areas at the Centre for Natural Resources and Environmental Studies (CRES), confirms that the VFA does this at a local level in her research sites, “they can make a memorandum to get inputs with no collateral.”

111 Ibid.

to the farmers ... When fertiliser in the provincial market is scarce, the company restricts wholesaling and focuses on retailing to keep prices stable.”

Moreover, Oxfam research gave a very different idea of the potential role of fertiliser SOE “monopolies” regarding prices. The Agricultural Materials Company, which controls 80 percent of the Nghe An fertiliser market, and has “dominated” it “for many years,” keeps prices “lower by 40-50 dong per kg than the ‘normal’ price of others. The company’s prices for NPK fertiliser have been fixed for the past 5 years.”

One role of state trading companies is distributing state subsidies to the poor. The Nghe An Agricultural Material Company goes beyond this, subsidising fertiliser in remote areas “from profits gained in other trade,” keeping “prices in mountainous areas equal to those in lowland districts (normally they are higher due to transport costs) by providing its own subsidies for bringing fertilisers there (in addition to the designated subsidies of the government).”

The Oxfam report notes that “a company that does profitable business and combines that with public services is seen as a good example for the potential roles of state trading companies in serving the poor.” Than Thi Thien Huong from the research team ascribed this quote to staff of the company. The report quotes the director, Truong Van Hien, that the SOE’s strategy was “making profits outside the province to serve the farmers inside the province.” Huong claimed “all SOEs are supposed to do that, though now some only concentrate on profit.” She said this policy appeared to be the voluntary decision of this SOE, which is famous in the area for such work.

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113 Oxfam, Great Britain/Oxfam Hong Kong, 2002, p. 35. This appears to be one of the major distributors of domestic fertiliser in the country, although it also distributes imports and Oxfam claims it has “ten reliable foreign partners.” According to one report, of the Phu My plant’s 741,400 tonnes of urea, 100,000 tonnes would be held in stock, and “the remaining 641,400 tonnes will be dumped on retailers in the market. The retailers include the Agricultural Material Corporation, Ha Anh Import Export Joint Stock Company, Food and Foodstuff Industry Company, and Nghe Anh Agricultural Material Company,” ‘Fertiliser prices up as shortage looms’, Vietnam News Service, October 2005.

114 Oxfam Great Britain/Oxfam Hong Kong, 2002, op cit, p. 34.

115 Ibid, p. 34.

116 Ibid.

117 Than Thi Thien Huong, Oxfam research team member for research for Rice for the Poor, op cit, Interview Hanoi December 2005. In 2000, the company and its director were given the title ‘Labour Heroes in the Reform Period’ by the Government.
Moreover, in 1999, of its total profit of 31 billion (around US$2 million), the Nghe An Agricultural Material Company’s contributions to the state budget amounted to 26 billion dong – five sixths of profit.\(^{118}\) This indicates that not all SOEs only pay the 28 percent profit tax – this firm appears genuinely “state.”

Most rural provinces have two or three main state-owned companies providing farm inputs: an Agricultural Materials’ Company, which sells fertiliser and other inputs, a Seed and Agricultural Services Company providing seeds, and a Company for Trade and Development Investment, which sells subsidised ‘policy goods’, such as iodised salt, kerosene, basic medicines, books, and stationary for school children.\(^{119}\)

In 2000, the Nghe An Company for Trade and Development Investment in Mountainous Areas had revenue of 60 billion dong, “of which around 20 billion was from trade of subsidised goods under Decree 20, and the remaining from profit-making businesses.” Oxfam notes that given its “high fixed costs (i.e. 3 billion dong per year for salaries, social insurance and depreciation)” and low profit (as “local people don’t have much money to spend”), the company has “a conflict between being a public service and being a profit-making business. As a public service agency it is not easy because the provincial authorities don’t allocate enough capital and subsidies to sustain all of its non-profit operations.”\(^{120}\) This seems to imply that despite not getting enough state funds, this SOE still feels obligated, as a “public service”, to deliver subsidies.

Furthermore, Oxfam claims that “as a State-owned profit-making business it cannot compete well with private traders because of its bureaucracy and ‘inflexibility’ (e.g. every transaction must have ‘red invoices’, so it cannot ‘avoid’ taxes like the private traders here),”\(^{121}\) which indicates a kind of “discrimination” against state companies.

\(^{118}\) Oxfam Great Britain/Oxfam Hong Kong, 2002, op cit, p34.

\(^{119}\) These subsidies are under Decree 20 of 1998, which aims to provide transportation and price subsidies for key farm inputs (e.g. seeds, fertiliser, pesticide) and ‘social welfare’ goods (e.g. kerosene, iodised salt, basic medicines, books, stationary for school children), and to provide transportation subsidies for specific farm outputs. Beneficiaries of the subsidy program under Decree 20 are the communes and villages/hamlets classified as ‘upland/mountainous’ and/or ‘ethnic minorities’ and ‘extremely difficult’ communities by an official decision of CEMMA, Oxfam Great Britain/Oxfam Hong Kong, 2002, p. 40-41.

\(^{120}\) Oxfam Great Britain/Oxfam Hong Kong, 2002, op cit, p. 50.

\(^{121}\) Ibid.
The overall assessment of the state’s protection of a local state fertiliser industry is again cautiously positive, given the social benefit of providing lower than world prices to farmers, and maintaining some stability in the face of upward volatility in world prices. By contrast, state importing companies, once disconnected from their state-assigned role, became examples of fully market-oriented SOEs.122

However, in April 2007, Phu My announced the listing of 1.2 trillion dong (US$80.3 million) worth of shares on the Ho Chi Minh City stock exchange, representing one third of its chartered capital. This made it the largest equitised company to list to date.123 It remains to be seen what this may mean for the company’s social role: those buying shares may have a different view of its priorities.

Conclusion

The role of state enterprises in relation to poor farmers is a crucial issue when assessing the social role of the state-owned economy, particularly in a country where farmers are the majority of the population. The issues discussed above regarding liberalisation and privatisation of the main input and output activities, then largely controlled by SOEs, was a significant debate. This chapter finds that, while there are serious concerns about the way SOEs operate in these areas, the more severe criticism was often based on incorrect assumptions. Furthermore, there clearly was a degree of political direction of these SOEs aimed at achieving social outcomes. While there is a discussion to be had about how to reform their operations to improve the success of the desired outcomes, reform in the direction of privatisation appears likely to have negative impacts on the farmers.

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122 In contrast to Vietnam with its solid state-owned local industry at its heart, in the African country Malawi, which relies completely on imports, fertiliser prices rose by sixteen times when fertiliser import and distribution was liberalised under IMF and World Bank guidance in the 1990’s, World Development Movement, Structural Damage: The Causes and Consequences of Malawi’s Food Crisis, October 2002.
123 'Plant owner to offer first shares', Viet Nam News, April 4, 2007.
Chapter 8
The State Cement and Paper Industries: Prisms of SOE Social Roles

Cement and paper are two major industries dominated by the state sector, covering products basic to society, and based in poorer regions of the country. This chapter studies major cement and paper SOEs. In both cases, the activities of the state corporations and their affiliates combine those of business enterprise and politico-social agency. They carry out a range of social roles, both of the kind directed from above – the greater investment, production and pricing policies – and from below, with their active role in out-of-enterprise welfare. At times their dual role leads to significant difficulty, more so in the case of the paper industry, where significant questions remain as to the overall effectiveness of their social policy. However, the material in this chapter suggests that moves towards privatisation would represent exactly the opposite of what is necessary to make their social goals more effective in relation to the poor and society as a whole.

The state cement industry: Modified state planning with social goals

The state-owned Vietnam National Cement Corporation (VNCC) provides many examples of social roles. The VNCC consists of fifteen enterprises, including nine cement companies,1 six trading, investment or materials’ companies, and a 35 percent stake in two joint-ventures with foreign capital.2

Its annual capacity in 2002 was 12.3 million tons, though it only produced 9.297 million tons that year. Its 2002 turnover was 9,561 billion dong, with a gross profit of 2,038 billion, and an after-tax profit of 353 billion (about $US23 million). Debt to equity fell from 330 percent in 1998 to 10 percent in 2002. In that year, it had 16,775 employees.3

The VNCC’s market share was 45 percent in 2002, its main competitors being joint stock companies or non-VNCC SOEs (25 percent), or joint ventures (30 percent), which,

1 Namely, Hoang Thach, Bim Son, But Son, Hai Phong, Hai Van, Ha Tien 1 and 2, Hoang Mai and Tam Diep.
2 Nghi Son and Chinfon Hai Phong.
however, included significant VNCC shares. With these shares, it held over 55 percent of the market. Including other SOEs, state control is thus very dominant. Imports in 2002 accounted for only 10 percent of cement consumption.4

Of the 6.96 million tons of cement ground nationally, VNCC grinds 3.1 million tons. Many independent grinders buy clinker from VNCC producers or import it. They "are a strong competitive threat to the integrated cement plants as they take market share without having to undertake the same level of investment in clinker manufacture" and they make use of this clinker "at the lowest possible price," the Miyazawa report noted. This is a fairly typical situation in Vietnam, where large SOEs have fully integrated industries, and private (or small SOE) operators perform a small-scale secondary role, which is more profitable as it avoids investment in heavy plant.5

The VNCC aims to become the leading cement producer in ASEAN by 2010, with 30 new plants currently in progress, in addition to 17 existing plants. It also expects to have a surplus of clinker, the major cement input which is still partly imported, by 2009.6

Cement was one of the state-owned heavy industries considered chronically "inefficient" in the 1990s, where public money was allegedly wasted when the cost of locally-produced cement was higher than that of imports. The industry only survived due to trade protection, it was alleged. Only the small number of relatively privileged SOE workers benefited, while farmers had to pay more to build houses.7

This approach – whereby an industry starting out poor should not be allowed to catch up, if this defies "the market" – was undermined by VNCC's "rapid continuing growth" which transformed Vietnam's cement industry "from a small and relatively inefficient industry to a large and comparatively modern one." Annual production rose from three million tons in 1990 to 18 million tons by 2002.8

This continued state investment in the "unprofitable" area led to the price of Vietnamese cement falling to $49.49 US per ton by 2002, lower than almost everywhere in the

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4 Ibid., p. 31.
5 Ibid., p. 31.
7 As late as 2002, we have claims that local cement was costlier than elsewhere in the region, for example, Thanh Huong, 'Reality Check', Vietnam Economic Times, May 2002, pp. 8-9.
8 Ernst and Young (A), p. 23.
Traditionally, the main competition had been from Thai imports (there is a greater transport cost from Indonesia); yet after transport and other handling costs, a bag of Thai cement in 2002 cost over one million dong. Even if the import tariff were scrapped, it would cost some 850,000 dong when arriving in Vietnam, significantly higher than Vietnamese production costs. Moreover, the Miyazawa consultants assessed that “higher capacity utilisation and a perception of a growing scarcity of clinker in Thailand is likely to put upward pressure on the price of imported supplies.” Even in the past, when the cost of imported Thai cement was “cheaper,” this was due to Thai exporters “supplying cement and clinker at a price far lower than that sold on the Thai domestic market,” which they were able to do due to state subsidies. By 2005, prices in Vietnam of $50-60 US per ton compared to $67 in Thailand and $80 in Malaysia.

This success was not due to profit-oriented “efficiency.” Many technical areas may have been made more efficient, and technology upgraded, paid for by the surpluses the VNCC accumulated while being protected. However, whether we look at domestic pricing, domestic distribution, social obligations to the community, or workers’ welfare, the VNCC is a picture of defiance of neo-liberal “efficiency”.

A ceiling price for cement sold domestically is, like for fertiliser, steel, coal and oil, set by the Government Pricing Committee. This has kept the price of local cement lower than import prices. As world prices of oil and other inputs skyrocketed in the mid-decade, the VNCC continually pledged to not raise prices.

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9 Sales prices in the region in 2002 ranged from $50.87 for Thailand to $100 for New Zealand, with the exception of Indonesia ($40.85 US), ibid, p. 31.
10 Ibid, p. 39
11 Ibid, p. 32
13 The aspect of workers’ welfare is discussed in chapter 5.
15 ‘Cement group guards prices from hike’, VDC Business Newsletter, May 7, 2004. This was despite pressure from the “other end” as well. The article claims “The Vietnam Cement Association (VCA) said its members will maintain wholesale prices despite price increases in the retail market of 5-7%. Cement retailers have raised prices concurrent with the escalation of demand in the marketplace.” This indicates a problem in the system: while the state cement producer was keeping prices frozen despite its rising costs, some private-owned retailers responded to “market signals” and raised prices, despite their own costs – ie the VNCC sale price – not rising. The private intermediaries thus pocketed the benefit to society. This problem in the private-dominated distribution system has been noted throughout all sectors; however, the
The Miyazawa consultants regarded this low pricing policy as detrimental to investors. "VNCC, owing to its size, technology and growth prospects, will be an attractive proposition for both portfolio and strategic investors alike. This will be enhanced if state control on prices is relaxed." This requires "enabling the corporation to be independent of political intervention." 16

This system is so far removed from profit-oriented decision making that in 2005, Deputy Minister of Construction Tong Van Nga told the VNCC that it had to "reduce profits," in order to continue raising production to cover demand at the same price it has sold at for 5 years, despite sharply increasing prices for imported oil and other inputs. 17 To understand the rationale behind reducing profits, it is necessary to understand that one aim of the economic planning still employed by VNCC is to ensure cheap supplies to poor regions. According to Miyazawa, the role of the VNCC includes "assigning production and sales plans to subsidiaries and balancing supply and demand in different regions." The VNCC "has designated separate market regions for each of its SOEs and ... stipulate(es) selling prices for member SOEs." 18

The Vietnam Business Forum newsletter further explained that the VNCC "has to calculate the consumption of different regions ... The corporation has designated each enterprise a region to supply and stabilise the market. The enterprises are also required to maintain the outlet price and control the market prices against hoarding. The corporation has to reduce its profit to implement the task." 19

The VBF article reports a disagreement between the government and the Miyazawa program over this, the latter recommending that this "regulating role be transferred from the Corporation to the Ministry." 20 The Miyazawa report complained that the current system "limits the competitive strength of the SOEs," as "joint-venture cement plants

source of the problem – the private sector and "market signals" – is the opposite of the tendency to blame state ownership. Further, as we will see below, Miyazawa complained that large VNCC firms like Hoang Thach were selling most of their produce to other VNCC trading companies at a discount, and "only" 40 percent to private distributors. The example may indicate a good reason for this.

16 Ernst and Young (A), op cit, pp. 8-9
18 Ernst and Young (A), op cit, pp. 47-48.
20 Ibid.
have no geographical boundary in selling their products and can choose and target the optimal markets ... \textit{JV cement can compete effectively in the northern provinces while Hoang Thach’s cement is transported long distance to the Central Highlands.}”\textsuperscript{21} However, the construction ministry objected that such an approach “would make the enterprises run after profit and \textit{ignore the supply to distant regions.}”\textsuperscript{22}

This reveals that a real social obligation – delivering cheap cement to remote regions like the Central Highlands – is opposed by neo-liberal advocates. Miyazawa criticises other non-profitable activities of the VNCC:

About 60 percent of its (Hoang Thach’s) output is sold to other trading SOE member companies of VNCC at an average discount of 20 percent of the market price ... Da Nang Cement Building Materials and Construction Company currently pays an ex-works price of about 540,000 dong per tonne (to allow for distance) ... Cement Materials and Engineering Company and Hue Cement Gypsum Company pay around 620,000 per tonne. The difference could be from 120,000 to 200,000 dong per tonne, equivalent of 16-27 percent of the market price. This ... has a significant impact on the profitability of Hoang Thach.\textsuperscript{23}

It was also noted that “Hoang Thach also sells high quality clinker to Hai Phong Cement at one internal price and is required to buy back Hai Phong lower quality clinker at a higher price for processing in its own works.”\textsuperscript{24}

In fact, this was neither simple inter-corporation assistance, nor irrational policy as pictured here. Rather, these VNCC trading companies paying discount prices were those responsible for selling cement to the poorest regions, passing on the discount.

The Da Nang Cement Building Materials and Construction Company, to which Hoang Thach sells a quarter of its produce at the largest discount, distributes cement to the Central Highlands and South Central Coast; the Hue Cement and Gypsum Company and

\textsuperscript{21} Ernst and Young (A), op cit, p. 48, referring to the largest VNCC enterprise, located in the north, a very great distance from the central highlands.


\textsuperscript{23} Ernst and Young (B), \textit{Final Report: Hoang Thach Cement Company}, Operational Reviews of State Owned Enterprises in the Cement Industry, Ministry of Finance, Miyazawa Fund, pp. 8, 53-54. The report laments that Hoang Thach “only” makes a 26 percent profit due to these discounts.

\textsuperscript{24} Ernst and Young (A), p. 51.
Cement Materials and Engineering Company, to which Hoang Thach sells one third of its produce at a significant discount, supply part of the North Central Coast and the North West mountains; Hai Phong Cement supplies another part of the North Central Coast, and is a new company that Hoang Thach is giving start-up help to; Hoang Thach itself distributes to its periphery, the far north coast, the North East mountains and part of northern mountains.25

According to Hung from Hai Phong Cement, most VNCC subsidiaries will be equitised with state majorities. The state will keep “a few main ones,” such as Hoang Thach, to maintain their social role and prevent foreign firms dominating the market. By equitising some subsidiaries, the state will get money “to put back into the big companies.” The firms to be equitised include the trading companies which Hoang Thach subsidises – their need for subsidisation “is one reason they need to be equitised, but you can’t just close down a long-time tradition of helping each other overnight.”26 It is unclear whether, once equitised, these trading companies will continue to operate in the same way.

In conclusion, the state-owned cement industry has a direct social role, via a form of central planning and price control, and ways of operating that may superficially appear “irrational,” and this role is under attack by the advocates of “economic reform.”

**Poverty reduction and funding mobilisation**

Like other state corporations, the VNCC was assigned certain poor districts to aid in the poverty alleviation program, in its case in Quang Binh.27 However, its anti-poverty efforts go beyond this. Mr. Hung, the deputy director of Hai Phong Cement, explained that VNCC subsidiaries support other areas and programs themselves, involving spending from the Welfare Fund. He noted that “SOEs have always had social roles, but

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25 Ernst and Young (A), Appendix 9, p. 110; Ernst and Young (B), Appendix 4, p. 30.
26 Mr. Hung, Deputy Director, Cement Hai Phong, Interview, Hanoi, August 2005.
from my observations, this has greatly increased in the last seven years and is more consistent.\(^\text{28}\)

According to an internal VNCC report obtained from Hung, the VNCC over 2001-2004 "contributed to charitable and humanitarian work and hunger elimination and poverty reduction a total of 29,356,996,000 dong" ($2 million US).\(^\text{29}\) These contributions include:

- Life maintenance of 158 ‘heroic mothers’ and 82 sole mothers of martyrs
- Building 69 charitable houses
- In 2001, it built a public school in Ngu Thuy commune, Le Thuy district in Quang Binh, costing 1.39 billion dong ($90,000 US)
- In 2002, it built a primary school in Ngu Hoa commune, Le Thuy district in Quang Binh, costing 1 billion dong ($65,000 US)
- In 2003, it built a kindergarten and provided it equipment in Na Ri district in Bac Can, costing 1.4 billion dong ($90,000 US)
- In 2003, it built a suspension bridge in Hoang Su Phi district in Ha Giang, costing 390 million dong ($25,000 US)
- Implemented national programs on hunger elimination, poverty reduction and socio-economic development of poor provinces in accordance with Resolution 174/CP-VX (22/2/1999): in 2004 it built 525 houses (costing a billion dong), helped families in remote areas eliminate bamboo dwellings; supported the Poor Fund, the Children’s Fund, the Golden Heart Fund of Lao Dong newspaper, built schools in Quang Ngai and Soc Trang, built a clean water system in Na Ri (Bac Can province), helped storm and flood affected provinces including Quang Nam, Quang Tri and Thua Thien-Hue ...

\(^{28}\) Mr. Hung, Deputy Director, Cement Hai Phong, Interview, Hanoi, August 2005.  
\(^{29}\) Vietnam National Cement Corporation, Trade Union, Cac Bao Cao va Tham Luan tai Dai Hoi Thi Dua Yeu Nuoc Lan Thu II (2001-2005) cua TCTY Xi Mang Viet Nam (Reports and Speeches at 2\textsuperscript{nd} National Emulation Congress (2001-2005) of the Vietnam General Cement Corporation, Ministry of Construction, Hanoi, August 2005.)
Another report in the volume is from the Women’s Unit of the VNCC trade union, outlining the activities it carries out with women workers, kindergartens in the plants, heroic mothers, war-affected and disabled women, “lonely elderly” women and so on.\textsuperscript{30}

At the Hoang Thach cement plant, we met Mr. Tinh, Deputy Chairman of the trade union, a former soldier in the American war. Hoang Thach was established in 1980, and now has 2759 workers, including 466 women. It produces 2-3 million tons of cement per year, one third of all production in Vietnam.\textsuperscript{31} In 2002, turnover was 1,731 billion dong, gross profit 421 billion and net profit 151 billion.\textsuperscript{32}

Tinh provided a document showing that Hoang Thach had provided 13,027,800,298 dong from the Welfare Fund, and 1,689,905,650 dong from workers contributions (total over 14.7 billion dong, or nearly $1 million US), over 1995-2005.\textsuperscript{33} This was broadly consistent with the document from VNCC.\textsuperscript{34}

This included 10 funds within the Welfare Fund and 12 from the workers. The WF’s main activity was primary school building, which received a total of 1,801,455,000 dong ($120,000 US), while 1,396,057,558 dong ($85,000 US) was donated to housing for the poor. Funds were provided for projects in poor provinces, Cao Bang and Ha Giang, which are nowhere near Hoang Thach, and were not mandated for the VNCC by the HEPR program. Other funds included heroic mothers, Agent Orange victims, local farmers and disabled children. Regarding flood relief, the worker contribution was larger than that of the WF (564,752,495 dong or $36,000 US, compared to 153,900,000 dong, or $10,000 US), suggesting workers’ extra solidarity is called for in times of special need.

\textsuperscript{30} Ibid.
\textsuperscript{31} Mr. Tinh, Deputy Chair of Hoang Thach Trade Union, Hoang Thach Cement plant, Hai Duong province, November 2005, gave these figures, which were confirmed by the trade union report in the note above.
\textsuperscript{32} Ernst and Young (A), p. 17.
\textsuperscript{33} Hoang Thach Cement plant, Trade Union, \textit{Bao Cao ve Ung Ho tu Quy Phuc Loi va Van Dong CBCNV Dong Gop tu Nam 1995 den 9 Thang Dau Nam 2005} (Report on Contributions from the Welfare Fund and Employees from 1995 to the ninth month of 2005), Hai Duong province, October 2005.
\textsuperscript{34} Bearing in mind that the VNCC document covered only a four-year period. The VNCC document says that Hoang Thach’s own contribution over the four years 2001-2004 was 9.3 billion dong, of the total 29.3 billion. The Hoang Thach document gives a figure of 13 billion dong for the 10 years, but it is clear that a much larger proportion of it has been since 2001.
Regarding how decisions about out-of-enterprise welfare are made, Miyazawa claimed SOEs are "ordered by their political superiors," giving an example of a cement SOE "ordered" to "provide an interest-free loan to a People's Committee to build a bridge." While the state mandates overall roles for its corporations in the poverty reduction programs, there is little evidence of "ordering" specific spending.

According to Tinh, "the director and the trade union implement the Workers' Congress decisions about Welfare Fund distribution." The Fund "must first cover internal welfare, then welfare outside, and if there is not enough for outside we ask workers to contribute." Decisions about larger out-of-enterprise programs are made "under the guidance of Molisa or the Fatherland Front." But for smaller programs, or those in the local area, he said "a school might ask for help, or the union or workers may offer if they know the school is in need."

Two groups of workers at Hoang Thach also discussed the company's out of enterprise welfare. According to a middle aged worker from the mechanical repair team (Worker 3), the Welfare Fund "makes donations to the local area, to heroic mothers, to support union members in difficulty (for example if a family member is sick), to ethnic minorities, to people in remote areas, and to poverty reduction and families in difficulty in this area." Mr. Luong (Worker 6), deputy head of union in the mechanical section, said the enterprise had contributed to building a road to the highest peak in Vietnam (Cot Co) in the poor province of Ha Giang, and had built roads in Phu Quoc island.

Worker 3 said this occurs because the union knows who needs help in the area, or because the Fatherland Front asks for help "and knows who needs it," or the workers

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36 Of course this does not mean it may not occur. Regarding bridge building in local areas, both Mr. Hung from Hai Phong Cement, and the VNCC documents quoted, refer to this as common for VNCC companies.

37 Mr. Tinh, op cit.

38 The next five paragraphs include comments from both groups of workers. In the mechanical section, we met the supervisor Mr Luong, also deputy head of trade union in that section, and five workers, Mr Hai, Ms Hang, Mr Duong, Mr Quang and Hung. The last three were relatively young, and Ms Hang about 40. Their jobs or roles were not introduced, though Mr Quang appeared to have some connection to the youth union. In the mechanical repair team we met Mr Con, a supervisor, Ms Hoa, deputy director of the trade union for that section, Mr Thang, Mr Thanh and Mr Trung. The four men were middle-aged, and Ms Hoa about 40.
“know who needs help from the union or the media.” All the workers joined in. A middle aged female (Hoa, Worker 2) said such information can come “from someone working here who notices families in the neighbourhood who are very poor, and they bring that up for suggestion.” Luong said that a decision to donate funds can also result from “a call for support from that area,” giving the example of the road in Ha Giang.

As to why they would contribute some of their Welfare Fund, a male about 50 (Worker 4) said “workers here have peace because many people sacrificed, so they feel the need to take responsibility for those who still suffer now,” quoting the Vietnamese expressions “le lenh dum le rach,” and “uong nuoc nho nguon.” He made the observation that solidarity is a feeling shared by people around the world. The issue, however, is the expression of that via workers’ decisions about the use of part of company profit.

Regarding natural disasters, support is provided following a call from either the union or from workers themselves. Workers may be asked to donate a day’s work (ie, donate one day’s pay to the region). Workers stressed it was voluntary to contribute money or labour-days, and that “someone with difficulties doesn’t have to.”

According to Worker 1 (a middle-aged male in the repair section), the Congress details how much to pay for welfare, and how long a project should be supported. Worker 3 said it decides how much to give in each situation, but throughout the year, the workers and union can be more generous than Congress decisions.

Given the needs of companies to invest to upgrade equipment, it is natural that the Development Fund will make up a major part of profit. According to Tinh, at Hoang Thach it accounted for 50 percent of after-tax profit, while the Welfare and Bonus Funds made up the other half. Therefore, these two latter funds may each have 20-30 percent of profit. This means that of VNCC’s after tax profit of 353 billion in 2002, some 70-105 billion ($US4.7 to 7 million) went to the Welfare Fund.39 In this case, the $US2 million for out-of-enterprise welfare over four years was a significant proportion of the Fund.

39 Tinh said the Fund could sometimes “be as much as a million dollars” (16 billion dong) at Hoang Thach plant alone.
**Employment and social responsibility**

Finally, cement companies, situated in provinces, are large employers in rather poor provinces, and this is also criticised by neo-liberal agencies.

According to Miyazawa, “the manpower productivity (at Bim Son) is well below expectations in comparison with developing countries ... the factory could be operated with 15 percent of the current workforce.” The “manning levels” are 300 percent over even “transitional economy benchmark levels;” they calculate that of Bim Son’s 2845 employees the “economic manning level” would be 850-1050, and an “effective manning level would be 571,” based on “manpower productivity in developing countries.”40 At Hoang Thach, “the excess labour at optimum is estimated to be around 75 percent,” or compared to developing countries, around 60 percent, meaning about “1500-1650 employees of the total workforce of 2606.” Its “appropriate manning level is 949.”41

At Hoang Thach 1086 tonnes of cement were produced per employee per year, and the highest in VNCC was 1756 tonnes at Ha Tien I, while the joint ventures Chinfon and Holcim produced 4200 and 4400 respectively, and cement companies in Thailand produce 6000 tonnes per employee.42

While this looks bad in terms of efficiency, it cannot help explain how Vietnamese cement became successful and the near cheapest in the region – if we rely on economic rationalism. It may be that the lower profit margins of Vietnamese SOEs allow for a cheaper product, without destroying jobs.

The consultants complain that in Bim Son and Hoang Thach “there is virtually no realistic option for downsizing due to the very high mandates for social and community responsibility, the prevailing state regulatory framework and the position of primary employer in an isolated location, supporting extended families.”43

Among these “constraints” that “virtually preclude ... significant downsizing” are regulations which “support long term employment by contract with indefinite terms,”

40 Ernst and Young (C), *Final Report: Bim Son Cement Company*, Operational Reviews of State Owned Enterprises in the Cement Industry, Ministry of Finance – Miyazawa Fund, pp. 64, 94-95.

41 Ernst and Young (B), pp. 8, 91-92.

42 Ernst and Young (C), p. 95.

43 Ernst and Young (C), p. 95; Ernst and Young (B), p. 92, my emphasis.
"endow corporate and community social responsibility with importance that competes with enterprise profitability," provide for "early retirement only on a voluntary basis" and "construct ... barriers to termination except in very narrowly applicable circumstances." This is compounded by "the number of family relatives economically dependent on each wage earner," "the lack of alternative secure employment and the SOE's critical economic role in remote locations" and a "history of lighter “make-work” support and service jobs created to soak up excess or otherwise limited employees."  

Thus the cement SOEs play a very important social role in their regions. When visiting Hoang Thach in 2005, Tinh from the union claimed 2759 workers were employed. When Miyazawa recommended massive job cuts in 2002, employment stood at only 2606.  

The same points can be made about the large pulp and paper SOEs. Bai Bang is also situated in a poor northern mountain province, and its large workforce is also associated with social responsibility. “Man-hours” per production unit were 88 in 2002, compared to 9 in an average Asian paper mill; converted to US dollars, the cost was 75 USD at Bai Bang and 26 USD in Asia. The Miyazawa report claimed the mill was “overstaffed” by 2100, of its 3867, workers, but there was “no immediate solution” in “the current Vietnamese legal and social environment.”  

Forestry and the state pulp and paper industry  

Vietnam faces the dilemma of a successful reforestation campaign combined with continuing deforestation, due to the high rural population, rapid growth, and poverty among populations living near forests.  

The major reforestation campaigns, Program 327 in 1993 and the 5 million hectare campaign in 1998, increased forest cover from 28.8 to 35.8 percent between 1998 and  

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44 Ernst and Young (C), p. 97.  
45 Mr. Tinh, Hoang Thach Trade Union, 2005, op cit, gave the first figure, and the second is from Ernst and Young (A), p. 119.  
2002. The programs include both "protection forest," and "production forest" for the pulp and paper industry. Forest land is managed by the state or by State Forest Enterprises (SFEs). The SFEs previously controlled all production forest, but in 1995 allocated most land to households, keeping some for their own planting.

While "protection forest" has the goal of environmental enhancement, it restricts land available for farming and can even be counterposed to poverty reduction. Farmers are paid to grow new forest or look after forest, but the amount is less than might be gained by using the land for other pursuits.

Production forest, by contrast, can provide a livelihood to farmers selling timber to state-owned pulp plants. However, this industry, and forestry itself, is fraught with problems and questions about whether farmers really gain.

While this chapter cannot provide a complete answer to such questions, they will be examined while looking at the state sector in this field and assessing its social role.

The Vietnam Pulp and Paper Corporation

The Vietnam Pulp and Paper Corporation (Vinapimex) runs seven pulp and paper plants, the most important being Bai Bang (Bapaco) in Phu Tho in the north, and Cogido and Tan Mai (both in Dong Ngai), in the south. Previously, it also ran two companies covering the state forest enterprises (SFEs), the Vinh Phu Paper Material Co (VPMC) and the Southern Raw Material Co (SRMC). SFEs and thousands of small farmers

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47 Professor Vo Quy, famous Vietnamese environmentalist, Interview, Hanoi October 2005.
48 The 5 million hectare program includes 2 million ha of 'protection forest' and 3 million ha of commercial forest, Tran Le Tuy, 'Growing fortunes', Vietnam Economic Times, January 1999, p. 12.
49 Farmers there work as regular SFE staff, while there are also less regular workers.
51 The rate was 50,000 dong per hectare per year for protecting forest, usually meaning about 200,000 dong per household, rising to some 600,000 dong per household for afforestation, World Bank / Institute of Ethnic Minority Affairs (WB/EIMA), Final Report: Improving Agricultural Livelihoods for Poverty Reduction for Ethnic Minority Farmers in Viet Nam, Hanoi, May 2006, p. 104.
52 The main new project is the plant in Thanh Hoa, buying bamboo widely grown there, projected to produce 150,000 tons of paper by 2010. A smaller project is the 20,000 ton plant in Lam Dong.
53 In 2005, the SFEs were placed directly under the control of Vinapimex, and these companies abolished.
produce timber for the pulp industry; large private plantations are absent. In 2001, Vinapimex turnover was 2,426,822 million dong, with an after tax profit of 44.85 billion dong.\textsuperscript{54}

Vinapimex was the sole producer of pulp till the recent entry of some foreign firms. By 2005, it was producing some 218,000 tons, but another 140,000 tons still needed to be imported.\textsuperscript{55} Pulp requires large capital investment and a long wait for a return, and thus remains state-dominated. Paper is more cheaply produced, so 300 private firms have gone into paper production.\textsuperscript{56}

Vinapimex is also the sole producer of printing and writing paper, which “requires huge investment,” but its market share is only 51 percent, the rest imported. It is also the sole producer of newsprint, with a share of 78 percent.\textsuperscript{57} However, it only controls 8 percent of the market in other paper, principally packaging paper, most of which is produced by private firms,\textsuperscript{58} while imports account for 49 percent.\textsuperscript{59} Demand is rising faster than production; in 2007, Vietnam was predicted to produce 1.13 million tons of paper – more than total demand several years earlier – but still import 914,500 tons.\textsuperscript{60}

Two thirds of Tan Mai’s production is newsprint, which all the country’s newspapers’ buy “as some kind of political arrangement.”\textsuperscript{61} It imports pulp, as it needs pine, which cannot be easily grown in the region. After tax profit is low (756 million dong in 2001), due to selling paper extremely cheaply to newspapers, which are sold at a very low price to the public. The Miyazawa consultants explained that Tan Mai was unable to “benefit


\textsuperscript{55} ‘Paper sector suffers from oversupply’, \textit{Viet Nam News}, December 3, 2005. Figures vary wildly in the Vietnamese media, but there is no disagreement that a large proportion of pulp needs to be imported.


\textsuperscript{57} Ernst and Young / A&C Sandwell (A), Appendix 6, pp. 52, 55.

\textsuperscript{58} Ibid, p. 15.

\textsuperscript{59} Ibid, Appendix, p. 52.


\textsuperscript{61} World Bank SOE expert, Interview, Hanoi, October 2005.
fully from its monopoly situation" when world paper prices were higher because the Government Pricing Committee sets maximum prices for newsprint.62

Cogido’s role is supplying paper to schools: the Educational Publishing House accounts for 10 percent of its sales. The bargaining power of such customers is strong “because they are SOEs,” so “the business relationship is between … related parties,”63 that is, Cogido is under political pressure to keep prices for schools low. Its after-tax profit is zero.

In 2004, facing world price hikes for paper and pulp, the Finance Ministry told Vinapimex to boost production to stabilise prices. Vu Ngoc Bao, secretary of the Vietnam Paper Association, said “with schools set to reopen, domestic production outstripped demand by 15 percent,” thus there would be no domestic price rise. However, Le Due Hoang from Vinapimex explained that the world price hike meant the corporation could only maintain the previous year’s prices rather than cut prices as planned.64

The third major plant is Bai Bang. In 2003, annual capacity rose to 61,000 tons of pulp and 100,000 tons of paper, while importing 30-40,000 tons of pulp. The second stage of expansion raised pulp production to 250,000 tons, to supply pulp for the whole paper industry.65

In 2003, total investment was 107 billion dong. Its 2001 after tax profit of 40.9 billion dong was 91 percent of Vinapimex’s profit, indicating a clearer profit focus than the two other major plants.66

Nevertheless, according Dai Van Hoi from the Bai Bang trade union, while “the main objective is to make profit, state companies also have social obligations.”67 Hoi claimed

62 Ernst and Young / A&C Sandwell (A), pp. 4, 21, 12.
65 Dai Van Hoi and Nguyen Xinh, site visit to Bai Bang Pulp and Paper Mill, Phu Tho, November 30, 2005. Hoi is the chair and Xinh the deputy chair of the Bai Bang trade union.
66 Ernst and Young / A&C Sandwell (A), Tan Mai earned a tiny 756 million dong profit, despite having over three quarters the turnover of Bai Bang; Cogido had a zero profit.
67 Dai Van Hoi, head of Bai Bang trade union, Discussion during site visit to Bai Bang, op cit. Hoi and Xinh said “if you want to see socialist orientation, spend a few days around Bai Bang and surrounding areas, and that’s socialism.”
purchasing all the farmers’ timber was the major contribution to poverty reduction: “we can create a million jobs for farmers and guarantee to buy all their timber.” Pham Van Tu from Vinapimex management concurred that “the state more or less commands our companies to buy from farmers,” but the companies “are often reluctant, as it is unprofitable.”

Buying timber from farmers may seem a straightforward business activity. Rainforest activist Chris Lang claimed that much “reforestation” was “of fast-growing trees aimed at producing raw material for the pulp and paper industry,” driven by competition among Vinapimex companies for these raw materials, “or woodchips for export.”

However, Lang reveals the problems with his own interpretation. In 1998 “Vietnam had more wood than the country’s pulp processors could handle” so there was “an excess of cheap timber on the market.” In 2002, Miyazawa, reporting on the “surplus supply” claimed “there is no alternative market for much of the maturing material from these programs (5MHRP and prior plantation programs), mainly focused in the more difficult and remoter mountainous and hilly regions ... Bapaco is used as the main market for these plantations.” In 2003 Lang wrote that “Vietnam already has one million hectares of tree plantations,” which “should be more than enough” to supply the industry, even with Vinapimex’s expansion plans. “Another million hectares “would not necessarily benefit either the pulp and paper industry or the farmers.” According to Tu, by 2005 Vinapimex pulping capacity was only 70 percent of the 900,000 hectares of subsidised timber programs for the industry.

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68 Pham Van Tu, Management Board, Vinapimex, Interview, Hanoi, August 2005.
69 Lang, C, The Pulp Invasion, World Rainforest Movement, December 2002, p. 152. Lang contradicts this on page 163, showing there are “way more protection projects established than commercial plantations.”
71 Ernst and Young / A&C Sandwell (B), p. 78.
74 Pham Van Tu, 2005, op cit.
But if further expansion of forestry did not benefit the pulp industry, what was its purpose?75

Encouraging overproduction could be negative for farmers’ prices, so a cynical view might be that the aim was to allow state firms to drive a hard bargain. In 1999, many farmers could not find buyers; some sold trees as firewood.76 Local farmers claimed Bai Bang bought cheap in the 1990s, importing cheap timber from China.77 However, this may be overstated: while farmers were getting 180,000 dong per cubic metre in 1999, Bai Bang was paying 360,000 dong – private traders made the difference.78

However, local farmers said that after 2000, Bai Bang began paying better.79 Prices rose as a result of state intervention to produce social goals. Provincial governments “notify Vinapimex of the volume and location of raw materials” and are given allocations and prices. By controlling mill purchases to support “non-commercial planting programs, or government political objectives … benefits go mainly to other enterprises or farmers throughout the region.”80

The first main aspect of state intervention is that Bai Bang must buy farmers’ timber even when imports are cheaper. According to Tu, in 2002-2003 the price paid to farmers was 320,000 dong for one ton of timber, while imports cost $22 US (308,000), but the government obligated Vinapimex to buy farmers’ timber.81 According to Vo Sy Dong from Bai Bang, in 2003 the timber price was “around $25 per tonne at the gate of the mill” but only $20 in Indonesia.82

75 Lang throws up his hands and opines “the logic behind all this seems to be simply that trees are good,” Lang, 2000, op cit.
77 Forestry farmers near Bai Bang, site visit, April 2007. Including five farmers with about 2 hectares, one larger farming household with 30 h (‘trang trai’), one person working in the local authorities for agricultural extension, two Bai Bang workers (Chien and Dung), friends of the farmers.
80 Ernst and Young / A&C Sandwell (B), pp. 75, 78.
82 Vo Sy Dong, Deputy General Director, Bai Bang Paper Mill, Interview in article ‘Paper under pressure’, Vietnam Economic Times, February 2003, p. 21. The Miyazawa report notes that “international pulp log prices typically range from 20 to 30 USD/cubic metre … efficient mills in Indonesia pay in the 23 to 25
Secondly, Bai Bang was told to buy “all the timber” from farmers at the end of the 7-8 year cycle of forest growth (after large-scale subsidised planting in 1995), despite lack of pulping capacity. A Bai Bang worker, Chien, a friend of the local farmers, confirmed this, but claimed most farmers don’t know about this, as they deal with the middle man.

Both Tu and the Bai Bang unionists claimed that Vinapimex set up a woodchip plant in Quang Ninh specifically to buy all this timber. A woodchip plant may be simply a profit-making venture; some foreign companies have set up woodchip plants. However, this is not so simple, because these woodchips are turned into pulp in Japan, and Vinapimex has to import this pulp – some 120,000 tons per annum – at a much higher price than that of woodchips, to fulfill state requirements for paper production to stabilise the market.

Local farmers, in any case, believed this woodchip mill strengthened their bargaining power with Bai Bang. They claimed one reason why Bai Bang began paying better was that it now has “competition” from a woodchip company in Quang Ninh. Only later did they note this was a Vinapimex company.

Thirdly, while Bai Bang’s nearest supply area covers Phu Tho, Yen Bai, Tuyen Quang and Vinh Phuc, “political considerations have added more distant provinces, such as Thanh Hoa, Son la, Lao Cai, Bac Kan and Hoa Binh. Wood from these more distant areas increases wood costs and complicates the delivery planning and timing.”

Finally, Bai Bang must buy smallholders’ timber at the expense of Vinapimex’s own plantations. The Miyazawa report complained that the SOE could not exploit its bargaining power:

USD/cm range” but logs from Vietnam sell for the equivalent of “a mill gate price of 23 to 31 USD/cm.” Specifically Bai Bang prices “are slightly above the domestic log averages.” Even when they compare with international prices, this “ignores fibre quality – the international levels reflect freshly cut, clean sound wood, delivered price, whereas domestic prices may not,” Ernst and Young / A&C Sandwell (B), p. 84.

84 Chien, Bai Bang worker, site visit to local forestry farms near Bai Bang, April 2007.
86 Of course, given this state role, they have to import the pulp anyway, so the woodchips cover part of that cost. However, it would make more financial sense to import the cheaper timber for these woodchips.
87 Forestry farmers, 2007, op cit. Underlining the importance of re-checking facts! Other reasons the farmers gave for better prices were that farmers “know more” now; that earlier, Bai Bang could only buy higher quality timber because they couldn’t process the rest, but in 2000 obtained better technology to process the lot; and that even when Bai Bang first began paying better, the farmer got little, because the middlemen got too much, but now they take much less. More on intermediaries, see below pp. 339-340.
88 Ernst and Young / A&C Sandwell (B), p. 76.
As there is an oversupply of wood, the bargaining power of the suppliers should, in theory, not be significant ... (However) although the local supply of wood is a situation of monopsony (with multiple wood suppliers, but few buyers), the SOEs can not take full advantage ... Forest planters have bargaining power by lobbying the provincial authorities ... this is expressed through the implementation of government policies and social responsibilities which mills like Bapaco have to bear in that it is pushed to buy wood from local suppliers rather than VPMC.\textsuperscript{89}

The report continues “originally, VPMC alone was meant to provide Bapaco with adequate materials” and has the potential to supply its “entire wood requirements” but “Vinapimex directs Bapaco to buy from local farmers instead ... As a result, “VPMC has now reduced its supply to one fourth of the demand of the mill.”\textsuperscript{90}

The most intriguing story about this “irrational” decision making was the following claim in the Miyazawa research:

Regarding the supply of wood to BAPACO, Vinapimex intervened to set the price of wood supplied by VPMC, another member SOE, at a higher than market rate to encourage BAPACO to buy cheaper and lower quality wood from other local suppliers, even though the species of wood that BAPACO was induced to buy (styrax) is not efficient in the production of pulp. This impaired BAPACO’s profitability: first, it caused an increase in production costs; second, it lowered the quality of BAPACO’s paper product, which in turn lowered the selling price.\textsuperscript{91}

The report claimed the reason was “partly political (reflecting the lobbying power of provincial authorities), and partly a result of the government’s poverty reduction initiatives.”

The Bai Bang unionists denied the claim that Vinapimex raised the price of VPMC’s timber, claiming there is only one raw material price for all suppliers. They claimed that before 2004, Vinapimex regulated how much Bai Bang could buy from each farm and

\textsuperscript{89} Ernst and Young / A&C Sandwell (A), p. 10, my emphasis.
\textsuperscript{90} Ibid, pp. 10, 53.
\textsuperscript{91} Le Anh Tu Packard and VICA consultants, A Diagnostic Audit of Vietnam’s State Enterprises: Final Policy Paper, Prepared for the Ministry of Finance, June 2004, p. 22.
province. This created a false “oversupply” of timber when some areas had too much for their quota, while areas with too little sold their quota to the “oversupply” areas.

When Vinapimex told Bai Bang to buy more from farmers, it set their quotas in some areas too high. Therefore some farmers did not have enough to meet their quotas, so they bought extra from VPMC, which had an “oversupply.” VPMC had to reduce its price to sell its “oversupply” to the farmers, so they could sell it at the normal price to Bai Bang and make some profit. Thus the price at which VPMC sold directly to Bai Bang was only higher than that which it sold to these farmers.92

Tu from Vinapimex gave a third rendition. The government regulated prices to cover the higher transport and brokerage costs of more remote farmers. Farmers within a 50 km radius would receive a lower price, and the price increased moving further away. Therefore, the price paid to VPMC (and also independent farmers the same distance away) was higher than for local farmers. The aim was not for Bai Bang to buy more from local farmers, though that may have occurred since Bai Bang was supposed to buy all their timber anyway. The system came apart because nearby farmers would ask brokers to fix the paperwork to say their timber was from further away to get a higher price.93

Despite there being three different accounts, all explain a policy aimed at a better deal for small farmers, and contradict market-driven explanations for the SOE’s behaviour.

Regarding the poor quality trees, styrax use climbed from 138,000 tons per acre in 1999 to 182,000 in 2002.94 As it is “grown in ‘difficult’ areas (Tuyen Quang, Lao Cai, Ha Giang) far from the mill,” political considerations push Bai Bang to buy it, and pay more for it; where the MARD selling price in 2002 was 280-300,000 dong per cm, Bai Bang paid 412,000.95

The Bai Bang unionists said local farmers used to use ‘mó’ and ‘bò đế’ (styrax), but now grow pine, acacia and eucalyptus.96 Farmers confirmed they “chose to stop planting them

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92 Dai Van Hoi and Nguyen Xinh, 2005, op cit, gave this rendition in these last two paragraphs.
93 Pham Van Tu, op cit, 2007.
94 Ernst and Young / A&C Sandwell (B), p. 76-77. Styrax is the name of a genus of large shrubs and small trees that is native in these regions.
95 Ibid, p. 83.
96 Dai Van Hoi and Nguyen Xinh, 2005, op cit. It was difficult to find a translation for ‘mó’, but the important thing is that ‘bò đế’ is styrax.
because they produce low quality paper.97 One problem was that the poorer quality would have undermined the social goal when foreign paper flooded in with trade liberalisation, so farmers were encouraged to plant new trees.98

A small-farmer based forestry strategy

Lang had warned that reforestation would “take place on a largely industrial scale regardless of the needs of farmers” to feed the pulp and paper industry.99 Yet the above description suggests the opposite, a small-farmer based strategy, as opposed to large private plantations. “At the heart of the drive to reforest or afforest barren areas … is a land allocation program aimed at individual smallholders,” seven million of whom received land allotments “in recent years.”100

This push for small farmers to grow forest with an SOE market shows that Vinapimex still acts “as an agent of the State planning apparatus rather than as an autonomous business entity” with “outcomes not in the economic interests of its member SOEs”101

The Miyazawa report claimed “the main issue faced by BAPACO” is “the lack of direct control” of its timber supply. “Supply is directed for social and political reasons, not economic reasons,”102 and “the bulk of existing plantations are controlled by other agencies, districts, provinces, companies and individuals whose objectives may not suit those of the mills.”103 The “dispersed locations, poor accessibility, small parcels and multiple ownership” mean “plantation yields lag behind” the region104 and timber is “from remote locations, the wrong age, the wrong species and poor quality.”105

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98 This has a bitter consequence however: the local trees are more suited to the environment than imported eucalyptus in particular, which is destructive to other vegetation.
101 Le Anh Tu Packard and VICA consultants, op cit, p. 22.
102 Ernst and Young / A&C Sandwell (A), Appendix 4, p. 20.
103 Ibid, pp. 55-56.
104 Ibid, pp. 4, 51.
105 Ibid, p. 60. Part of the reason for this is that “foreign agencies, targeting poverty reduction, environmental protection and barren area reforestation have driven the agenda with little regard for sound economic principles or commercial concerns (Appendix 9, p. 93).
They argue for “an expanded commercial planting program” for which “ample land appears to exist,”106 and claim “a 100,000 ha plantation area provides a much more stable and consistent supply of specified material at a known cost, compared to the same area under multiple jurisdiction and owners.”107

A World Bank SOE expert agreed the “tiny” plantations of small-holders meant that Vietnam could not compete with gigantic plantations in places like Indonesia, which supply massive amounts of timber, making its paper competitive.108 Yet according to Greenpeace, Indonesian forests are disappearing “at a rate faster than anywhere else on Earth” due to logging, fires and land clearing for palm oil plantations.109

**Do forest farmers really gain?**

However, there are questions regarding whether the strategy of the state companies really benefits the small farmers. Land allocation in the highlands was never as equal as allocation in the lowlands. While paddy and garden land distribution was largely equitable, possessing the economic ability to develop land allowed some to get larger shares of forest and ‘barren’ land.110

Firstly, forestry can have a highly beneficial poverty reducing effect, or it can lead to a loss of income. My discussions with farmers near Bai Bang were an extremely small sample and therefore I can make no claims that they are representative. However, they are an example of positive benefits, which I will contrast to some other reports or discussions which reveal more negative impacts. As such, the following section aims merely to suggest that the benefits of forestry vary greatly

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106 Ibid, Appendix 4, p. 20.
110 Donovan, D, ‘Development in the local context: Case studies from selected hamlets in five northern provinces’, Development Trends in Vietnam’s Northern Mountain Region, Vol.2, Eds. Donovan, D, Rambo, A.T, Fox, J, Cue, L.T, Vien, T.D. Center for Natural Resources and Environmental Studies (CRES), Vietnam National University, Hanoi, and East-West Center, National Political Publishing House, Hanoi, 1997, pp. 5-8. The small forestry farmers near Bai Bang (site visit, April 2007), with some 2 ha each, said their land was “distributed to them by the cooperative in 1989-90, more or less equally.” The big farm household, with 30 ha, bought 10 ha from the cooperative in 1994, where was previously a bankrupt animal farm that had to sell (‘barren land’); they later bought more off other farmers. It has forest but also lychee, tea, fish, pigs etc, and employs other farmers casually. Authorities see it as a “farming model.”
Forestry was beneficial to the small farmers near Bai Bang. In the 1990s, while waiting for income as the trees were growing, they planted other crops, but since the trees reached harvest and prices improved, they mainly grow forest. They have rice, but mainly for food, and a few farm animals. Money comes from selling timber to Bai Bang, labour on bigger farms or construction, and selling vegetables in town.¹¹¹

These farmers claimed it cost 600 dong to plant one seedling, and they sow 2500 on one hectare, thus it cost 1,500,000 dong to sow a hectare. They sell after 5 years for 100,000 dong per tree, meaning an income of 220,000,000 (US$14,000), or 44 million (US$2,800) per year, a high rural income.¹¹²

However, a World Bank study suggested forest land allocation had contributed to “income and livelihood” for only 9.4 percent of households.¹¹³ Another study claimed forestry is the last choice for farmers, mainly due to the “long wait for income;” as this was 1998, during the first growing cycle of Program 327, it is unclear whether the same opinions hold after the first harvest. However, another disadvantage was that nearby households often “establish and defend use rights” over “bare” lands to grow food, or cash crops, or to graze cattle.¹¹⁴

One researcher reported that in a remote Phu Tho village, poor households cannot afford to plant forest. Some therefore rent forest land to an SFE, which grows timber to sell to Bai Bang, but pays only 200,000 dong per hectare for the 7-year cycle. As each family was renting out half their 7 hectares, this suggests an income of 700,000 for 7 years.¹¹⁵ This example underlines the results that lack of investment money or other options, and the increasingly commercialisation of SFEs, could lead to.

¹¹¹ Forest farmers, 2007, op cit. They say workers at Bai Bang, and a local factory owned by the Defense Ministry, have very high salaries, so farmers grow vegetables and much else, as well as timber, and sell well. Even the smallest farmers here were well-dressed and appeared healthy.
¹¹² Ibid. This figure takes into account that, on average, 300 seedlings will die, the farmers say.
¹¹³ World Bank, Understanding Ethnic Minority Poverty in Vietnam, Country Social Analysis Study, 2007. However, there had been some benefit in the northern mountains, where forest land allocation had taken place, while almost no SFE land had been allocated in the Central Highlands, and poverty was more severe.
¹¹⁵ Personal communication, Hanoi, May 2007. Seven hectares is significant, but it is high mountain land, so much of it is classified as forest land. Farmers also had “low quality, low yielding paddy.” They could also plant other food crops, such as cassava, in the forest, and use Non Timber Forest Products, but not on the part they rent out. These farmers did not receive any planting subsidies under any forestry program.
Average farmers are entitled to less than those around Bai Bang but more than in this report. A farmer should get 50 tons per hectare, at 400,000 dong for one ton (after paying the intermediary), earning 20 million dong (US$1400) per hectare after 7 years.\textsuperscript{116}

The huge difference between the lucrative hilly land around Bai Bang and the steep mountainsides of the remote site suggests that no generalisations can be made. However, the irregularities reported, connected to state agencies and SFEs, do not necessarily call into question the social nature of Bai Bang's strategy.

One factor is the power of intermediaries. The Bai Bang unionists claimed that local government processes and permits had previously prevented farmers selling at the factory gate, but when the government demanded Bai Bang buy all the farmers' timber, the company demanded these procedures be removed. Farmers are now paid at the factory gate.\textsuperscript{117} Tu however says Bai Bang's own processes and paper work can hold up payment, so it is better to go through a broker.\textsuperscript{118}

The farmers near Bai Bang claim it remains impractical for small farmers to bring their own timber, due to its bulk. Moreover, Bai Bang needs assured supply, which large traders contract to guarantee. Farmers have small amounts, at different times, so cannot guarantee this. However, they say intermediaries now take only half what they used to, and that there are now fewer intermediaries, the main being the provincial state-owned PTTC (Phu Tho Trading Company, or Cong Ty Tuong Mai PT).\textsuperscript{119}

In the remote village, the exploiting SFEs were the intermediaries. The Bai Bang unionists claimed the SFEs' power was reduced when the VPMC was abolished in 2004 and the SFEs placed under Bai Bang, but it remains unclear what real effect this and their subsequent takeover by Vinapimex in 2005 had.

\textsuperscript{116} According to Pham Van Tu, 2007.
\textsuperscript{117} Hoi and Xinh, op cit.
\textsuperscript{118} Pham Van Tu, 2007.
\textsuperscript{119} Forestry farmers, 2007, op cit. It was unclear whether there was any relationship between intermediaries taking a smaller cut and there being fewer of them. If this were the case, it would go against "competition theory" that says having lots of competing middle-people is better; but as it is a state trading company, it may represent state policy for better producer prices, but this is only conjecture without deeper research.
The final question is whether farmers have options, or are pressured into forestry by state land planning or SOE commercial needs. If the state and SOEs pressured farmers into forestry, when more lucrative pursuits were available, it would be detrimental to farmers.

The farmers around Bai Bang do not have to grow forest. This is hilly land where usage is flexible. They also have corn, cassava, rice, and animals, but say timber is now the most lucrative. However, in remote regions the state often sets aside forest land. In theory, these areas are not good for other crops, but farmers may not agree. Farmers grow other crops or raise animals in the forest, and use non-timber forest products. They also have non-forest land for growing upland rice. However, these activities do not always compensate for forestry where other options are more lucrative.

Forest programs are often error-prone, do not involve villagers, or assume grazing land to be “bare hills.” However, plantations implemented against farmers’ wishes “have mostly failed.” Some farmers continue to graze animals, which “damage the plantations,” while others “help themselves to wood from plantations,” especially if plantations have destroyed “their only source of fuel wood.” They even burn plantations to use the land “for something more productive.”

While claiming “ample land” exists for “an expanded commercial planting program,” the Miyazawa report complained:

> Land ownership (or at least use) is fundamental to local residents who are unlikely to give it up without creating serious political and social problems ... (they) are extremely reluctant to give (it) up even with government direction.

Further, People’s Committees often side with farmers:

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120 Ibid.
121 Early in Program 327, more land went to Kinh colonists from lowlands or minority uplanders moved to lower altitudes, with mixed results, than to local minority households, Sikor, T, ‘Decree 327 and the restoration of barren land in the Vietnamese highlands’, *The Challenges of Highland Development in Vietnam*, Eds, Rambo, A.T, Cuc, L.T, Reed, R, DiGregorio, M, Center for Natural Resources and Environmental Studies (Vietnam National University, Hanoi), East-West Center, and Center for Southeast Asian Studies (University of California), 1995. This appears to have significantly changed since then.
122 Lang, C, 2002, op cit, p. 158.
124 Ernst and Young, A&C Sandwell (B), Appendix 4, p. 20
125 Ibid, p. 56.
Central government land allocation ... has been voided at the provincial or district government level ... Rural people, farmers, villagers, Provincial People’s Committees, are likely to oppose this large-scale land use as forestry doesn’t have the reputation of being a very worthwhile investment.\(^{126}\)

The proposed Kon Tum mill exemplifies these limits. Its annual design capacity of 130,000 tons was to provide all the pulp for Cogido and Tan Mai.\(^{127}\) In 2002, provincial authorities suspended construction. According to Chris Lang, the mill was planned on the assumption that more than 20,000 ha of plantation were available, and that more land could be planted. ... three years later, less than 15,000 ha of plantations existed and some ... encroached on people’s land and homes. Kontum’s provincial authorities (said) expanding ... tree plantations ... was simply not feasible.\(^{128}\)

Kon Tum authorities cancelled it because farmers simply refused to grow forest, preferring more profitable rubber and cashew crops.\(^{129}\)

Given this, it is hardly surprising that while the 644,812 ha of protection forest grown in 1998-2005 exceeded its target, the 644,556ha of production forest was well behind the 1.39 million ha target,\(^{130}\) even with favourable SOE pricing policies - farmers prefer a healthy product mix to entering another surplus.

Thus, while pushing forestry against villagers' wishes can still cause great difficulty, the above suggests the state cannot necessarily act effectively against forms of “everyday

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\(^{126}\) Ibid, p. 56. According to a researcher in Phu Tho, households are allocated land and given red books under the commune People’s Committee, often leading to boundary conflict between the SFEs and Peoples Committees, because the red book given to the SFE is provided by the provincial People’s Committee. PC’s sue SFEs, local farmers sue SFEs and SFEs sue PC’s, personal communication, April 2007.

\(^{127}\) Ernst and Young, A&C Sandwell (B), op cit, p. 50.

\(^{128}\) Lang, C, ‘Construction of Kontum pulp and paper mill suspended,’ World Rainforest Movement, Bulletin No. 66, January 2003, http://www.wrm.org.uy/bulletin/66/Vietnam.html. Jaakko Poyry, “the world’s biggest forestry and engineering consulting firm,” produced the feasibility study. The total cost was estimated at US$240 million, including US$163 million worth of equipment from Europe. This highlights how commercialization and ventures with foreign capital may push unrealistic schemes in pursuit of profit.

\(^{129}\) Pham Van Tu, 2005, op cit.

resistance.” However, this cannot be exaggerated, especially where the revolution had less base, particularly among central highland minorities. Great harm has been caused when fallow lands used by “shifting” (rotational) cultivators is wrongly labeled “bare land.” Yet even here, Lang claims “if fallow lands are planted with trees, farmers have no choice when the time comes to re-use the land, other than to clear another area for their crops, or cut down the planted trees.”

**Bai Bang’s poverty reduction efforts**

In addition to this overall social role, Bai Bang also aids the local community in poverty alleviation, under the auspices of Vinapimex and the Phu Tho People’s Committee.

It specifically aids Ngoc Dong commune in Yen Lap district. Its 780 households (3185 people) include 537 farmer households and 201 households working for Ngoc Dong State Timber Company. Bai Bang surveys found 207 poor and 45 “hungry” households.

Bai Bang issues no-interest loans in farming materials (seeds, small animals, natural fertilizers) to the households. A 60 million dong ($US 4000) loan for the commune included 10 million for training courses. The loans are not yet repaid because Bai Bang re-loans the materials ongoing. As a result, rice productivity has risen to 4.426 tons from 3.5 tons per acre. Bai Bang invites households and people’s committees to an evaluation, where “those with high productivity explain how they did it.”

Bai Bang also built a clinic and provided medical equipment, worth 130 million dong ($US 8500), and built a house for three orphans, giving each 20 million dong ($US 1

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131 It is “tremendously hard” to persuade the 7 million farmers allotted with upland land “to plant them with trees” as they “need to make an extra living “tomorrow” not some distance into the future when the trees have grown,” Nguyen Hong, ‘Pipe dreams in the woods’, *Vietnam Investment Review*, June 21-27, 1999.

132 The contrast between the strong connection of most northern minorities with the revolution, and the more autonomous movement in the Central Highlands – at times fighting both the US-backed southern regime but also the Communists – is an interesting one. One example is that while in the north, forest land allocation has taken place and brought some benefit, almost no SFE land had been allocated in the Central Highlands, despite government policy (World Bank, *Understanding Ethnic Minority Poverty in Vietnam*, Country Social Analysis Study, 2007), overall poverty was more severe, and conflict more sustained.


134 Hoi and Xinh, op cit.

135 Ibid.
1,300). It also supports 15 “heroic mothers,” and also calls on workers to mobilise funds for various causes. This funding by workers averages 800,000,000 dong ($US 50,000) annually. Finally, in 13 communes in Phu Ninh district, Bai Bang subsidises forest planting, “providing thousands of jobs.” In 2003 the company planted 73 acres, increasing to 170 acres in 2005.\footnote{Ibid.}

Two groups of workers discussed these issues, from the maintenance section and the paper mill.\footnote{The next six paragraphs summarise some points made by workers of these two groups. The workers at the paper mill were Cuong, chair of trade union in this section, Nga, in charge of quality control and chemical checking, Trong from the administration department, Hoang, deputy head of the 1st workshop of the mill, and Nga, head of shift. In the maintenance section we met Mr Trung, Ms Ha, Mr Khanh, Mr Quan and Ms Quynh. Their specific jobs or positions were not introduced. The maintenance section includes 403 workers, including 68 engineers and 35 college graduates. The oldest worker had worked at Bai Bang for 27 years, most over 20 years, the youngest for 18 years.} They said the Welfare Fund included “solidarity funds” and “poverty programs,” for the local community and for remote regions. The first group claimed funds were provided to ten “charity funds,” to “charity houses,” Agent Orange victims, victims of natural disasters, heroic mothers, and “encouraging pupils to study.” The second emphasised kindergartens, roads, clinics, electricity stations, irrigation systems, houses in remote regions and “help with disasters.”

The first group said this was mostly company money from the Welfare Fund, but “workers also contribute. For example, in typhoon Damriel, workers gave 200 million dong ($US 14,000).” They said workers contributed because “their income is higher than of others around,” quoting the Vietnamese idiom ‘la lanh dum la ranh’ (‘cover the leaves which have holes in them’).

Many Bai Bang workers have relatives in surrounding communes, a link between solidarity funding and peasant recipients. This could be a factor in workers’ decision making, but was difficult to explore. On a trip to a farming community near Bai Bang, some workers from Bai Bang were present, friends though not relatives.

This connection between Bai Bang workers and local farmers is enhanced by the presence of mass organisations in the company and their role in SOE decision making. According to the first group, the Youth Union organises activities for local youth, contributes to environmental plans, and funds housing in remote areas. Trong from the
second group, the former head of the Bai Bang youth union, says it “participates in volunteer campaigns,” contributed to building an orphanage in Ngoc Dong, and organises cultural exchange and music festivals involving the local community.

The Women’s Union contributes funds “to help poor women in the company and in surrounding communities,” according to the first group. Nga in the second group, head of the women’s unit in one section of Bai Bang, says the organisation raises funds to loan poor women in other areas with no interest, to “develop their household economy.” The organisation inside Bai Bang is connected to the women’s union in the province, so this aid is coordinated with the union’s outside activities.

The Veterans’ Union’s role is to help each other in life, and share benefits, including with veterans in the wider community. This means help with funds, graves, for Agent Orange victims, and for “children of veterans outside the company.” The VU “discusses with the company how to help veterans in and out of the company.”

Seven hundred workers – a third of the workforce – are CPV members. To join at work, a worker must be referred by one of the various unions (trade union, youth union, women’s union, veterans’ union), plus be approved by the residential party unit where they live.138

Growing commercialisation

Phase 2 expansion began in 2007, giving Bai Bang pulping capacity of 250,000 tons, so now it can buy much more farmers’ timber.139 The Bai Bang unionists believe this “gives farmers more bargaining power.”140 Bai Bang in April 2007 was buying a ton of wood for 480,000 dong, up from 420,000 dong 6 months earlier, and with the expansion, this will rise to 550,000 dong.141

Concurrent with raising farmer prices, Vinapimex pulp is now cheaper than imports. In early 2006, hardwood pulp import was $420-450 per tone, but rose to $580-620 by April

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138 Hoi and Xinh, op cit.
139 Pham Van Tu, 2007, op cit.
140 Hoi and Xinh, op cit.
141 Pham Van Tu, 2007, op cit.
2007, with the local production price in between.\textsuperscript{142} This indicates the wisdom of not closing local "inefficient" SOEs under the illusion that imports will always be cheaper.

Therefore, according to Tu, "government rules to buy at home to help farmers are no longer necessary."\textsuperscript{143} However, if market bargaining power, rather than state-mandated social policy, becomes the way the industry helps farmers, market power may swing both ways, especially in the context of trade liberalisation,\textsuperscript{144} greater "efficiency" demands on the pulp SOEs, approaching equitisation, and more "autonomy" for SFEs.

According to Tu, Vinapimex's assertion of control over the SFEs aims "to give them more independence to decide their own prices, type of timber, how many trees per ha etc."\textsuperscript{145} But an increase in the profit-driven character of both SFEs and pulp SOEs may encourage precisely the kind of drive for more timber despite other social and environmental effects warned about, and lead to the kinds of exploitative relations depicted, driven by greater need for timber with expanded capacity.

\textsuperscript{142} Ibid. The rise of world pulp prices began in 2003, when the cost of imported pulp rose 16-19 per cent, 'Paper industry needs more investment', http://www.vietnam-tourism.com/vietnam_gov/e_pages/Duan-dautu/cacluandt/dadt_paperind.htm

\textsuperscript{143} Pham Van Tu, 2007, op cit.

\textsuperscript{144} In 2003, the import tax on paper was cut from 40-50 to 20 percent; cheap imports flooded in and inventories grew. That year, Tan Mai writing paper cost 877 USD per ton while Thai and Indonesian writing paper cost 822-842 USD, including taxes and charges, 'Paper industry needs more investment', op cit. In 2005, Vinapimex reported 32,000 tons of stockpiled paper, 'Power, paper firms see significant losses', Viet Nam News, April 13, 2005.

\textsuperscript{145} Pham Van Tu, 2007, op cit.
Conclusion

The state-owned cement and paper industries represent a part of what might be called the "traditional" state sector, located particularly (though not solely) throughout the provincial north. Both reveal a wide range of the SOE social roles discussed in Chapter 6. While this dissertation rejects the language of "reformers" and "conservatives" due to its negative connotations, we may return to it momentarily to see it in a different light: there is much that is beneficial to society in the operations of these "traditional" state industries; therefore, "conserving" them, and "conserving" other elements of the system they represent, is not merely in the interests of elite ideologues or corrupt managers, as some stereotypical analyses would have it. Rather, there is a whole section of society that is connected to, and benefits from, such "conservation." This is the broader social base of the Socialist Orientation Tendency, and thus its key argument may be seen in this light. However, the coexistence of social and commercial goals is not always easy, and the problems and contradictions are more apparent in the case of the paper industry. These contradictions push towards resolution. The evidence of this chapter suggests that resolution in the form of privatisation and triumph of commercial considerations is not the direction that would most benefit society, or the poor in particular.
Conclusion

This dissertation has analysed the debate in the Communist Party of Vietnam with a focus on the state economic sector, which is supposed to have the "leading role" in the country's economy. This focus is chosen for two main reasons. First, this leading role is considered a major plank of the socialist orientation which the CPV claims to follow. Second, the role of the state sector is a key issue in contention in the debate.

This debate has been taking place within a specific historical context, as the country's economy became more market oriented following the CPV's 6th Congress that ushered in Doi Moi in 1986. Vietnam's particular brand of political economy mixes a leading role for state enterprises and a socialist orientation with an important role for private enterprise and markets. I call this the Doi Moi Consensus model. This emerged shortly after Doi Moi began and has characterised the country's economy until recent years.

Under this arrangement, Vietnam emerged during the last twenty-some years from economic ruin to become widely recognised as a low-income country with middle income social indicators and a record breaker in poverty reduction. While serious poverty still exists, and inequality has been exacerbated by the market economy, Vietnam's achievements represent a compelling contrast to most openly capitalist market economies in the developing world.

Many critics of the state economic sector attribute Vietnam's social achievements entirely to the market and private economy. Such discourse sees the state economy as an obstacle to better social and economic conditions. However, the state economy has not been merely a declining side aspect of the socio-economy; at least until the middle of this decade, it remained in a semi-dominant position. Those critics of the state sector who recognise this reality can only view Vietnam's social achievements as a dilemma in this context. This dissertation, by contrast, finds that the widespread negative assessments of Vietnam's state economic sector represent only part of the picture, and that it has in fact played an important social role. Therefore, it finds no dilemma in a country with a powerful state-owned economy boasting significant social accomplishments.
Bringing some balance to the debate about the role of the state sector not only helps us better understand some important successes in Vietnam’s socio-economy. It also helps us to understand the CPV debate in more objective terms. Often analysts have cast this debate as a contest between “conservatives” and “reformers,” language that implies a value judgement: “reform” signifies progress, whereas “conservatism” implies an irrational desire to maintain old structures.

I have proposed more straightforward language. Arguments for maintaining the Doi Moi Consensus’ model – the position of so-called “conservatives” – I call the Socialist-Orientation Tendency (SOT). Arguments by so-called “reformers” for a more radically pro-market course I call the Market-Orientation Tendency (MOT). These two tendencies also include sub-tendencies, and leaders and cadres exhibit views combining aspects of differing tendencies, indicating the debate is not simply between two distinct groups.

At the onset of Doi Moi, most CPV members agreed on major aspects of a socialist orientation. First, the goal remained socialism, and the current “socialist-oriented market economy” is merely a long transition state towards this goal. Second, while all economic sectors are encouraged, the state sector plays the leading role, and along with the cooperative sector should increasingly form the basis of the future socialist society. Third, the market is utilised but does not rule; the state manages it to limit its negative impacts. An important minor aspect is that the land is owned by the “whole people” and cannot be privatised, and there is still an important role for cooperatives.

A minority rejects all these aspects. They believe the socialist orientation should be dropped or postponed, as it holds up the full development of the market. This “full” development of the market is necessary before one can talk about socialist orientation. Next, the state economy should not play the leading role, as it is hopelessly inefficient, and should only exist on an “equal” basis with other sectors. At most it should only control public services, basic infrastructure and public utilities. Also, the role of the state itself in the economy should be reduced to a minimum; free markets should regulate the economy. However, state regulation is necessary to create laws and policies and a stable investment climate. Regarding secondary issues, these cadres often advocate privatisation of land, a “land market,” and large farms rather than cooperatives.
Most CPV cadres believe that a central plank of socialist orientation is that economic growth must lead to social progress “at every step of the way.” Many also emphasise that the inequality which necessarily exists during the transition should never be caused by people getting poorer, but only by some getting wealthier more quickly than others. However, many among the market-oriented minority stress that growth is the priority, and too much attention to social policy may hamper growth and market development.

The commonly heard discourse of “conservatives blocking reform” is heavily focused on the state economic sector. This discourse claims the state sector has little positive relationship to social progress. Therefore, those defending it – the Socialist Orientationists – are either “conservative” ideologues with no connection to the “real world,” or corrupt officials and party members who profit from the retention of some old semi-state interests within a partial development of capitalism and the ensuing unclarity. If genuinely interested in socialist orientation, there would be no reason for them to continue to insist on a leading role for an obvious impediment to social progress.

Given the centrality of this issue, this dissertation studies the state economy as an example by which to assess the authenticity of a major claim to socialist orientation, and in particular the authenticity of the political tendency within the CPV that supports the state sector’s leading role. The dissertation does not deny that some of those defending the state sector may fall into the stereotypical categories described above. However, it finds that the reality of the state sector is not nearly as stark as often depicted, so the lingering of its leading role cannot be merely explained as the work of an elite with vested interests in “opposing reform.” Thousands of honest socialists in the CPV find good reason to oppose the further corrosion of what they consider the better aspects of the society they once fought for by the rapacity of the capitalist market. Significantly broader sectors of society also oppose the kind of anti-state sector “reform” that is detrimental to their own interests and to the social good overall. These pressures from below are reflected in the CPV debate, forming the wider societal base of the SOT.

As an aside, a mirror image of the common stereotyping of the SOT could suggest that the material interests of the capitalist class rising within the market economy are behind the more pro-market political views of the MOT. It is logical that those with such
interests will advocate a more pro-capitalist course, and it would be futile to deny this reality. However, just as this dissertation does not romanticise the state economy or the socialist-oriented tendencies, nor does it demonise market-oriented tendencies or the private economy. Thousands of market orienters in the CPV are also honest socialists who simply believe there is no alternative to a larger dose of capitalism in order to develop the productive forces before any socialist orientation is possible.

Therefore the dissertation accepts the debate as a real one. As all sides of the debate agree that full socialism cannot be implemented in a country with a low level of productive forces, so at least some elements of the market and capitalism are necessary during a transition period, it is only natural that contention would exist about how much of these elements to include without endangering socialist orientation, and what elements make up this orientation. While sections of the economic elite clearly do have material reasons to favour one side or another of the debate, this aspect is not the focus here.

The complexity of the debate reflects complexities in Vietnam’s political economy. The focus here on the positive aspects of the state economy does not invalidate the substantial body of evidence regarding its negative aspects. The shift to the market after Doi Moi, the rise of domestic and foreign private sectors, and growing trade with the world capitalist economy put the state economy under great pressure to make decisions based on profitability rather than socially benefit. The director was given more power to act autonomously with less interference from the state, the party unit, the trade union or the mass organisations. Business deals with private and foreign companies, joint ventures, international trade, playing local markets and equitisation opened many doors to corruption, nepotism and asset stripping. Even when corruption is not the issue, the dominance of market motivations can lead to “effective privatisation,” where large surpluses are accumulated in SOEs effectively outside of state control. Some SOEs may become very “efficient,” by directing investment to profitable areas, which may not be areas of social priority where state investment should be going. Many state enterprises have become spawning grounds of the new capitalist class via the legal and illegal interactions of the managerial elite with the market.
Therefore the more negative analyses are not entirely wrong. However, many can be simplistic, one-sided or self-contradictory. A range of counter-pressures to the market also acted on SOEs. These included the state trying to assert some control over its assets and tax revenue, the party with its traditions, the pressure of history and traditions of social solidarity, pressures by local governments who view local SOEs as sources of state funding, and pressures from SOE workers, their trade unions and sometimes local communities. When looking at something as large, complex and varied as Vietnam’s state sector, there is much room for different realities.

Do all the negatives mean that the state economy has had an overall negative impact on socialist orientation? The dissertation argues against this. It provides evidence which suggests that the state sector’s role must be seen in an overall positive light, consistent with the country’s social and economic advance.

Firstly, despite alleged “inefficiency,” the state sector has continued to grow and expand throughout the last 15 years, and, despite losses in some sectors and enterprises, to show overall significant levels of profit. State subsidies have mostly ceased to exist, and even the alleged bias in credit allocation in favour of SOEs has been essentially eliminated. Although rates of profit are lower than in private and foreign firms, the state sector has until recently been responsible for the bulk of state revenues.

Secondly, despite their more profit-driven tendency since Doi Moi, state enterprises generally provide significantly better pay, benefits and conditions to their workers than do other sectors. This cannot be separated from the role of workers within SOE management, and the specific management structure of state enterprises more generally. While the first changes after Doi Moi strengthened the director, the party and state later moved to re-impose a degree of control over SOEs. From the other side, workers often challenged the initial weakening of their position, as directors often strove to reduce workers’ role to better run SOEs as commercial enterprises. The state upgraded the formal position of workers with a grass-roots democracy decree for state enterprises, reaffirming the central role of the workers’ congress. Despite changes, SOE management structure still combines roles for various actors, representing different sectors and
Conclusion

interests in society. Such a complex structure represents, at least theoretically and often in practice, a degree of social control over social production.

Therefore it is a constant target of advocates of SOE “reform,” who believe SOEs need more autonomy and profit-orientation. Equitisation aims at undermining this traditional structure, more fully excluding the state, party, unions, mass organisations and workers’ congresses from management, so that the new shareholding part-SOEs can be purely profit-orientated. Many believe the slowness of equitisation and the stubbornness of old SOE structures is due to resistance to “reform” from self-seeking officials. However, there may also be many self-seekers in management who have interests precisely in equitisation, while others, both workers and among wider layers in society, have legitimate interests in the traditional structure. Therefore, resistance to equitisation can be seen in a different light.

Nevertheless, while this dissertation demonstrates that elements of workers’ participation exist in SOEs and may impose some limits on managerial power, what is less clear is how this helps society as a whole, in a country where most of the population are small peasants, and the semi-proletarian and petty-trader urban masses, not SOE workers. Regarding the problem of “effective privatisation” noted above, workers’ participation may simply make these workers part of a “corporate” bloc with management, standing above those in society “at the bottom of the scale.”

Therefore, the dissertation studies the broader social role of state enterprises. It finds that the state-owned sector overall, and many state enterprises individually, play a significant social role within the greater society. At the ‘top level’, investment decisions beyond a certain amount are controlled by the state, and the prices of a number of major products are not market-based but set by the government for the SOEs, at a level lower than world prices, creating a flow-on effect throughout the economy. The government tied the large state corporations, covering all the dominant areas of the economy, to participation in the poverty alleviation program. At the ‘middle level’, many individual state enterprises make decisions regarding the implementation of these policies that violate ‘market’ rules in favour of socially-based decision making. This may often reflect their relationship

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with local governments or communities. Many SOEs are also involved in directed investment in poor regions, providing subsidised inputs to poor farmers. At the 'lower level', a substantial amount of SOE after-tax profit is often spent directly on out-of-enterprise welfare activities, including building schools, health clinics, roads, bridges, cultural centres or housing for poor communities. There are also many important social funds that SOEs are compelled to contribute to.

The dissertation does not claim that all SOEs engage in non-commercial socially-based activity and investment decisions. A substantial body of evidence exists for anti-social activity of many SOEs. However, the dissertation shows that, overall, the state-owned sector engages in – or is obligated to engage in – social and non-commercial activity of a very significant scope and variety. This is a widely downplayed aspect of Vietnam's relatively successful political economy. This deeply embedded reality provides the socialist-orientation wing of the CPV with a solid base in society.

This role is not a question of altruism, but one that has been inherited from the traditional role of the state sector, and that is connected to the very nature of state enterprises in Vietnam's political economy and to their specific management structure.

First, the state owner itself never ceded full market autonomy to SOEs, and seeks to use them to fulfil state political, economic and social objectives. Next the CPV unit in the SOE represents an organisation that spans beyond the enterprise; its members are linked to party members in local neighbourhoods and villages, and to a program that stresses issues such as poverty programs. Likewise, the mass organisations represented in the SOE also connect the SOE, its workers and its funds to outside campaigns. The other main connection is the Fatherland Front, which leads campaigns for poverty reduction and other causes. Its local chapters include local mass and other social organisations and local CPV branches, both represented inside the SOE, and local SOE trade unions.

Finally, while the main role of SOE trade unions is theoretically to protect the workers, they also play the major role in harnessing SOE funding for out-of-enterprise welfare. This is connected to the legal structure of SOE after-tax profit distribution, a substantial part of which goes to a 'welfare fund'. While this is mostly designed for SOE employees,
a portion is directed to out-of-enterprise welfare. The fund is managed by the SOE trade union, and its spending is decided on by the workers congress.

At the same time, even the very social policies implemented may have unintended negative impacts, and progressive policies may be implemented badly and in a top-down or paternalistic way. The pressures of the market and globalisation on state enterprises continue to sharpen and can seriously impact on the implementation of social policy.

From the point of view of social control over social enterprises, what is missing from the model that includes roles for the state, management, workers and mass organisations is a clearly defined and institutionalised role for local communities in supervising SOE investment and funding. While both the party unit and the mass organisations represent elements of such involvement from wider society, the evidence found for a clear and consistent role along these lines was very limited. The role of the SOE party unit was one of the most difficult issues to find any clarity on; its specific role separate to that of the state, the management or the trade union remains highly elusive. Though the Fatherland Front provides a clearer connection between the SOEs and the community, even this only involves funding mobilisation for the community, not community supervision.

Yet these inadequacies, far from calling into question the need for a strong state-owned sector, further reinforce it. To the extent the sector is equitised or privatised, it is removed from any community input or supervision. Only if these large sections of the economy remain official state or social property can there be debate over the right of the wider society and local communities to have a more decisive say over how these social assets are used. As Beresford puts it succinctly, “continuation of some degree of state ownership seems to be an essential prerequisite to maintain and legitimise public debate about the direction of economic and social development.”

My estimation of the extent of the state sector’s social and developmental role may be arguable. Some may believe with good reason that the negative side of the state sector has become the dominant element. What I hope to have done is provide a great many examples of what a state sector could and should be doing to justify its specific existence and its leading role within the context of a socialist orientation.

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On this note I will briefly return to the party debate. While I have argued against the idea that socialist orientation is “conservative” and market orientation is “reform,” much official discourse of the Socialist Orienters often takes on a “conservative” appearance. Many (though far from all) are of the older generation, and their support for the leading role of the state sector is often expressed in a way that sounds ritualistic. In the context of Vietnam’s commerce-filled streets, it may well appear removed from reality. The Market Orienters, by contrast, are often (again not exclusively) younger, and many have studied in western universities. They are often able to explain their views more eloquently, giving them a more “modern” appearance. What those arguing for a leading role for the state sector need is a more fully developed discourse regarding the content of this leading role, what specific role the state sector can play that reflects the fact that it controls vast assets officially belonging to the whole society, and how this can contribute to a modern and progressive socialist discourse for the 21st century. I would like to think that my evidence here for what the state sector can do could contribute to this discussion.

Vietnamese reality, however, is far from static. My dissertation analyses the period roughly between 1990 and 2005. There are signs that the market orientation tendency within the CPV and within society at large has gained significant ground during the second half of the decade. The legislative framework regarding the state sector has become increasingly pro-privatisation, to the point that it could be argued that the Doi Moi consensus model has been overthrown. I would argue that this partly caused Vietnam’s severe economic crisis of 2007-8. Indeed, the devastating effect this crisis had on the poor could be said to validate one of my key arguments in reverse – greater economic liberalisation increased poverty and hunger.

However, this would be a further discussion. Given the current severe crisis of world capitalism, which has led to a renewed discussion of Marx’s legacy even in the most unexpected quarters,3 it is no forgone conclusion that the socialist orientation tendency will disappear from Vietnamese society. Debate about the course of Vietnam’s political economy is likely to remain vigorous.

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Newspapers and magazines

Articles from newspapers and magazines have not been listed in the bibliography, but have already been referenced in footnotes. The exceptions are articles by prominent figures in Vietnamese politics. Articles from more academic and theoretical journals, in particular a wide range of Vietnamese journals, have been included above. The following is a list of newspapers and magazines which I consulted over the years covered by the dissertation, in addition to the journals and periodicals already referenced above:

Asia Sentinel.
Asia Times on Line.
Asia Week.
Far Eastern Economic Review.
Financial Times.
Green Left Weekly.
Inter Press Service.
International Herald Tribune
Lao Dong (very widely used in dissertation)
Nhan Dan
Saigon Times
Stratfor
Thanh Nien.
The Economist
The Guardian.
The Straits Times.
Tuoi Tre.
VDC Business Newsletter.
Viet Nam News
Vietnam Business Forum.
Vietnam Economic News.
Vietnam Economic Review.
Vietnam Economic Times.
Vietnam Investment Review.
Vietnam Net Bridge.
Z Magazine.
Appendix I: Interviewees and informants

Note 1. Around 25 interviewees were asked a specific list of questions about the views on socialist orientation, the state sector and certain other issues. These interviews were important for making an overall assessment of the range of views on these issues in the CPV. These interviewees are marked with an asterix (*). Others below were interviewed to gain information about various issues. Obviously there was a strong cross-over; and some were specifically interviewed both generally about socialist orientation and specifically about their areas of expertise.

Note 2. The first ten interviewees at the Ho Chi Minh National Political Academy (ie, all there except the last from the Party Building school, an informational interviewee), and the two from Tap Chi Cong San, were asked to do interviews on the basis that their names would not be used regarding specific views. Many said they had no problem with their names being published, but this was not universal. Therefore, I have listed all their names and positions below, but in the dissertation they are referred to as ‘Interviewee 1, 2, 3 etc up to 10. The list below is alphabetical, whereas the numbering in the dissertation is based on the date of the interview, and there is thus no correlation.

Ho Chi Minh National Political Academy

*Chu Van Cap, Political Economy Department, Ho Chi Minh National Political Academy, Member National Theoretical Committee.

*Dang Ngoc Loi, Institute of Economic Management, Ho Chi Minh National Political Academy.

*Do The Tung, Political Economy Department, Ho Chi Minh National Political Academy.

*Ngo Huy Duc, Deputy Director, Political Science Department, Ho Chi Minh National Political Academy.

*Nguyen Dinh Khanh, Political Economy Department, Ho Chi Minh National Political Academy.

*Nguyen Huu Tu, Deputy Director, Institute of Economic Development, Ho Chi Minh National Political Academy.

*Nguyen Khach Thanh, Political Economy Department, Ho Chi Minh National Political Academy.

*Nguyen Van Huyen, Director, Institute of Political Science, Ho Chi Minh National Political Academy.

*Tran Huu Tien, Retired Professor, Ho Chi Minh National Political Academy.

*Vu Van Phuc, Head of the Cadre Organisation Department, Ho Chi Minh National Political Academy.

Party Building School, Ho Chi Minh National Political Academy, December 2005.
Appendix I: Interviewees and Informants

**Tap Chi Cong San**

*Nhi Le, Director, Department of Party Building, Tap Chi Cong San.*

*Tran Quang Nhiep, Deputy Editor-in-Chief, Tap Chi Cong San, Member, National Theoretical Committee.*

**Other CPV**


**State enterprises**


Deputy Director, Northern Food Corporation (Vinafood I), Hanoi, June 2005.

Deputy Director, Tobacco Corporation, Hanoi, July 2005.

Dung Du Duc, Head of Trade Union, Northern Airlines Services Company (NASCO, subsidiary of Vietnam Airlines), Hanoi, July 2005.


Mr. Hung, Deputy Director, Cement Hai Phong, Hanoi, August 2005.


Mr. Nghiep and Mr. Cu, Director and Deputy Director of the Personnel Department of Vinacoal, Hanoi, October 2005.

Mr. Tinh, Deputy Chair of Hoang Thach Trade Union, Hoang Thach Cement plant, Hai Duong, November 2005.

Mr. Tinh, Party Committee, Song Da Corporation, August 8, 2005.


Nguyen Ngoc Thu, Salt Corporation, Member of HDQT and CPV cell, Hanoi, December 2005.

Nguyen The Bang, Assistant to General Director, Vietnam General Corporation of Agricultural Materials, Hanoi, October 2005.
Appendix I: Interviewees and Informants


Tran Van Viet, Deputy Director, DAPCAU Glass Company, Subsidiary of Viglacera, Bac Ninh, June 2005.


Bai Bang and Hoang Thach


Chien and Dung, Bai Bang workers, site visit to local forestry farms near Bai Bang, December 2005, April 2007.


Forestry farmers near Bai Bang, site visit, April 2007.

Hoang Thach workers around town, late November 2005.

Hoang Thach workers in the mechanical section and the mechanical repair team at Hoang Thach Cement plant, Hai Duong, November 23, 2005.

Mr. Tinh, Deputy Chair of Hoang Thach Trade Union, Hoang Thach Cement plant, Hai Duong, November 23, 2005.

Trade unions


Dung Du Duc, Head of Trade Union, Northern Airlines Services Company (NASCO, subsidiary of Vietnam Airlines), Hanoi, July 2005.

Mr. Tinh, Deputy Chair of Hoang Thach Trade Union, Hoang Thach Cement plant, Hai Duong, November 2005.

Nguyen Phuong Hoa, Head of Trade Union, Textile Research Institute, Vinatex, previously head of Trade Union in a state garment company, previously head of Trade Union in a state wood company (Cong Ty Go Cau Duong), November 2005.

Nguyen Xuan Con, former head of Vinatex Trade Union, Hanoi, November 2005.

Tran Trung Phuc, Director, Socio-Economic Policy Department, Vietnam General Confederation of Labour, November 9, 2005.
**Appendix I: Interviewees and Informants**

**Mass organisations**

*Bui Quoc Hung, Program Officer, International Department, Ho Chi Minh Communist Youth Union, February 26, 2005.*

*Deputy Editor of Thanh Nien, Hanoi, June 2005.*


Mr. Hiep, Young Workers Department, Ho Chi Minh Communist Youth Union, Hanoi, September 2005.

*Nguyen Dieu Tuyet, Vice-President, Vietnam Farmers’ Association, Hanoi, August 2005.*

Nguyen Thi Hoa Binh, Deputy-Head, Family and Social Affairs Department, Vietnam Women’s Union, March 2005.

Nguyen Thi Hoang Van, Deputy Director, International Department, Ho Chi Minh Communist Youth Union, March 2, 2005.


*Tran Thi Hoa, Deputy-Head, International Cooperation Department, Vietnam Women’s Union, November 2005.*

*Tran Thi Van Anh, Editor, Khoa Hoc Phu Nu (Journal of Women’s Studies), Hanoi, November 2005.*

**Government Departments**


Ngo Truong Thi, Deputy Director of the Department of Social Protection in Molisa, Hanoi October 14 2005.


**Universities and Institutes**

Bui Van Hung, National Economics University, Hanoi, June 2005.

Dao The Tuan, Director of Research, Department of Agrarian Systems, Vietnam Agricultural Science Institute, Hanoi, August 2003.
Appendix I: Interviewees and Informants


*Do Duc Dinh, Director of the Vietnam Institute for Africa and Middle East Studies and President of the Centre for Economic and Social Research, November 7, 2005.

*Ha Huy Thanh, Associate Professor, Acting Director, Institute of Environment and Sustainable Development, Vietnam Academy of Social Sciences, Hanoi, October 2005.

*Phan Xuan Nam, Retired Professor, Economics Institute, Vietnam Academy of Social Sciences, Hanoi, October 2005.


Tran Thi Van Anh, Editor, Khoa Hoc Phu Nu (Journal of Women’s Studies), Hanoi, November 2005.

Trinh Duy Luan, Head, Institute of Sociology, Vietnam Academy of Social Sciences, November 16, 2005.

Vo Quy, Retired Professor, Head of party cell in the Centre for Natural Resources and Environmental Studies, National University of Vietnam, Hanoi October 2005.


Central Institute of Economic Management

Pham Hoang Ha, Central Institute of Economic Management, Hanoi, September 2005.

Tran Tien Cuong, Director, Department of Enterprise Reform and Development, Central Institute of Economic Management, September 2005.


Non-Vietnamese informants

Brian Doolan, CARE Country Director, Hanoi, January 2003.

Carl Thayer, Professor, Strategic and Defence Studies Centre, Canberra, 2004.

World Bank SOE expert, Interview, September, October, November 2005.

Non-Government Organisations


Ms Hanh, Oxfam Hong Kong, Hanoi, November 2005.

Than Thi Thien Huong, Oxfam Great Britain, Hanoi, December 2005.
Other Informants

Bac Hoai, rice farmer in Hai Hung, March 2007.

Chi Dau, former district Women’s Union leader in Bac Giang, former district People’s Council member in Bac Giang, Hanoi, August 2005.

Cong, former journalist, Tap Chi Cong San, Hanoi, June 2005

Farmers from Ninh Binh and Ha Tay working in Hanoi.


Trang, union member in Hanoi research institute, Hanoi, October 2005.

Tuan, staff member of Hanoi research institute, member of party cell, youth union member, former farmers’ association member in Nghe An, Hanoi, May 2005.
Appendix 2: Survey of CPV cadres on the socialist orientation

I. Survey of Party School cadres on socialist orientation

A survey of 100 cadres attending the Party School at the Ho Chi Minh Political National Academy from around the country in September and October 2005 asked them to choose from 11 listed aspects which they thought were part of the socialist orientation. The survey asked:

The Communist Party of Vietnam (CPV) claims to be running a “socialist-oriented market economy”.

1. Which aspects do you think are part of “socialist orientation,” which distinguish Vietnam’s system from a typical “capitalist market economy”?
2. Which of the above aspects do you think are the MOST important?
3. Are there any aspects listed above you think are NOT important?

The following is a summary of the results.

<table>
<thead>
<tr>
<th>ASPECT</th>
<th>Q1. Aspects of socialist orientation</th>
<th>Q2. Most important</th>
<th>Q3. Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Leading role of strong state sector</td>
<td>82</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>ii. Leading role of CPV</td>
<td>77</td>
<td>54</td>
<td>3</td>
</tr>
<tr>
<td>iii. Strong role of state in regulating the economy and private sector</td>
<td>86</td>
<td>50</td>
<td>1</td>
</tr>
<tr>
<td>iv. Strong trade unions to defend workers rights</td>
<td>58</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>v. Strong role for mass organisations</td>
<td>40</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>vi. Relative equality of agricultural land ownership</td>
<td>50</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>vii. Role for new democratic and voluntary agricultural cooperatives</td>
<td>37</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>viii. Economic development must go together with progress in social welfare and poverty reduction</td>
<td>90</td>
<td>33</td>
<td>1</td>
</tr>
<tr>
<td>ix. If inequality rises under market, should only be due to some getting richer faster, never due to some getting poorer</td>
<td>63</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>x. Reducing inequality, reducing the rich-poor gap</td>
<td>72</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>xi. Guaranteeing quality health and education for all regardless of income</td>
<td>82</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>xii. Any other aspects? Please name them.</td>
<td>1^1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>None (for Q3 – ie, none of these aspects are unimportant)</td>
<td>1^2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All (for Q3 – ie, all of these aspects are unimportant)</td>
<td>40</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\^1 Grass roots democracy, and democracy in party.
\^2 With comment: “The market economy operates according to its own rules, and if you do anything to try to alter or moderate it, you distort its operation. However, in every country, the market economy conforms to the structure of that country.”
II. Partial breakdown of socialist orientation survey

Below the above survey is broken down, according to the degree of emphasis they gave to one or more of the three “structural” aspects of socialist orientation (i, ii, iii). These groups are then cross-referenced against the “semi-structural/mass involvement” aspects (iv, v, vi, vii) and “objectives” aspects (viii, ix, x, xi).

<table>
<thead>
<tr>
<th>NUMBER</th>
<th>NUMBER</th>
<th>OF THOSE WHO CHOSE THESE COMBINATIONS OR EMPHASES ON STRUCTURAL ASPECTS, THOSE WHO ALSO CHOSE:</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHO CHOSE FOLLOWING STRUCTURAL ASPECTS (i, ii, iii) IN SURVEY ABOVE</td>
<td>SOME MASS INVOLVEMENT ASPECTS (iv, v, vi, vii)</td>
<td>ALL MASS INVOLVEMENT ASPECTS (iv, v, vi, vii)</td>
</tr>
<tr>
<td>Only ‘strong state role’ (iii)</td>
<td>8</td>
<td>2 (25%)</td>
</tr>
<tr>
<td>Only ‘strong state role’ and ‘leading CPV role’ (iii, ii)</td>
<td>6</td>
<td>2 (33%)</td>
</tr>
<tr>
<td>Only ‘leading state sector role’ (iii, i)</td>
<td>11</td>
<td>6 (54%)</td>
</tr>
<tr>
<td>Only ‘leading state sector role’ and ‘leading CPV role’ (i, ii)</td>
<td>7</td>
<td>6 (85%)</td>
</tr>
<tr>
<td>More emphasis to ‘leading state sector role’ (i) than either ii or iii</td>
<td>22</td>
<td>18 (82%)</td>
</tr>
<tr>
<td>More emphasis to ‘leading state sector role’ (i) than both ii and iii</td>
<td>5</td>
<td>4 (80%)</td>
</tr>
<tr>
<td>Less emphasis to ‘leading state sector role’ (i) than both ii and iii</td>
<td>35</td>
<td>19 (54%)</td>
</tr>
<tr>
<td>More emphasis to ‘strong state role’ (iii) than both I and ii</td>
<td>17</td>
<td>7 (41%)</td>
</tr>
<tr>
<td>More emphasis to ‘leading CPV role’ (ii) than both I and iii</td>
<td>8</td>
<td>6 (75%)</td>
</tr>
</tbody>
</table>

3 The three “other objectives” listed in order in that column are “guaranteeing quality health and education for all regardless of income,” “reducing inequality, reducing the rich-poor gap,” and “if inequality rises, it must only be due to some getting richer faster, never via some getting poorer.”
III. Survey on role of state sector

The same survey asked two further questions specifically about the state sector:

Regarding Number 1 above (a leading role for the state economic sector), do you think this should mean:

<table>
<thead>
<tr>
<th>Option</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>In all parts of the economy</td>
<td>24</td>
</tr>
<tr>
<td>In large scale industry, important products for the economy, and banks, basic infrastructure and public services</td>
<td>47</td>
</tr>
<tr>
<td>Only in banks, basic infrastructure and public services</td>
<td>15</td>
</tr>
<tr>
<td>Even if banks, basic infrastructure and public services are equitised the state can still play leading role</td>
<td>33</td>
</tr>
<tr>
<td>No answer</td>
<td>6</td>
</tr>
</tbody>
</table>

In areas where the state should (in your opinion) play a leading role, this can this be achieved (You may tick more than one):

<table>
<thead>
<tr>
<th>Option</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>With untransformed SOEs with 100% state capital</td>
<td>3</td>
</tr>
<tr>
<td>With SOEs with 100% state capital but transformed into single member limited companies with state as single member</td>
<td>26</td>
</tr>
<tr>
<td>With SOEs where the state has the majority of shares</td>
<td>56</td>
</tr>
<tr>
<td>Even if the state has only a substantial minority of shares (25-30%) in SOEs</td>
<td>20</td>
</tr>
<tr>
<td>No answer</td>
<td>7</td>
</tr>
</tbody>
</table>