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THESIS

**REINVENTING VIETNAM:
DOI MOI AS A NEW REVOLUTION?**

by
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June 1999

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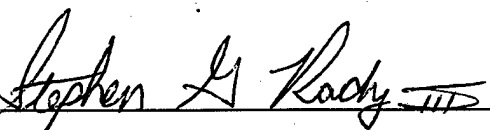
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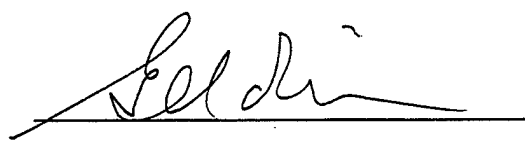
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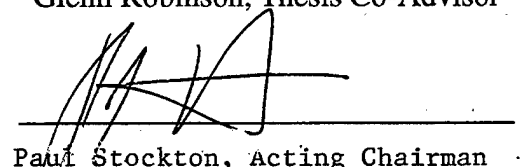
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ABSTRACT

Deep changes have taken place in Vietnam in the 25 years since the end of the Vietnam War. In this tumultuous period Vietnamese society, economy, and polity have been remade several times. No change in Vietnam is more dramatic than the transformation of its economy from a Stalinist centrally planned system to a capitalist market. Yet, unlike the states of Central Europe and the former Soviet Union, Vietnam has retained its communist polity.

Among developing states Vietnam is one of a few which are depicted as being relatively strong, able to impose its will on society. Its dramatic economic transformation is often credited to the stewardship of a progressive communist leadership. A closer examination of *Doi Moi* ("Renovation") – Vietnam's economic reform program – suggests the opposite, that Vietnam is more typical of weak Third World states than once thought. Using a dual-level analysis incorporating elements of balance of power theory, internationalization, and Joel S. Migdal's study of weak Third World states in strong societies, this thesis will show that *Doi Moi* is the product of accommodations made by Vietnamese communists at all levels of society to maintain political control in the face of strong domestic and international pressures to liberalize.

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EXECUTIVE SUMMARY

Deep changes have taken place in Vietnam in the 25 years since the end of the Vietnam War. In this tumultuous period Vietnamese society, economy, and polity have been remade several times. So too has the world system. In 1975, Vietnam was the front line of the Cold War. Emerging victorious from 30 years of anti-colonial war, the Communist Party of Vietnam was on the verge of completing its revolution — a unified Vietnamese state under the guidance of a victorious and enlightened Marxist-Leninist party. A quarter century later, the Cold War is over. The communist bloc has disappeared, its planned economies transformed and subsumed within the global capitalist system, its European members clamoring to join the West, and its Soviet soul splintered into nascent democracies. Vietnam, once ostracized by its neighbors and the world community for attempting to spread its revolution and hegemony to neighboring Cambodia, has forsaken its Stalinist planned economy, ended its costly foray into Cambodia, embraced its neighbors by joining the Association of South-East Asian Nations (ASEAN), normalized relations with the United States, and has been reintegrated into the global capitalist system. Yet, like China, its large neighbor and onetime suzerain to the north, Vietnam remains a communist state.

A new generation has inherited leadership of the Vietnamese Communist Party and the state from one that had known mainly devastation, hardship, and war. Finding the mantle of leadership in the new global environment just as difficult as the revolutionary generation did upon victory in 1975, Hanoi's new leaders seem to be at a turning point. Are they continuing their fathers' and grandfathers' revolution, creating a unified Vietnam able to hold its own in increasingly interdependent, capitalist world? Are they the driving force in the metamorphosis of

one of the world's poorest countries from a moribund client state to a solvent, vibrant market poised to grow even in the face of the Asian economic crisis? Or are they, like so many of their contemporaries in developing nations, trying to maintain power by reacting to strong pressures from both within and without for change? And if they are not driving the transformation, who or what is?

These are questions of the state's capacity to effect change. In the academic debate on this subject most scholars agree that Third World countries are plagued by weak states which are often unable to implement government policies outside of the capital cities. Only a few developing states are depicted as being relatively strong, able to impose their will on society.

Vietnam is thought to be among them. Its dramatic transformation from a Stalinist command economy to capitalist market is credited to the stewardship of a progressive communist leadership. The professionalization of a much reduced People's Army of Vietnam and peaceful transition of power within the state and party to a new generation of technocrats are touted as other signs of regime strength.

Recent scholarship on Hanoi's reform program, known as *Doi Moi* ("Renovation"), suggests a different conclusion. Instead of being a manifestation of state strength, *Doi Moi* is more symptomatic of just the opposite — regime weakness. Unevenly formulated and applied, Hanoi's reforms are not so much a set of coherent policies pulling Vietnam away from a bankrupt command system, as they are a product of compromises made by Vietnamese Communists at all levels of society to maintain political control in the face of local and international pressures to liberalize.

These observations are consistent with Joel S. Migdal's conception of state-society

relations in the Third World — that of weak states grappling with strong internal and external forces for control and mobilization of societal resources. In his analysis a decade ago, Migdal suggested that Vietnam was one of a few states that transcended the difficulties that have made most other emerging nations perennially weak. Yet a review of Hanoi's reforms in the light of his model suggests Vietnam resembles the examples of weak states he cites. Updating Migdal's model for this single-case study, I show that the reforms are in large part accommodations to strong internal forces increasingly allied with globalizing forces in the world market. Where Migdal stresses the destabilizing effect of spreading European colonialism in 19th and early 20th century on the developing world, I substitute the no less destabilizing effect of internationalization — the contemporary globalization of the world economy. By analyzing how the combination of indigenous and exogenous forces for change merge to overpower a Third World regime seen as relatively strong, I hope to illuminate a more general framework which could be applied to the study of the contemporary "reinventions" of other developing countries within the global market.

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I. INTRODUCTION

Waging a war is simple, but running a country is very difficult.

— Pham Van Dong, Vietnamese Prime Minister, 1955-1987¹

Deep changes have taken place in Vietnam in the 25 years since the end of the Vietnam War. In this tumultuous period Vietnamese society, economy, and polity have been remade several times. So too has the world system. In 1975, Vietnam was the front line of the Cold War. Emerging victorious from 30 years of anti-colonial war, the Communist Party of Vietnam was on the verge of completing its revolution — a unified Vietnamese state under the guidance of a victorious and enlightened Marxist-Leninist party. Pham Van Dong and his colleagues soon found just how difficult a vision this would be to implement. A quarter century later, the Cold War is over. The world communist bloc has disappeared, its planned economies transformed and subsumed within the global capitalist system, its European members clamoring to join the West, and its Soviet soul splintered into nascent democracies. Vietnam, once ostracized by its neighbors and the world community for attempting to spread its revolution and hegemony to neighboring Cambodia, has forsaken its Stalinist planned economy, ended its costly foray into Cambodia, embraced its neighbors by joining the Association of South-East Asian Nations (ASEAN), normalized relations with the United States, and has been reintegrated into the global capitalist system. Yet, like China, its large neighbor and onetime suzerain to the north, Vietnam remains a communist state.

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¹Quoted in Stanley Karnow, *Vietnam: A History* (New York: Penguin Books, 1984): 28.

leadership in the new global environment just as difficult as Pham Van Dong did upon victory in 1975, Hanoi's new leaders seem to be at a turning point. Are they continuing their fathers' and grandfathers' revolution, creating a unified Vietnam able to hold its own in increasingly interdependent, capitalist world? Are they the driving force in the metamorphosis of one of the world's poorest countries from a moribund client state to a solvent, vibrant market poised to grow even in the face of the Asian economic crisis? Or are they, like so many of their contemporaries in developing nations, trying to maintain power by reacting to strong pressures from both within and without for change? And if they are not driving the transformation, who or what is?

These are questions of the state's capacity to effect change. In the academic debate on this subject most scholars agree that Third World countries are plagued by weak states which are often unable to implement government policies outside of the capital cities. Only a few developing states are depicted as being relatively strong, able to impose their will on society.

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Recent scholarship on Hanoi's reform program, known as *Doi Moi* ("*Renovation*"), suggests a different conclusion. Instead of being a manifestation of state strength, *Doi Moi* may be more symptomatic of just the opposite — regime weakness. Unevenly formulated and applied, Hanoi's reforms are not so much a set of coherent policies pulling Vietnam away from a

bankrupt command system, as they are a product of compromises made by Vietnamese Communists at all levels of society to maintain political control in the face of local and international pressures to liberalize.

Driven mainly by locally initiated adaptations first sanctioned in the south and countryside, *Doi Moi* may be indicative of a deeper problem — Vietnam's incomplete social revolution. What began as an attempt to assimilate the south into the north's socialist economic and political system ended with the whole country adopting a southern-led capitalist economy. Hanoi may appear to be firmly in control of the Vietnamese polity, but Ho Chi Minh City — Saigon — runs the economy. Northern attempts to control or slow the pace of change are tempered by resistance at the local level, and innovation often emerges from the south.

These observations are consistent with Joel S. Migdal's conception of state-society relations in the Third World — that of weak states grappling with strong internal and external forces for control and mobilization of societal resources.² In his analysis a decade ago, Migdal suggested that Vietnam was one of a few states that transcended the difficulties that have made most other emerging nations perennially weak.³ Yet a review of Hanoi's reforms in the light of his model suggests Vietnam resembles the examples of weak states he cites. Modifying Migdal's model for this single-case study, I will show that the reforms are in large part accommodations to strong internal forces increasingly allied with globalizing forces in the world market. Chapter 2 will briefly outline Migdal's model and discuss my suggested alterations: where Migdal stresses

²Joel S. Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press, 1988).

³*Ibid.*, xiv, 269-70.

the destabilizing effect of spreading European colonialism in 19th and early 20th century on the developing world, I substitute the no less destabilizing effect of internationalization — the contemporary globalization of the world economy. By analyzing how the combination of indigenous and exogenous forces for change merge to overpower a Third World regime seen as relatively strong, I hope to illuminate a more general framework which could be applied to the study of the contemporary “reinventions” of other developing countries within the global market.

Using this model as a lens, chapters 3 to 5 will explore Vietnam’s economic and social transformations of the last quarter century as the state and the economy are repeatedly reinvented. Chapter 3 will begin with a discussion of some of the antecedents of the reforms to Vietnam’s Stalinist planned economy. Compromises made to meet the exigencies of the anti-colonial war were later repeated in the face of economic disaster, and adopted by a communist leadership struggling to maintain control. But first, the victors tried to reinvent Vietnam by spreading their economic and political system south in 1975-76. A second reinvention came after resistance from Vietnamese peasants, southern artisans, and industrialists to the collectivization of the economy led to economic crisis. In reaction to the crisis, the state in 1979 gave in to the accommodations made between local cadres, peasants, and state enterprise managers in order to alleviate the situation.

Chapter 4 will discuss how reforms during the 1980s took Vietnam from a planned economy to a market economy. The 1979 and 1981 reforms created a mixed system that ended the economic crisis. But when the economy started turning around, Hanoi again tried to implement a command economy throughout the country. Further domestic resistance (especially from the peasants), the strains of war in Cambodia, and the potential loss of Soviet patronage, all

led the Communist Party to reverse its policies and begin the vaunted *Doi Moi* program in late 1986. Originally envisaged as a program of gradual economic and political reforms, local accommodations and the actions of state-owned enterprise (SOE) managers transformed *Doi Moi*. By the end of the decade, the command economy had been scrapped in favor of a capitalist market which is increasingly integrated into the global system. Nevertheless, the pace of change wrought by the liberal political reforms that accompanied the early stages of *Doi Moi* seemed to scare the party. By 1989, Hanoi began to reign in the political freedoms while maintaining the economic transformation.

In chapter 5, I will discuss the latest incarnation of Vietnam as its economy evolved under communism this decade. A new bargain seems to have been made between Hanoi and society — accelerated economic reforms in return for continued communist political control. In order to replace the massive assistance lost when the Soviet Union and East European communism collapsed, Vietnam turned to its Asian neighbors, the United States, and the international marketplace. Once open to the world, the forces of internationalization began to influence the Vietnam's economic development.

Meanwhile a new coalition of SOE managers, apparatchiks from all levels of government, party cadres, and foreign investors has captured the direction and scope of reform. Instead of benefitting agriculture and the nascent private sector, areas of comparative advantage and supposedly the state priorities for new investment, foreign capital has flowed into SOEs, enriching the new class of "red capitalists." Discontent with the endemic corruption of local cadres and officials, the conspicuous consumption of these nouveaux riches, and the growing income divide is manifested in grassroots rural protest. So far, these demonstrations have

focused on the excesses of individual local party leaders and government administrators. Observers suggest that the problems are widespread, and, "where there was no fire, there was often a worrying volume of smoke."⁴ Hanoi is currently seen as part of the solution, not the problem, and the politburo responded with high-level investigations, a party-wide self-criticism campaign, and calls for a renewed emphasis on agriculture and private enterprise development. Less troublesome for Hanoi are the scattered voices of dissent originating from the intelligentsia and from within the party itself. Dissidents, upset with the reversal of glasnost and the slow pace of economic liberalization, call for multi-party democracy, religious freedom, and acceleration of market reforms. Nonetheless, without broad-based popular support, the dissidents do not pose a threat to party control.

As the decade closes, Vietnam's partners in Southeast Asia find themselves in the grips of economic crisis. So far, the state and party have been able to insulate its young capitalist economy from the worst of the regional depression. Nonetheless, growth has slowed, threatening Hanoi's compact with society.

Chapter 6 will conclude with a look at the future. In particular, several key questions will be explored: Will the bargain made with society survive an economic downturn? Is the VCP strong enough to maintain its lock on political control as domestic and international pressures continue to mount for liberalization? Or will the party splinter into different "democratic" factions as its Russian and East European analogs have in the last decade? And what are the implications of Vietnam's reinvention for U.S. policy?

⁴Adam Fforde, "Vietnam — Culture and Economy: Dyed-in-the-Wool Tigers?" (presented at the Australian National University's conference, Vietnam Update 1998: Urban Tiger! Everyday Life and Cultural Change in Urban Vietnam, Canberra, 3-4 December 1998), 3.

I am optimistic that the current bargain between Hanoi and the Vietnamese society will survive the Asian economic crisis, but any significant downturn will likely force the leadership to accommodate societal interests. Although differences among party leaders are becoming more transparent, Hanoi's predilection for collective decision-making will likely continue. Increasing domestic and international pressures for reform will not likely stress VCP control over the Vietnamese polity. If it does, party leadership will likely accommodate opponents in order to stay in control. Having carefully observed the disintegration of European communist parties, the VCP seems intent on surviving any changes intact.

Vietnam's current reinvention has positive implications for U.S. policy. From an economic standpoint, Vietnam is a relatively untapped market for American goods and a potential supplier of tropical products, such as coffee, tea, rice, and rubber. Warmer ties also benefit the search for U.S. MIAs, a very important issue for American veterans. In addition, closer ties could prove to have a strategic dimension, especially if the U.S. becomes involved in an altercation with China. Hanoi has already sent Washington some trial balloons over American use of Cam Ranh Bay. So far, there is little need for a move which could be construed as aggressive by China.

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II. UNDERSTANDING THE POLITICS OF REINVENTION

The dramatic economic, political, and societal changes that characterize Vietnam's reinventions of the last decade have been attributed to many sources. Studies drawing on paradigms from economics, sociology, history, anthropology, and political science variously find cause in domestic factors — economic chaos resulting from peasant resistance to the socialization of Vietnamese agriculture,⁵ residual market pressures,⁶ cadre corruption,⁷

⁵Melanie Beresford, "The Impact of Economic Reforms on the South," in *Đôi Mũi: Vietnam's Renovation Policy and Performance*, eds. Dean K. Forbes et al., (Canberra: Australian National University, 1991), 126-30; Benedict J. Tria Kerkvliet and Doug J. Porter, "Rural Vietnam in Rural Asia," in *Vietnam's Rural Transformation*, eds. Benedict J. Kerkvliet and Doug J. Porter (Boulder, Colo.: Westview Press, 1995), 26; Ngo Vinh Long, "Some Aspects of Cooperativization in the Mekong Delta," in *Postwar Vietnam: Dilemmas in Socialist Development*, eds. David G. Marr and Christine P. White (Ithaca, N.Y.: Southeast Asia Program, Cornell University, 1988), 170-71; Nguyễn Dục Nhuận, "Pressions Démographiques et Mutations Sociales au Việt-Nam (1975-1985)," in *Le Viet Nam Post-Révolutionnaire: Population, Économie, Société 1975-1985*, ed. Nguyễn Dục Nhuận (Paris: Éditions L'Harmattan, 1987), 37-38; and Lâm Thanh Liêm, "Le Bilan de Dix Années d'Édification de l'Économie Rurale Socialiste dans le Sud Việt-Nam," *L'Information Géographique* 49 no. 3. (1985): 94.

⁶Fforde and Stefan de Vylder, *From Plan to Market: The Economic Transition in Vietnam*, (Boulder: Westview Press, 1996), chapter 2; Fforde, "The Successful Commercialization of a Neo-Stalinist Economic System — Vietnam 1979-89: With a postscript," in *Đôi Mũi*, eds. Forbes et al., 94-117; and Beresford, *National Unification and Economic Development in Vietnam* (New York: St. Martin's Press, 1989), 216-17.

⁷Gareth Porter, *Vietnam: The Politics of Bureaucratic Socialism* (Ithaca, N.Y.: Cornell University Press, 1993), 137-38; and William S. Turley, "Vietnamese Security in Domestic and Regional Focus: The Political-Economic Nexus," in *Southeast Asian Security in the New Millennium*, ed. Richard J. Ellings and Sheldon W. Simon (Armonk, N.Y. & London: M. E. Sharpe, 1996), 201.

bureaucratic politics,⁸ generation change within the communist party leadership,⁹ an unresolved North-South divide,¹⁰ — and/or international factors — such as shifts in the global and regional balance of power, bankruptcy of Stalinist command economies world-wide, loss of Moscow as a patron,¹¹ economic chaos due to the costs of the Cambodian invasion and border war with

⁸G. Porter, *Politics of Bureaucratic Socialism*, chapters 3-5.

⁹Ibid., 151; and Lewis M. Stern, *Renovating the Vietnamese Communist Party: Nguyen Van Linh and the Programme for Organizational Reform, 1987-91* (Singapore: Institute of Southeast Asian Studies, 1993).

¹⁰Carlyle A. Thayer, "Mono-Organizational Socialism and the State," in *Vietnam's Rural Transformation*, eds. Kerkvliet and D. Porter, (Boulder, Colo.: Westview Press, 1995), 60; Beresford, "The Political Economy of Dismantling the 'Bureaucratic Centralism and Subsidy System' in Vietnam," in *Southeast Asia in the 1990s: Authoritarianism, Democracy, and Capitalism*, eds. Kevin Hewison, Richard Robinson, and Garry Rodin, (St. Leonards, N.S.W.: Allen & Unwin, 1993): 215-16; and Brantly Womack, "Political Reform and Political Change in Communist Countries: Implications for Vietnam," in *Reinventing Vietnamese Socialism: Doi Moi in Comparative Perspective*, ed. William S. Turley and Mark Selden (Boulder, Colo.: Westview Press, 1993), 283-84.

¹¹The effects of shifts in the balance of power, loss of Soviet patronage, and collapse of the Soviet-style economies world-wide are discussed in Thayer, "Indochina," in *Reshaping Regional Relations: Asia-Pacific and the Former Soviet Union*, eds. Ramesh Thakur and Carlyle A. Thayer (Boulder: Westview Press, 1993): 209-11; Thayer, *The Vietnam People's Army Under Doi Moi*, (Singapore: Institute of Southeast Asian Studies, 1994), 20-22; Nayan Chanda, "Indochina Beyond the Cold War: The Chill from Eastern Europe," in *The Challenge of Reform in Indochina*, ed. Börje Ljunggren (Cambridge, Mass.: Harvard Institute for International Development, Harvard University, 1993), 20-21, 23-26; Turley, "Introduction," in *Reinventing Vietnamese Socialism*, eds. Turley and Selden, 1-15; David Wurfel, "Doi Moi in Comparative Perspective," in *Reinventing Vietnamese Socialism*, eds. Turley and Selden, 19, 28, 42-49; Womack, "Political Reform and Political Change," 277-305; Frank Frost, *Vietnam's Foreign Relations: Dynamics of Change* (Singapore: Institute of Southeast Asian Studies, 1993), 3; Gary Klintworth, "Forces of Change in Vietnam," in *Đôì Mòì*, eds. Forbes et al., 215-33; and Graham Alliband, "Whither Vietnam?" in *Đôì Mòì*, eds. Forbes et al., 236.

China,¹² reform in neighboring China,¹³ pressures to integrate into the world capitalist economic system.¹⁴ Making sense of these competing hypotheses requires a dual-level analysis joining state-society relations models of comparative politics and world-system models of international relations theory.

Recent scholarship on reform in Vietnam suggests that traditional approaches to may be incorrect. Comparativists have viewed Vietnam as a strong state vis-à-vis a weaker Vietnamese society, and cite the "top-down" economic reform program as a manifestation of this strength. Several economists, political scientists, and sociologists began to dispute this view in the late 1980s when their research turned up evidence that reforms began not with state policy, but with the actions of peasants, local cadres, entrepreneurs, and SOE managers attempting to survive in the face of economic crisis from the late 1970s on. This bottom-up reform suggests that Hanoi is not as strong as once thought, and that Vietnam fits Joel S. Migdal's model of a weak Third World state facing a strong society.¹⁵

¹²Wurfel, "Doi Moi in Comparative Perspective," 20-21; David Marr, "Where is Vietnam Coming From?" In *Đôi Mũi*, eds. Forbes et al., 16; Beresford, "Issues in Economic Unification: Overcoming the Legacy of Separation," in *Postwar Vietnam*, eds. Marr and White, 105-6.

¹³Dwight H. Perkins, "Reforming the Economic Systems of Vietnam and Laos," in *Challenge of Reform*, ed. Ljunggren, 4; Wurfel, "Doi Moi in Comparative Perspective," 19, 42-49; Womack, "Political Reform and Political Change," 281; and Frost, 3.

¹⁴Hari Singh, "Vietnam and ASEAN: The politics of accommodation," *Australian Journal of International Affairs* 51, no. 2 (1997): 223-24; Hadi Soesastro, "Domestic Adjustments in Four ASEAN Economies," in *Domestic Adjustments to Globalization*, eds. Charles E. Morrison and Hadi Soesastro, (Tokyo and New York: Japan Center for International Exchange, 1998), 28-9; and Thayer, "Mono-Organizational Socialism," 61.

¹⁵Migdal.

In the Migdal model, traditional social control was fragmented by the dual forces of colonialism and the spread of the capitalist world economy. Although his focus was historical, this international influence on domestic politics can be updated with contemporary international relations research. Borrowing from two divergent international relations models, balance-of-power theory and internationalization, it can be shown that Vietnam's position within the shifting regional and global balances of power and within the increasingly interdependent world economy affects the fragmentation of social control within society.

B. DOMESTIC DIMENSIONS OF *DOI MOI*: THE STATE VERSUS SOCIETY

Migdal posits that most Third World countries are weak states.¹⁶ Social control is highly fragmented. Most Third World governments are unable to make operative rules of the game for individuals in society.¹⁷ Instead, the state is frustrated in its attempts by rival centers of power — strong social organizations and/or counter-elites — who are able to capture state resources, mobilize local populations, and apply their own rules to segments of the society.

Figure 2.1 summarizes Migdal's model of state-society relations in the Third World. He suggests that traditional social structures in the developing world were crushed by the rapid spread of the world capitalist economy. The damage was compounded in most cases by the exploitative social structures of European colonialism. Key players in the world economy selectively invested resources in the developing world, favoring certain elements in society. Landlords, rich peasants, moneylenders, local headmen, etc. were turned into caciques. With the

¹⁶Ibid.

¹⁷Ibid., 261.

resources gained by access to credit, bullying, protection, and other means, these local strongmen gained and maintained power by creating viable strategies of survival for workers and peasants.

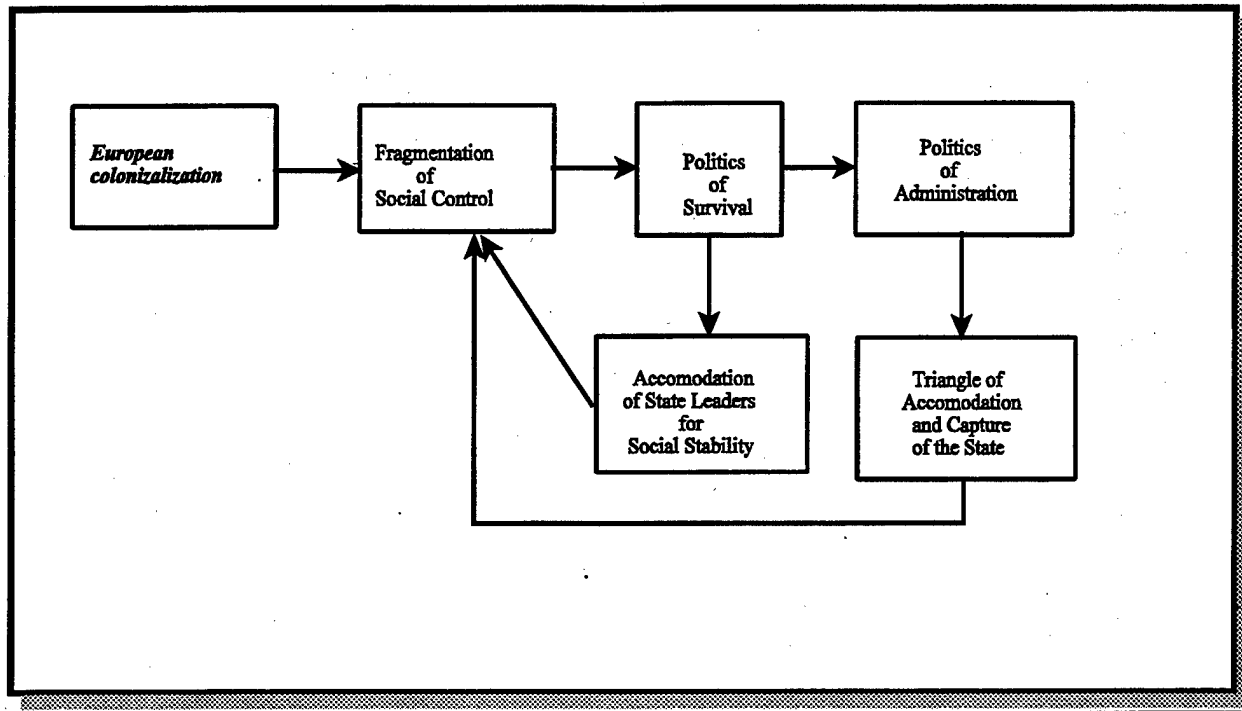


Figure 2.1 Migdal Model of State-Society Relations in the Third World.

That legacy of fragmentation continues to haunt leaders of Third World states. The patterns of social control developed during the colonial era survived decolonization in all but a few cases. State penetration and control is problematic where caciques continue to dominate significant segments of society.

In the face of social fragmentation, top executive leaders recognize that sustained political mobilization can only occur through building state agencies and political parties which can provide effectual strategies of survival to the people in all spheres of their lives. But there is

danger in creating effective agencies; they can become rival power centers (centrifugal forces) at a point when the regime's counterweights (centripetal forces) are limited. The rulers' dilemma is that other actors could seize these competing power centers as bases from which to challenge the regime. Therefore, the ruling elite must weigh the need to create effective agencies for social mobilization with security against political instability and threats to their own survival which could arise from fostering and losing control of potential rival power centers.¹⁸

Fragmentation of social control and the consequent rulers' dilemma lead to what Migdal describes as a pathological style of governance at the apex of the state — the politics of survival. Leaders of weak states will sabotage the very agencies that could achieve their goal of resource mobilization. They are willing to trade continued weakness in order to prevent leading officials of key agencies from using their capabilities to mobilize resources against the central leadership.

Similar strategies are used to mitigate or eliminate potential rival centers of power from developing in private social organizations. There are many examples of leaders using dirty tricks to eliminate opposition from labor leaders, student leaders, activists, businessmen, journalists, etc. Another popular strategy is to coopt rival social organizations by placing them under state control or influence.¹⁹ This is most commonly done through the nationalization of banks and large industrial or commercial enterprises.²⁰

Sometimes, the leadership may foster one or more agencies or private organizations to balance against other centers of power within society. When favored agencies or groups grow

¹⁸Ibid., 263-64.

¹⁹Ibid., 229.

²⁰Ibid., 234-6.

too strong, the regime may turn on them. Fear of potential rivals leads towards vacillations and unpredictability in state policies vis-à-vis the most powerful organizations and agencies both inside and outside the state.²¹

Using the politics of survival, weak third world regimes turn the state into a domain of accommodations. Not only are leaders accommodating rival elites in the bureaucracy and capital, they also placate much less powerful strongmen. To maintain some semblance of control in the countryside and city wards, the state buys the support of strongmen with resources and minimal interference in the local organizations they control.

Low-level bureaucrats make their own accommodations locally. With the capital consumed by the politics of survival and potential clients under the control of local strongmen, these front-line officials — who Migdal calls “implementors” since they are charged with implementing state and agency laws, regulations, and policies — have some autonomy. Nonetheless, as these implementors seek to advance their careers, they are subject to pressures from the local strongmen and peer state and party officials. In many cases these pressures have coalesced into the “Triangle of Accommodation,” wedding implementors with local interests which are often inimical to the very laws, regulations, and policies they are tasked with carrying out. Through this accommodation, local interests capture significant amounts of state resources — and at times policy initiative — further enfeebling the regime.²²

Thus most Third World leaders find themselves in a vicious cycle which locks them into a weak position vis-à-vis their own society. The struggle for political control and/or survival is

²¹Ibid., 264.

²²Ibid., 264-5.

paramount. Leaders will deliberately undermine state capabilities and accommodate local interests to forestall challenges from potential rival centers of power within society.

1. Vietnam Viewed as a Strong State

According to Migdal, Vietnam is one of the few Third World states which have escaped this pattern of weakness. Not only was Vietnam's old social order disrupted by the spread of the world economy and European colonialism, it was crushed by colonial and civil wars. Migdal sees Hanoi's success in consolidating control out of the chaos wrought by massive social dislocation as a product of good timing, the exigencies of over forty years of war and threat of war, strong leadership from Ho Chi Minh and his lieutenants, and development of an effective bureaucracy.²³

In reordering society and creating a Marxist-Leninist state, Vietnam's wartime leadership succeeded where many third world leaders have failed. The image of this success was naturally extended to analysis of postwar governance. *Doi Moi* itself is seen as evidence of state strength. William S. Turley posits:

That *doi moi* continued without interruption, while reform in other socialist countries ended either in regime collapse or experienced a sequence of political repression and freezing of reform momentum, is evidence of the regime's strength, the absence of plausible alternatives either to the regime or to *doi moi*, and the weakness of civil society.²⁴

This view has become the conventional wisdom. Typical is Brantly Womack's depiction of Vietnam as a "vast and coordinated party-state which pre-empts alternative and autonomous

²³Ibid., 269-71.

²⁴Turley, "Introduction," 12.

societal organizations from the national centre down to the grassroots of the village and the workplace.”²⁵ Gareth Porter captures the essence of this argument:

The model of the *bureaucratic polity*, in which major decisions are made entirely *within* the bureaucracy and are influenced by it rather than by extrabureaucratic forces within the society — whether parliamentary parties, interest groups, or mass movements — aptly describes how the Vietnamese political system works. Not only the determination of major policies but the power over the selection of political and governmental leadership is confined to a small group of party officials.²⁶

In this monolithic, Leninist party-state, policy is made from the top down and state-society relations are antagonistic. Seen in this light, Vietnam’s “Renovation” — *Doi Moi* — emanates from the collective party/state leadership.

The most common approach to studying the politics of *Doi Moi* focuses on the dynamics of collective decision-making. Analysts assess the timing and shape of reforms to be the products of generational change and supposed factionalism — whether geographic (northerners versus southerners), functional (central party/state officials versus provincial leaders), or ideological (“conservatives” versus “reformers”) — within the party leadership.²⁷ All agree that, while there are differences in opinion between the first generation of revolutionary commissars and the younger technocrats; between hardline Marxist northerners and compromising communist southerners; between longtime central bureaucrats, generals, and local party

²⁵Womack, “Reform in Vietnam: Backwards Toward the Future,” *Government and Opposition* 27, no. 2 (Spring 1992): 180.

²⁶G. Porter, *The Politics of Bureaucratic Socialism*, 101.

²⁷See Jean-Claude Pomonti and Hugues Tetrais, *Viêtnam: Communistes et Dragons* (Paris: Le Monde-Éditions, 1994), chapter 8; G. Porter, *The Politics of Bureaucratic Socialism*, chapters 3-5; and Clark D. Neher, *Southeast Asia in the New International Era* (Boulder: Westview Press, 1991), 162-63.

chieftains; and between so-called reformers and conservatives, once the decision is made within the closed confines of the Central Committee, the party leadership speaks with one voice. The reality is that policy appears piecemeal and progress takes "two steps forward and one step back," as compromises are struck and the fortunes of particular factions wax and wane.

Another common approach, related to the analysis of factionalism and generational change within the ruling elite, is to concentrate on the capabilities and personality of individual leaders in the policy-making process. Several studies focus on the centrality of Nguyen Van Linh, dubbed the father of *Doi Moi*, to the reform process.²⁸ A northerner, Linh spent most of his career in the south, first as leader of the anti-French resistance in Saigon, then underground as a leader of the National Liberation Front (NLF) and clandestine member of the party Central Committee, then as party chairman of Ho Chi Minh City after unification. Promoted to the politburo in 1976, he became its most visible reformer. Purged in 1982, most likely for his stand against the failed rapid socialization of the south, he was reinstated to the politburo in 1985, appointed general secretary in 1986, and led the party through the dramatic *doi moi* reforms to 1991. Carlyle A. Thayer comments on his administration:

Linh has surrounded himself with colleagues who actively prosecuted the war in southern Vietnam in the mid- to late-1960s. These men are policy implementors and doers. Their experience has convinced them of the desirability to reach out and broaden the base of popular support for their objectives. Already Linh has spoken out, urging reconciliation between the Party and Vietnam's ethnic Chinese, Catholics, and former members of the Saigon regime. The nature of

²⁸See Stern; Tetrais and Pomonti, 178-180; and Zachary Abuza, "Institutions and Actions in Vietnamese Foreign Policy-making: A Research Note," *Contemporary Southeast Asia* 19, no. 3 (1997): 315.

Linh's broad ... coalition is encapsulated in a phrase heard at the Sixth Congress:
"the north won the war, the south must manage the economy."²⁹

Paralleling Susan Shirk's analysis of the centrality of Deng Xiaoping to the course of Chinese reforms, especially his ability to generate a reform coalition of technocrats, light industry, agriculture, and provincial officials in order to defeat the conservative forces arrayed around Mao Zedong's designated successor, Hua Guofeng,³⁰ Thayer sees Linh's *Doi Moi* building "a solid sectoral constituency, first in the growing number of economic specialists and technocrats in the Central Committee, and perhaps more importantly in the emerging coalition of provincial-level officials who have an institutional stake in reform policies which stress administrative decentralization and local autonomy."³¹

2. Vietnam Viewed as a Weak State

Recent scholarship has begun to challenge the conventional view of Vietnam as a strong state. Thayer notes this shift:

Political, economic, and social change has accelerated dramatically in Vietnam since the mid 1980s. One consequence has been an explosion in the amount and quality of information about Vietnamese society generated from within Vietnam. This in turn has led to a reevaluation of long-held assumptions about state-society relations...³²

²⁹Thayer, "The Regularization of Politics: Continuity and Change in the Party's Central Committee, 1951-1986," in *Postwar Vietnam*, eds. Marr and White, 190-91.

³⁰Susan L. Shirk, "Internationalization and China's Economic Reforms," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (Cambridge: Cambridge University Press, 1996), 193-95.

³¹Thayer, "Regularization of Politics," 193.

³²Thayer, "Mono-Organizational Socialism," 39.

No longer is Hanoi seen as omnipotent, nor is Vietnamese society as weak as once posited.

Thayer finds that the socio-economic changes have resulted in a nascent civil society.³³ Gareth

Porter and Benedict Kerkvliet characterize the new social dynamic as "creeping pluralism."³⁴

Adam Fforde and Doug Porter go even further, calling for a reconceptualization of Vietnamese state-society relations.³⁵

The most direct evidence that Hanoi is reacting to social pressures rather than imposing its will on society is found in the transformation of the Vietnamese economy. Reform predates the Party's unveiling of *doi moi* at the Sixth Party Conference in 1986. Fforde, Stefan de Vylder, and Melanie Beresford point out that "bottom-up" reforms began in the late 1970s.³⁶ The roots for these bottom-up reforms go even deeper. Kerkvliet posits that peasant action in the north during the Vietnam War initiated the same agricultural reforms which would be adopted by

³³Thayer, *Political Developments in Vietnam: From the Sixth to the Seventh National Party Congress* (Canberra: Australian National University, 1992); and Thayer, "Political Reform in Vietnam: *Đổi Mới* and the Emergence of Civil Society," in *The Developments of Civil Society in Communist Systems*, ed. Robert F. Miller (North Sydney, N.S.W: Allen & Unwin Pty Ltd., 1992), 110-129.

³⁴G. Porter, *The Politics of Bureaucratic Socialism*, 96-100; G. Porter, "The Politics of 'Renovation,'" 85-88; and Kerkvliet, "Rural Society and State Relations," in *Vietnam's Rural Transformation*, eds. Kerkvliet and D. Porter, 86-88.

³⁵Fforde and Doug Porter, "Public Goods, the State, Civil Society and Development Assistance in Vietnam: Opportunities and Prospects" (presented at the Vietnam Update 1994 Conference: "Doi Moi, the State and Civil Society," Canberra, 10-11 November 1994).

³⁶Fforde and de Vylder, *From Plan to Market*, 128-131; Fforde, "The Political Economy of 'Reform' in Vietnam — Some Reflections," in *The Challenge of Reform*, ed. Ljunggren, 299-301; and Beresford, *Vietnam: Politics, Economics and Society* (London and New York: Pinter Publishers, 1988), 160-61.

Hanoi in 1979 in the face of economic crisis.³⁷ Fforde concludes that the failure to eradicate the free market in key sectors during North Vietnam's process of socialization sewed the seeds for the destruction of its Stalinist economy after reunification.³⁸ Indeed, he sees this failure as a manifestation of Hanoi's weakness paradoxically at the very moment it attains its war-time objective:

From a revisionist perspective, North Vietnam in the mid-1970s was a society with a weak state that had already softened the unusually harsh norms of the Stalinist model in meeting local interests. Compulsion through direct administrative means was muted in deference to market opportunities and the wished of economic agents.³⁹

If Hanoi is weak at the point of success, its failure to extend the socialist system to the south in the late 1970s proves further weakness. That subsequent economic reforms emerged from the countryside and cities — especially in the south — only to be adopted by Hanoi in the face of severe crisis undermines the proposition that Vietnam is a strong, monolithic party state.

B. FOREIGN DIMENSIONS OF *DOI MOI*

Not all pressures on Vietnam to reform its economy and polity are domestic. Therefore, any study of the politics of *Doi Moi* must consider the foreign dimensions of reform. Migdal's model of state-society relations in the Third World incorporates integration into the global economy through European colonization as a factor leading to the fragmentation of social control within society. In comparative politics literature, this notion falls under the broad topic of

³⁷Kerkvliet, "Village-State Relations in Vietnam: The Effect of Everyday Politics on Decollectivization," *The Journal of Asian Studies* 56, no. 2 (1995): 406-10.

³⁸Fforde, "Political Economy of 'Reform,'" 297-99.

³⁹*Ibid.*, 299.

“globalization.” Incorporated within the debate on globalization is the concept of international demonstration effect — in essence, as communications and trade with the outside world expand, the Vietnamese will desire more of the lifestyle and luxury goods of their better-off neighbors and the West, leading to a greater push for openness and reform from below.⁴⁰ A more nuanced approach would borrow from international relations theory to explain the continuing affects of Vietnam’s integration into an increasingly interdependent world. Contemporary research in international relations yields two models which may be useful to interpret the foreign influences on Vietnam’s reforms: balance-of-power theory and internationalization. The former interprets Hanoi’s policy as a function of Vietnam’s position within the world and regional system of political competition between states. The latter, also incorporating and refining the notion of international demonstration effect, depicts Vietnamese policy as a function of both its position within the global economic system and as a function of the interaction of economic interests within and without Vietnamese society.

1. Effects of Shifts in the “Balance of Power”

Balance of power is an old concept in international relations, and has come to mean different things to different people. Indeed, one of the greatest criticisms of balance of power theory is the imprecision in defining “balance of power.”⁴¹ Hans Morgenthau, a key figure in the rebirth of realism in international relations, gives balance of power four separate definitions: “(1)

⁴⁰For a relatively clear definition of the international demonstration effect, see Peter T. Bauer, *Equality, the Third World, and Economic Delusion* (Cambridge, Mass.: Harvard University Press, 1981): 80-1.

⁴¹Inis L. Claude, Jr. lays out this criticism in *Power and International Relations* (New York: Random House, 1962), chapters 2 and 3.

as a policy aimed at a certain state of affairs, (2) as an actual state of affairs, (3) as an approximately equal distribution of power, (4) as any distribution of power.”⁴²

However muddled and ill-defined the concept, the balance of power between states in the international system is an important component of contemporary international relations theory. Revived by E. H. Carr and Morgenthau, realism focuses on the dynamics of the unequal distribution of power within the world system. The main unit of analysis is the state, and it is the competition between states within this unequal system which concern theorists. The focus on states within the system has become more pronounced with the next generation of realists. Concerned that the models of Carr and Morgenthau are not sufficiently parsimonious to yield useful predictions about international relations, especially since adding extra variables such as domestic influences on foreign policy may confuse the analysis, Kenneth Waltz and the “neorealists” or “structural realists” go so far as to discount the affects of domestic actors.⁴³

Although balance of power theory has become the bailiwick of realists and neorealists, it may add useful insights to a dual level analysis of Vietnamese reform. Of Morgenthau’s definitions, one in particular may be helpful in understanding the politics of *Doi Moi* — the distribution of power between states in the international system, and the affects of this “balance” on the policies of Hanoi. This is not to say that *Doi Moi* was caused by shifts in the global and

⁴²Hans J. Morgenthau and Kenneth W. Thompson, *Politics Among Nations: The Struggle for Power and Peace*, 6th ed. (New York: Alfred A. Knopf, 1985), 187 n. 1.

⁴³For a résumé of major realists’ and neorealists’ arguments, see James E. Dougherty and Robert L. Pfaltzgraff, Jr. *Contending Theories of International Relations: A Comprehensive Survey*, 2nd ed. (New York: Harper & Row, 1981), chapter 3 and Scott Burchill, “Realism and Neo-realism,” in *Theories of International Relations*, comps. Scott Burchill and Andrew Linklater (New York: St Martin’s Press, 1996), 67-92.

regional balance of power. Nonetheless, changes in the distribution of power since 1975 created an environment which fostered economic and limited political liberalization in Vietnam.

Hanoi has always been cognizant of its position in the world and the region. It has had no choice — Vietnam's struggles were magnified by shifts in the global balance of power; its wars held significance well beyond Southeast Asia. Victory and reunification in 1975 may have removed Vietnam from the frontline of the Cold War, but it soon found itself a frontline in the struggle between the two Communist titans, China and the Soviet Union. The costly occupation of Cambodia in the 1980s shattered what was already a fragile command economy in Vietnam. Not surprisingly, when Mikhail Gorbachev made overtures to Beijing in 1985-86, Hanoi began to feel left out in the cold. From then until the collapse of the Soviet Union, Moscow weaned Hanoi from its considerable support. With no other source of succor, Vietnam had to fix its economy and end its involvement in Cambodia. The turn toward the market and openness to foreign direct investment (FDI) created new opportunities for Hanoi. Suddenly, the door was open for Vietnam to join its more successful ASEAN neighbors in the fastest developing region in the world. Funds began to flow from the region, Japan, Taiwan, Europe, the United States, the World Bank, and the International Monetary Fund as the internationalization of the Vietnamese economy accelerated, placing even more pressure on Hanoi to reform.

2. Internationalization

The subfield of political economy touts a second international relations theory — internationalization — which can be used with Migdal's weak state in a strong society model to describe atomizing pressures within Vietnamese society. Fundamentally a model of international economics, Helen V. Milner and Robert O. Keohane define internationalization as "*the processes*

generated by underlying shifts in transaction costs [prices] that produce observable flows of goods, services, and capital."⁴⁴ These flows have resulted in an explosion of international trade and investment since 1975. Applying this economic model to the realm of political science, Milner and Keohane find that:

Internationalization affects the opportunities and constraints facing social and economic actors, and therefore their policy preferences — not necessarily the basic values that actors seek (power, money, or virtue as they define it) but their choices about which policies will best achieve their fundamental goals. Internationalization also affects the aggregate welfare of countries, their sensitivity and vulnerability to external changes, and therefore the constraints and opportunities faced by governments.⁴⁵

The political dimension of this model is concerned with how the state, its institutions, and other key players in society react to international economic pressures.

Jeffrey Frieden and Ronald Rogowski posit that changes in the international economy are reflected in changes in relative prices, and changes in relative prices have a predictable effect on the policy preferences of actors within society.⁴⁶ Borrowing from international trade theory, Frieden and Rogowski predict that lowering trade barriers raises the domestic prices of goods produced from a country's abundant factors and lowers prices of goods from its scarce factors. In other words, international trade benefits a country's abundant factors and harms its scarce

⁴⁴Helen V. Milner and Robert O. Keohane, "Internationalization and Domestic Politics: An Introduction," in *Internationalization and Domestic Politics*, eds. Keohane and Milner, 4.

⁴⁵Ibid.

⁴⁶Jeffrey A. Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Analytic Overview," in *Internationalization and Domestic Politics*, eds. Keohane and Milner, 29.

factors. Therefore, the owners of abundant factors are more likely to want more liberal trade, and the owners of scarce factors are more likely to desire trade restrictions.⁴⁷

The price mechanism also works in closed economies. Even when the state buffers the economy from international economic changes — through price controls, subsidies, rationing, or tariffs — the changes affect “shadow prices” which define economic opportunities for the actors.⁴⁸ In closed economies, groups associated with a country’s comparative advantage are harmed by the deprivation of trading opportunities. Black market forces should mobilize these “losers” to pressure for change.

Matthew Evangelista and Susan Shirk suggest that communist regimes are difficult cases to demonstrate the impact of internationalization on domestic policy, at least initially, because of the strict control of the economy by the party elite and the Stalinist institutions they erected to shield society from international influences.⁴⁹ It was only after Gorbachev’s selective reforms opened certain sectors to the international economy, that the Soviet economy became susceptible to the direct influences of internationalization. China’s experience is similar — internationalization did not initiate Chinese reforms, Deng Xiaoping struggling to build a coalition to oust the entrenched forces of central bureaucrats and heavy industries in the struggle to succeed Mao Zedong did. However, once reforms were instituted, the forces of internationalization rapidly made openness irreversible.

⁴⁷Ibid., 37.

⁴⁸Ibid., 30.

⁴⁹Matthew Evangelista, “Stalin’s Revenge: Institutional Barriers to Internationalization in the Soviet Union,” in *Internationalization and Domestic Politics*, eds. Keohane and Milner, 159-85; and Shirk, “Internationalization and China’s Economic Reforms,” 186-7.

Fforde and de Vylder suggest that Vietnam may be different from its larger communist role models. Since the development of Stalinist institutions was incomplete at the time of reunification, Vietnam's version of the command economy — the Democratic Republic of Vietnam (DRV or North Vietnam) model — was more susceptible to market forces.⁵⁰ Wartime exigencies never allowed the Vietnamese Communist party to stamp out the shadow economy. Hanoi's attempts to impose this imperfect Stalinist model on the formerly capitalist south soon after reunification failed. Black market prices accurately reflected the opportunity costs of the different options available to peasants, workers, enterprise managers, and state officials. In the face of the planning system's inability to maintain control over resources, economic agents — individuals, cooperatives, and state enterprises — engaged in "fence breaking" or spontaneous reform from below in order to obtain the resources needed for planned production and survival. These survival strategies emerging from the shadow economy eventually doomed bureaucratic centralism and the subsidy system.

Although Vietnamese reforms began from the bottom up rather than from the top down as in the Soviet Union and China, it is difficult to distinguish how much was due to internationalization and how much were due to domestic concerns. As Frieden and Rogowski would predict, those sectors favoring Vietnam's abundant relatively-skilled labor force and its fertile agricultural zones — agriculture, commerce, handicrafts, and light industry — were among those pressuring for reform and eventually transformation of the economy. Yet, these

⁵⁰Fforde and de Vylder, *Vietnam — An Economy in Transition* (Stockholm: Swedish International Development Authority, 1988), 31; Fforde and de Vylder, *From Plan to Market*, 4, 12, 64; and Fforde, "Political Economy of 'Reform,'" 297-99.

were the very sectors that were exploited in favor of heavy industry and the urban workforce in Hanoi's Stalinist economy, generating much domestic resentment and pressure for change.

The effect of internationalization is much less ambiguous, however, when one looks at the 1990s. After dismantling the planned economy in 1989 and opening to Asia and the West, Vietnam experienced an explosion in international trade and foreign direct investment (DFI). The foreign-invested sector became a major force in the Vietnamese economy, producing almost one-third of all industrial output in 1998.⁵¹

However, the pattern of investments do not quite fit the internationalist model. Funds are not flowing into sectors in which Vietnam holds comparative advantage, such as agriculture and light industry. Granted Vietnam's farmers support liberalization and increased international trade, they are not greatly benefitting from FDI. The same can be said about Vietnam's nascent consumer products industry. In fact, cross-border trade has harmed domestic producers who cannot compete with cheaper and better quality Chinese products.⁵² Instead, FDI is rolling into capital-intensive joint ventures with SOEs in the communist-favored sectors of resource extraction and industry, as well as in the "red-capitalist" dominated tourism sector. Not unsurprisingly if one subscribes to Migdal's analysis, a new coalition of SOE managers, local government officials, party cadres, and foreign investors has developed to capture the direction and scope of reform policy in the 1990s.

⁵¹Fforde, "Dyed-in-the-Wool Tigers?" 6.

⁵²Net Material Product in the non-state sector dropped 9 percent in 1989 and another 6 percent in 1990. Production shifted from low quality consumer goods to construction materials and foodstuffs. Much of this can be attributed to the opening of trade with China, see Womack, "Sino-Vietnamese Border Trade: The Edge of Normalization," *Asian Survey* 34, no. 6 (June 1994): 507-8.

C. DUAL-LEVEL ANALYSIS OF *DOI MOI*: THE MODIFIED MIGDAL MODEL

The Migdal model of weak state-strong society relations in the Third World can be amended to take into account international effects on domestic politics. Figure 2.2 depicts the modified model. In the place of the dual forces of colonialism and the spread of the world economy affecting the fragmentation of social control within society, is substituted the contemporary notion of internationalization — the impact of growing interdependence within the world capitalist economy on domestic actors. In addition, the realm of domestic politics is embedded within the international system, an acknowledgement that a country's position within the global and regional balances of power do effect the environment for change in domestic policies.

Using this modified model, the case study in chapters 3 to 5 will analyze the process of reinvention Vietnam's economy in the last quarter century. Chapter 3 begins with a discussion of some of the antecedents of the reforms to Vietnam's Stalinist planned economy. Compromises made to meet the needs of the war were later repeated in the face of economic disaster after Hanoi attempted to extend its Stalinist planned system southward upon reunification. Chapter 4 discusses how popular resistance to communist policies, , the strains of war in Cambodia, and the forecast loss of Soviet patronage shaped reforms during the 1980s to take Vietnam from a communist planned economy to a capitalist market. Chapter 5 addresses four major issues: the growing influence of internationalization on Vietnam after opening to the world market, the capture of reform policies by "red capitalists," the popular discontent the new class has engendered in the countryside, and the effect of regional economic crisis on the Vietnamese economy.

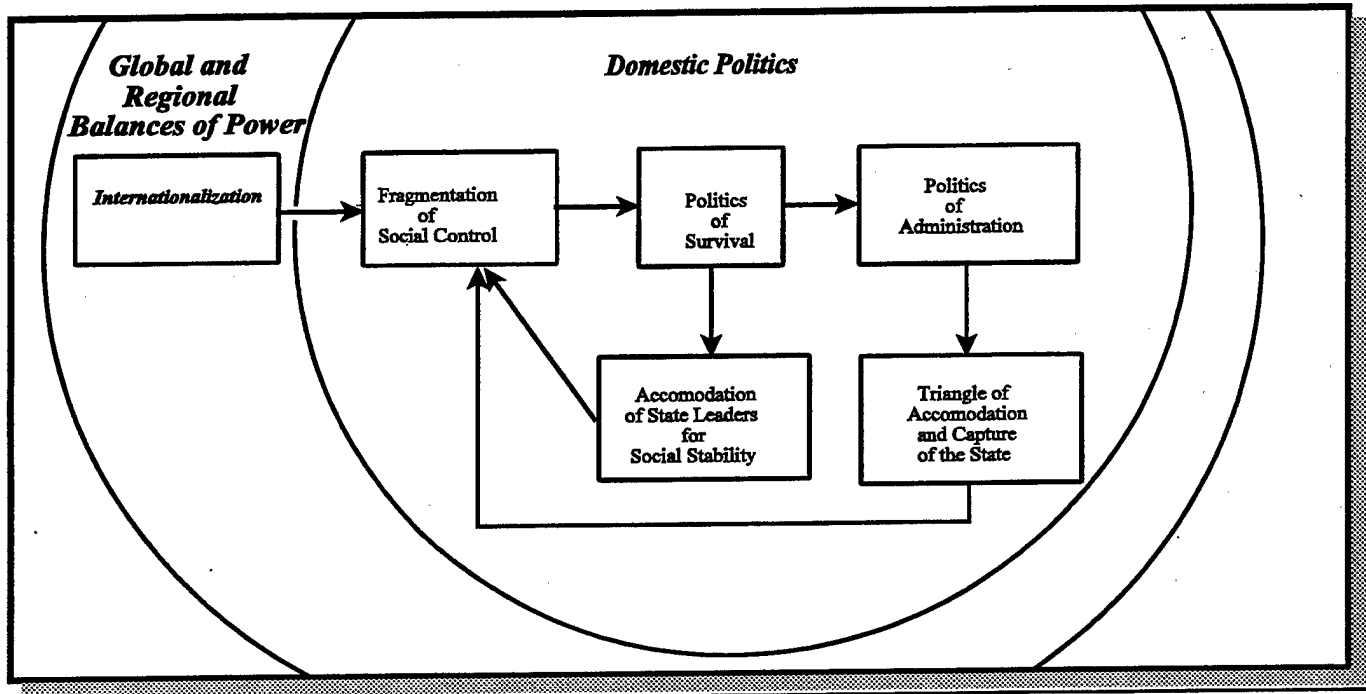


Figure 2.2 Modified Migdal Model of State-Society Relations in the Third World.

III. NORTHERNIZING THE SOUTH? FAILURE OF THE DRV MODEL, 1975-80

Since reunification in 1975, Vietnam has been marked by dramatic change resulting from a dynamic interaction of state and society. Often the will of the state has been forced to bend to the will of society, and not vice versa. Nowhere is this more evident than in the failure of Hanoi to extend the Democratic Republic of Vietnam (DRV) centrally planned collectivized economy to the south in aftermath of the war.

The roots of this failure can be found in North Vietnam's wartime economy. To stave off economic disaster in the face of much stronger French and American opponents, Hanoi's wartime leaders were forced to compromise with northern peasants and entrepreneurs. When resistance from Vietnamese peasants, southern artisans, and industrialists to the collectivization of the economy led to economic crisis in the late 1970s, Hanoi had to make similar compromises. The state was forced to recognize the accommodations made between local cadres, peasants, and state enterprise managers in order to alleviate the situation.

A. THE DRV MODEL AND DEPENDENT SOUTH

Sharing a common legacy of Confucian empire and French colonialism, the northern and southern Vietnamese economies diverged after independence and partition in 1954. Hanoi, flush with victory at Dienbienphu and full of Chinese and Soviet advisors, moved to establish a Stalinist planned economy in the north, while remnants of the feudal Mandarin landlord and bureaucratic class in conjunction with the United States built a capitalist economy in the south. Soon at war, neither state was strong enough to completely implement its system in the face of societal resistance. Forced to compromise with peasants and regional interests used to local communal control of agriculture and artisan production, Hanoi's model of socialism retained

elements of the free market. Forsaking development of a balanced capitalist economy, the political and economic élites in the south created a commercial and service economy highly dependent on imports and U.S. aid. With the withdrawal of U.S. support, the southern economy and society collapsed. Nonetheless, the south's legacy of free market capitalism would prove difficult to tame with the imperfect DRV economic model.

1. The DRV Model and Hanoi's Weakness

Through the 1980s most scholars, Migdal included, saw Hanoi's ability to mobilize resources against the threat posed first by France and then by the United States and South Vietnam as a manifestation of state strength. Hanoi was supposedly strongest at the point of victory in April 1975, and was expected to carry that strength into the process of reunification. Economists Susan Paine, Adam Fforde, and Stefan de Vylder and political economist Melanie Beresford disagreed.⁵³ Their studies of the Vietnamese economy suggest that the party had great difficulty in imposing a Soviet-style, planned economy in the north. Accommodations, in part due to the exigencies of war, peasant resistance to socialization, and strategies to overcome aggravated shortages produced by the plan, softened the Stalinist model by retaining free market forces. It was this incomplete socialist economic system, dubbed the Democratic Republic of Vietnam (DRV) model, that Hanoi extended to the south upon reunification.

⁵³See Fforde and Suzanne H. Paine, *The Limits of National Liberation: Problems of Economic Management in the Democratic Republic of Vietnam, with a Statistical Appendix* (London: Croom Helm, 1987); Fforde and de Vylder, *Vietnam*; Fforde and de Vylder, *From Plan to Market*; Beresford, *Vietnam*; and Beresford, *National Unification and Economic Development*.

a. Legacies of Traditional Vietnam and French Colonial Rule

Prior to the French colonial period, Vietnam had a long history of combining a centralized neo-Confucian empire with quasi-autonomous, autarkic, corporate rural communes.⁵⁴ Highly dependent on wet-rice culture, traditional Vietnam centered on the Red River delta. As population increased, the Vietnamese people spread southward, migrating into sparsely populated areas or conquering them from the Khmer and Chams, and finally reaching the rich Mekong delta and the southern coast in the mid-nineteenth century. Foreign threats — from China to the north and from Champa to the east and the Khmer to the south — and the threat of flooding drove the construction of a dynastic central government based on the Chinese model learned during a millennium of vassalage to the Middle Kingdom. Local organization was based on the extended family and the commune. Families and clans, the basic traditional productive units, congregated into villages. Several neighboring villages were combined into the commune. The commune was many things: center of rural cultural and spiritual life, provider of social services, administrator of communal lands, buffer between the state and individual, arbiter between clans and individuals over water rights and other questions, and a corporate body liable to the empire for taxes, corvée labor, and military conscripts.⁵⁵ Using the commune structure, peasants in traditional Vietnamese society developed elaborate strategies to cope with central attempts to mobilize and extract resources and provide for their social needs.

⁵⁴Fforde and Paine, *Limits of National Liberation*, 13-14.

⁵⁵*Ibid.*, 21-22.

The French impact on traditional Vietnam mainly came in the monetization of taxes.⁵⁶ Land became a commodity, local Councils of Notables came to be dominated by a rising landlord-usurer group, and commune capabilities to provide social services — especially risk insurance — declined. Rising demographic pressure exacerbated these trends. As the collective basis for rural communes eroded, popular discontent boiled over in central and southern Vietnam with a string of uprisings in the early 1930s. The famine of 1944-45 confirmed to many peasants of a breakdown in local collective social mechanisms,⁵⁷ making rural north and central Vietnam a fertile recruiting ground for the Vietminh and communists.

Although the general pattern of autarkic regions and communes was mostly left unchanged by French rule, certain agricultural and mineral commodities were exploited for export to the metropole. The vast majority of the agricultural exports came from the rich Mekong delta region where the majority of French commercial interests and infrastructure development was concentrated. Mineral resources were extracted mainly from the north. The pattern of French investment provided the base for the divergent development of the two regions after partition.⁵⁸

Fitting neatly into the Migdal model, the French colonial experience led to a fragmentation of Vietnamese social control, but traditional institutions and patterns of behavior were not completely destroyed. Communes — both north and south — proved to be resilient, surviving into the late 1950s in the north and until 1975-76 in the south. Also enduring were the

⁵⁶Ibid., 24-26.

⁵⁷Fforde and de Vylder, *Vietnam*, 24.

⁵⁸Beresford, *National Unification and Economic Development*, 11.

strategies of survival that the communes and peasants used to counter the extractive strategies of the empire and colonial administrations. As Fforde and Paine describe it, for the weak central state, "[t]his meant that any attempt, however desirable, to extract resources forcibly from the impoverished rural areas would be met by the tactical responses of people well-experienced in avoiding such strategies."⁵⁹

b. Accommodating Peasant Resistance to Collectivization

In the 1940s, the Vietminh government began land reform by distributing the holdings of foreign landowners and collaborators. Many wealthy peasants were able to keep their lands because they were members of the Vietminh national front. A second, more comprehensive Vietminh land reform began in 1953, redistributing land to the landless and small-holding peasants. With victory over the French and partition, the communists initiated a brutal land reform in 1955-56, systematically attacking those in rural areas the party deemed to be exploiters of the peasantry. "Landlords" — often no more than middle peasants themselves — were stripped of lands. Many were arrested and broken — over 15,000 died in the campaign.⁶⁰ Collectivization began in 1959, just as North Vietnam was preparing for renewed fighting. "Workers Aid" teams and "Production Solidarity" groups were formed first to transform family and village agriculture into collectives and then into agro-industrial cooperatives. Agricultural development was still predominantly regional since the collectives and cooperatives were controlled by provincial state and party apparatuses. As illustrated in

⁵⁹Fforde and Paine, *Limits of National Liberation*, 30.

⁶⁰Vo Nhan Tri, *Vietnam's Economic Policy Since 1975* (Singapore: Institute of Southeast Asian Studies, 1988), 2.

Table 3.1, nearly all of the North Vietnamese peasants were integrated, at least on paper, into the cooperative farms by 1968.⁶¹

TABLE 3.1 Agricultural Cooperativization in North Vietnam

| Year | Percentage of North Vietnamese Peasant Families in Cooperatives | Percentage of Cultivated Agricultural Land Under Cooperative Control |
|------|---|--|
| 1960 | 85.8 | 68.4 |
| 1962 | 86.3 | 69.1 |
| 1964 | 84.7 | 75.6 |
| 1966 | 92.7 | 89.1 |
| 1968 | 94.8 | 92.4 |

Source: Fforde and Paine, *Limits of National Liberation*, 188.

Although the peasantry, especially women who found themselves empowered by the cooperatives and the wartime situation to move into leadership positions, responded well to some of the reforms there was much resistance to the industrialization of northern agriculture.⁶² Peasants on the collectives had little incentive to work diligently and no disincentive to farm poorly. Without a sense of ownership, peasants neglected collective property and resources. Living conditions deteriorated with the introduction of an egalitarian compensation system. Peasants resented the great burden that supporting a growing population of administrative cadres

⁶¹Beresford, *Vietnam*, 130.

⁶²*Ibid.*, 131-2; and Nguyễn Dục Nhuận, "Pressions Démographiques, 37.

placed a on the collectives. They also resented the deliberate breakup of family farming and kin relationships.⁶³ Cadres had a very difficult time mobilizing peasant labor; and peasant productivity dropped as many individuals shirked collective responsibility.⁶⁴ Production levels on cooperative lands fell. Meanwhile, peasant cash and subsistence crop production on the small plots allocated by collectives to individual households increased dramatically.⁶⁵

Using traditional patterns of communal resistance to the central state and its local representatives, the peasantry tried to capture the new institutions. Fforde and Paine estimate that by the mid 1970s, 75 to 80 percent of cooperatives had become protective intermediaries for the peasants and not the state's means of controlling agricultural production.⁶⁶ In many cases, the communes-turned production brigades became the tool of cooperators who were earning the majority of their incomes from own-account activities on their "five percent lands."⁶⁷ The brigades maneuvered to protect these market activities and increase the amount of cooperator controlled land under cultivation. Many cadres were enriched through kickbacks and illegally "lending" the most productive lands and cooperative assets to clients, family, or themselves.⁶⁸ During the most intensive years of fighting (1965-75), peasant women took control of production

⁶³Kerkvliet, "Village-State Relations in Vietnam," 402-4.

⁶⁴Beresford, *Vietnam*, 134

⁶⁵Ibid., 131-2; and Kerkvliet, "Village-State Relations in Vietnam," 405.

⁶⁶Fforde and Paine, *Limits of National Liberation*, 123.

⁶⁷Five percent of a cooperative's lands were set aside for household production on small plots. The food produced on these plots was for family consumption, or it could be sold to the state at favorable prices or on the open market.

⁶⁸Fforde, "Problems of Agricultural Development in North Vietnam" (Ph.D. diss., Cambridge University, 1982), 130-4, 189.

and transformed the cooperatives into networks of small, quasi-family farms.⁶⁹ These initiatives were tolerated because of need to increase production. Commune officials looked the other way as a “sneaky contract” system developed between collective cadres and the quasi-family units, where families were given production quotas and were allowed to keep or market any surpluses.⁷⁰

Peasant capture of the cooperatives and the “sneaky contract” system are excellent examples of Migdal’s “Triangle of Accommodation.” Although the collective managers were directed from Hanoi to continue the socialization of agriculture during the war, they were left pretty much on their own to meet production quotas. Peasant leaders — the newly empowered “strongwomen” — reorganized the workforce, reverting back to the family/clan-based organization of traditional Vietnamese agriculture. The collective managers often had little choice but to extend the brigade contracts to these “strongwomen” in order to meet quotas, allowing family units to keep and/or market the surplus, while commune party cadres overlooked the “capitalist” activity. This contract system born of wartime exigencies in the North, would reemerge at the end of the 1970s as the basis of agricultural and economic liberal reforms.

2. DRV Industry: Entrepreneurial Artisans and “Fence-Breaking” Enterprises

Prior to the arrival of the French in the eighteenth century, Vietnam had a highly developed artisan sector. Craftsmen, often peasants who manufactured items when not cultivating the land or skilled members of peasant households producing year-round, provided

⁶⁹Nguyễn Duc Nhuận, “Pressions Démographiques,” 37.

⁷⁰Ibid., 37; Kerkvliet, “Village-State Relations in Vietnam,” 406-7; and Kerkvliet, “Rural Society and State Relations,” 70.

consumer goods primarily to local clients. Certain villages and communes specialized in the production of a few key goods using abundant local resources, such as pottery from Than Hoa province and ceramics from Bát Tràng village near Hanoi.⁷¹ Because of the French interest in extracting only a select few agricultural and mineral commodities for the international market, industrialization was rather limited and, therefore, the artisanal sector survived the colonial period intact.⁷²

During the war with France, the Vietminh set up several production facilities, particularly for war matériel, but also for some consumer goods. As the war intensified, the Vietminh took some of this capacity with them when they abandoned the cities in 1946. Factories were organized on an ad hoc basis, and control was divided between competing central ministries, the People's Army, and local authorities. However, industrial production remained limited and the Vietminh often had to rely on artisanal production and increasingly on imports from China and the Soviet Union.

After independence and partition, grants and aid — in particular, imported capital goods and inputs — mainly from the eastern bloc and China, but also from France and Sweden, allowed Hanoi to establish a nascent Stalinist command economy based on heavy industry. Artisans were organized into collectives, and large collectives often evolved into state enterprises. Nonetheless, much small-scale artisanal activity remained predominantly entrepreneurial. An attempt was made in the early 1950s to centralize state enterprise control under the Ministry of Industry and

⁷¹Fforde and Paine, *Limits of National Liberation*, 86; and Hy Van Luong, "The Political Economy of Vietnamese Reforms: A Microscopic Perspective From Two Ceramics Manufacturing Centers," in *Reinventing Vietnamese Socialism*, eds. Turley and Selden, 120-21.

⁷²Fforde and Paine, *Limits of National Liberation*, 84.

Trade, but old patterns were hard to break. In practice, management remained beholden to regional interests.⁷³

Regionalization was officially sanctioned by Hanoi's decision to decentralize production in the face of local pressure and increasing threats from U.S. bombing campaigns after 1965.⁷⁴ Regional development became the purview of the provinces which functioned as if they were "close to being an independent country."⁷⁵ Provinces and the parallel party organizations were responsible for planning and providing inputs and consumer goods — especially food — to the enterprises and state employees in their areas.⁷⁶ The state remained responsible for allocating the significant foreign aid and managing key ministry-owned enterprises which were to be sector-leaders, drawing on local resources, assisting local units with managerial and technical knowledge, and stimulating economic growth.⁷⁷

Not only did Hanoi diverge from the Soviet model in decentralizing development, the micro-economic dynamics of its Stalinist "aggravated shortage economy" were forcing accommodations at the local level. Fforde and Paine find that:

The overall pattern of events appears in hindsight to have been fundamentally chaotic and certainly not 'planned'. . . . 'Output maximisation' was therefore deeply conditional on supply availability. Since this was unreliable, state

⁷³Ibid., 88.

⁷⁴Luong and Fforde, "Regional Development in Vietnam: Local Dynamics, Market Forces and State Politics," in *Regional Development in Vietnam: Local Dynamics, Market Forces and State Politics*, comp. Hy Van Luong and Adam Fforde, (North York, Ont.: Joint Centre for Asia Pacific Studies, University of Toronto-York University, 1996), 6-7.

⁷⁵Ibid.

⁷⁶Ibid., 7.

⁷⁷Ibid.

enterprise activity often depended upon the extent to which local substitutes could be found in order to give the existing work-force something to do. In an aggravated shortage economy this is often involved in the creation of illegal 'circuits' . . . relying upon free-market transactions. Such behavior was limited by the extent to which such activities were politically tolerated. Acceptance of it, however, could be secured through appropriate use of the resulting output (especially if it consisted of consumption goods).⁷⁸

SOE managers developed their own equivalent to the cooperators' "sneaky contracts" in what later became known as "fence breaking" — the practice of state enterprises resorting to acquisition of inputs and sales of outputs on the free market in order to secure the resources necessary to meet planned production quotas. Often in return for a significant payment or consideration, local officials turned a blind eye to these illegal, extra-plan activities which helped the enterprises meet the unrealistic goals of the plan. Just as the "sneaky contracts" spontaneously reappeared during the financial crisis of the late 1970s, so did "fence breaking."

Fence breaking and the regionalization of the Vietnamese economic development program may have been born out of the exigencies of war, but they also showed state weakness. Unable to control industrial development as completely as Moscow had, Hanoi was forced, in part, by a coalition of central ministry cadres, local cadres, state enterprise managers, and local "entrepreneurs" to decentralize control and marginalize the effects of the plan. Thus local accommodations weakened the Vietnamese model of socialist industrial development just as the party elders were extending it to a southern economy which had developed in a much different direction.

⁷⁸Fforde and Paine, *Limits of National Liberation*, 91-92.

3. Divergent Development in the South: Capitalism, Commerce, and Dependence

As previously mentioned, the French colonial economy left a larger footprint on the south than on the north. Much of French investment went into developing the infrastructure and economy of the Mekong basin and Saigon to extract agricultural commodities for the metropole and international market. Rice was a key commodity, but so was rubber, pepper, sugar, copra, and tea from large southern and central plantations.⁷⁹ Market relations were also better developed in the south. A highly-active domestic trade of agricultural products grew in and around Cholon and Saigon. So did processing industries providing consumer goods such as refined sugar, milled rice, vegetable oils, beverages, and textiles for the domestic market,⁸⁰ but production was far less important to the predominantly ethnic Chinese entrepreneurs than was commerce.

After partition in 1954, South Vietnam quickly fell under the influence of the United States, which was determined to make the country a bulwark against spreading communism. The problem was that the regimes of President Ngo Dinh Diem and his successors had little legitimacy with the peasantry who constituted the bulk of the southern population. Far from the model of U.S. democratic capitalists, the southern ruling élite in fact was more closely related to Vietnam's feudal past — drawn from Mandarin bureaucrats and landowners who adapted and prospered under French colonialism. This élite and the ethnic Chinese entrepreneurs who controlled much of the trade in South Vietnam quickly became dependent on U.S. economic and

⁷⁹Beresford, *National Unification and Economic Development*, 20, 32.

⁸⁰*Ibid.*, 20.

military aid for survival. Instead of using the aid to create a viable capitalist economy through productive investment, as intended by the donors, it fueled luxury consumption and expansion of commerce.⁸¹

The gulf between the political élites of Saigon and the peasantry widened after the Diem regime attempted to reverse the Vietminh reforms by returning land to the landlords and by creating new landlords out of military officers in return for their loyalty to the illegitimate regime.⁸² This reform acted as a brake to agricultural growth, since the peasantry increasingly placed its support in the insurgent communists. These policies were later reversed by the regime of Nguyen Van Thieu, whose "Land-to-the-Tiller" reform and encouragement of "green revolution" cultivation complemented those already made by the National Liberation Front (NLF) insurgents by placing land, equipment, fertilizers, and new varieties of rice and other staples into the hands of peasants.⁸³ Coming late in the war, these efforts were too little and too late to save Saigon, especially after U.S. rapprochement with China and Washington's decision to withdraw from Vietnam.

The few industrial enterprises of colonial Cochinchina (southern Vietnam) were under the control of the French, and they remained so after independence and partition. The Diem regime attempted modest industrial growth by establishing public enterprises to produce some consumer goods. Later Saigon tried to privatize these enterprises by selling them to wealthy Vietnamese.

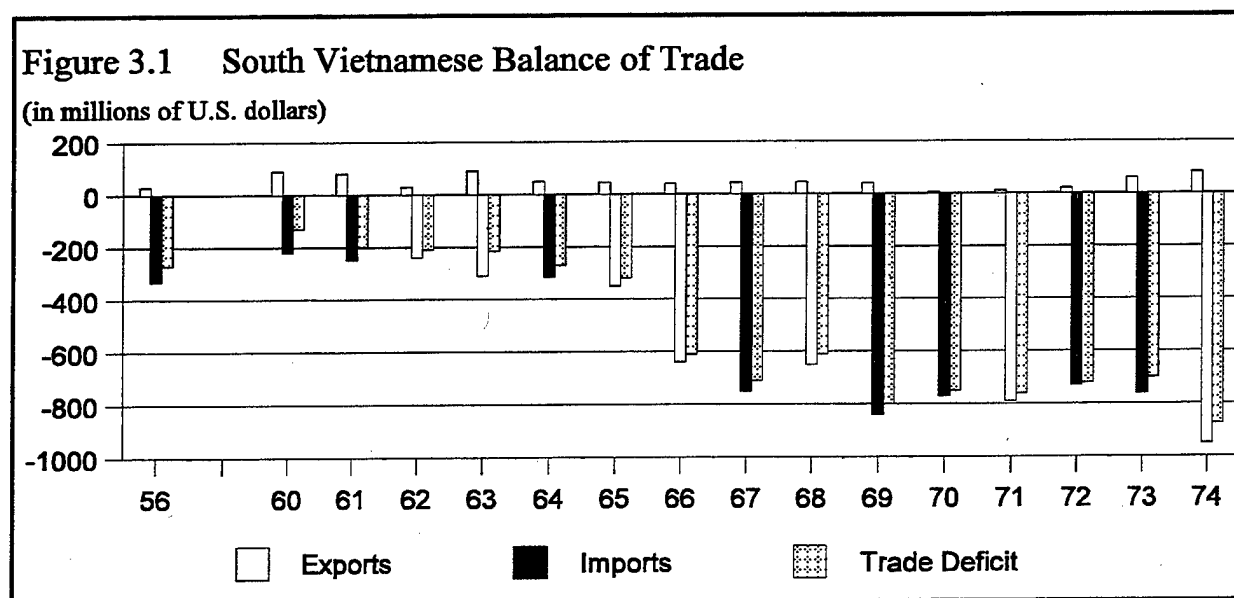
⁸¹Ibid., 47-48.

⁸²Ibid., 50.

⁸³Ibid., 54; and Beresford, "Vietnam: Northernizing the South or Southernizing the North?" *Contemporary Southeast Asia* 8, no. 4 (March 1987): 270.

Nonetheless, commerce remained the primary occupation of the South Vietnamese bourgeoisie, especially the Chinese of Cholon, who enriched themselves by providing goods and services to U.S. forces deployed to Vietnam.

Southern dependence on the United States was nearly total. U.S. aid and taxes on American-financed imports accounted from an estimated 43 percent of Saigon's revenues between 1960 and 1965 and 49 per cent from 1965 to 1972.⁸⁴ As depicted in figure 3.1, Saigon constantly ran huge trade deficits, offset mainly by U.S. aid. With the withdrawal of the United States after 1973, aid levels dropped. When Saigon fell in April 1975, the southern economy was on the verge of collapse.



Source: Beresford, *National Unification and Economic Development*, 79.

Northern cadres and their Viet Kong comrades stepped into this void in 1975 with little more than a plan for gradual reunification, followed by an even more gradual transition to the

⁸⁴Beresford, *National Unification and Economic Development*, 56.

collective socialist economy. Widely welcomed by the bewildered southerners in the spring, the transitional regime in Saigon was dissolved by the end of the summer. Hanoi had reversed its gradualist policy in favor of the rapid reunification and collectivization of the south.

B. THE FAILED SOCIALIZATION OF THE SOUTH, 1975-79

After thirty years of war, Vietnam was finally reunified in 1975. Communist euphoria over victory soon was sobered by harsh reality. Hanoi faced the daunting task of nation-building by combining two very different regions, economies, and social systems.

The experiences of the two halves of the country were vastly different. Hanoi managed, under the hardship of two wars, to impose, more or less, a centrally planned economy in the north. The communists mobilized northern society behind the socialist transformation by appealing to a shared sense of mutual sacrifice. Nonetheless, as seen in the wartime accommodations to the northern peasantry and fence breaking by state-owned enterprises (SOEs), socialization was not complete. With war's end, communist leaders looked forward to completing the revolution.

The south had no such shared sense of sacrifice. The Republic of Vietnam (RVN) economy was characterized by unbridled capitalism, where almost anything was sold on the open market, and where consumption was maintained at artificially high levels through American subsidies.

Unable to bridge effectively the differences between north and south, Hanoi's attempt at spreading its model of the socialist planned economy to the south in the late 1970s failed. Southern resistance to the collectivization of agriculture and industry touched off a grave economic crisis, aggravated by wars with Cambodia and China. Northern agriculture could not

make up the deficit in planned production, thereby starving industry of inputs. Massive aid from the Soviet Union kept the impoverished Vietnamese from starving, underwrote Hanoi's border wars, and propped up Vietnam's sickly economy, thereby staving off economic disaster.

In the midst of this crisis, accommodations by local cadres to peasant and administrative interests initiated reforms from below. Recognizing that the Second Five-Year Plan (1976-80) was doomed to failure, Hanoi sanctioned in 1979 some of these local reforms as "temporary solutions" to correct the wildly imbalanced economy. These "temporary solutions" later formed the basis of Vietnam's economic transformation.

1. Northernizing the South, 1975-78

The disparity of regional experiences made reunification in the late 1970s a difficult prospect, one with serious long-term consequences well beyond anything communist leaders imagined. The original plan for reunification was rather simple. Hanoi envisioned a gradual assimilation of the south into the northern model, hoping to join the south's complementary agricultural potential with the north's industry for development of a peacetime socialist economy. Initially, it would focus on economic restoration, in order to stabilize the situation and reassure the southern population.⁸⁵ This would give Hanoi time to establish a revolutionary government and gain control of society. When this period of "new democracy" was complete, Hanoi would then start the process of socialization.

The provisional government initially was cautious. It encouraged entrepreneurs and merchants to reopen their businesses and farmers to return to their fields. But after a few short

⁸⁵William J. Duiker, *Vietnam Since the Fall of Saigon*, (Athens Oh.: Ohio University Center for International Studies, Southeast Asia Program, 1980), 5.

months, the regime deliberately began to break the power of southern capitalists. In the summer of 1975, it seized all property owned by the defeated RVN and the assets of private banks and foreign businessmen. The new regime then worked to eliminate the power of major southern industrialists and merchants by nationalizing their businesses and seizing their property. The communists appealed to the middle class to join in this campaign against the so-called "comprador bourgeoisie."⁸⁶

By the end of the summer, Communist hardliners in Hanoi began to worry that the south might become a threat to the survival of the regime. Much of the southern economy was still in the hands of entrepreneurs, merchants, and rich peasants, and relatively immune to government influence. Northern leaders became concerned that the longer these elements maintained control of the southern economy, the stronger they would become. Worse yet for the communists, they claimed that the "corrupt and parasitic" southern lifestyle was beginning to influence the northern cadres and soldiers sent south to reunify Vietnam. In sum, Hanoi began to see the south developing again into a rival "center of power."

Using the "politics of survival," the communist leadership abandoned its gradual reunification plan. Instead, it decided to accelerate the socialization of the south in order to gain control of the economy. Hanoi took direct control of the region in 1976 after the dissolution of the provisional government in Saigon. That same year, authorities began a more *dirigiste* approach to the economy, fixing prices for compulsory quota sales and state resource inputs, and pressuring southern enterprises into entering joint ventures with the state.⁸⁷ Artificially low

⁸⁶Ibid., 7-8.

⁸⁷Ljunggren, 59; and Beresford, *Vietnam*, 151.

quota prices were set for rice and other agricultural staples in an attempt to extract agricultural surplus to fund socialist industrialization and subsidize urban workers' food requirements.⁸⁸ In early 1977, soon after the imposition of quota prices, Hanoi began to collectivize agriculture. The socialization of industry and commerce accelerated, targeting mainly the businesses of ethnic Chinese merchants and entrepreneurs. By the end of 1978 the transition to socialism was in full gear.⁸⁹

a. Southern Resistance: Economic and Social Crises

Resistance to the imposition of the centrally planned economy in the South proved great, and the strains quickly began to show. Vietnam's economic growth rate plummeted to two percent in 1978 (down from nine percent in 1976). Per capita income stagnated, rising imperceptibly from US\$98 to US\$100 between 1975 and 1978, and dropping back to US\$97 in 1979.⁹⁰ Unemployment shot up to 13 percent. Grain production dropped from 13 million metric tons in 1976 to 11 million metric tons in 1978.⁹¹ Bad weather was to blame for some of the poor

⁸⁸Grain prices for the entire country were set at the prevailing rates in the north, which had no relation to market conditions in the south. The quota prices were so far below the prevailing market prices that a robust black market developed, thwarting attempts for state control of rice and other commodities. See Beresford, *Vietnam*, 156.

⁸⁹Ibid.

⁹⁰Tetsusaburo Kimura, "Vietnam — Ten Years of Economic Struggle" *Asian Survey* 26, no. 10 (1986): 1041.

⁹¹Tan Teng Lang, *Economic Debates in Vietnam: Issues and Problems in Reconstruction and Development (1975-1984)*, (Singapore: Institute for Southeast Asian Studies, 1985), 19.

harvests, but peasant resistance to collectivization and weariness to further sacrifice in the north contributed significantly to the decline.⁹²

The economic crisis was accompanied by social crisis. Reunification and the imposition of a new government were quite a shock to southerners, especially since the new municipal and provincial governments consisted mainly of northern cadres. There were few surviving Viet Kong insurgents present during the fall of Saigon, most had been killed during the 1968 Tet campaign or by the Phoenix counter-insurgency program.⁹³ Those who did survive were mistrusted by Hanoi as potential rivals in a reunified Vietnam. By filling most posts with northerners, Hanoi hoped to maintain control in the South.

Not surprisingly, southerners resented the northern "carpetbaggers." The northerners did little to endear themselves to their new constituents. Instead of effectively building links with the southerners, many of the northern cadres moved into the jobs and villas of the south's old ruling élite, further alienating southerners.⁹⁴ Skilled managers and laborers forced to undergo re-education and relocation found their jobs displaced by less-qualified northern veterans.⁹⁵ Northern cadres became the face of the Socialist Republic of Vietnam for the south. Unpopular economic and social policies sparked rancor for the northerners, exacerbating the

⁹²Ibid.; Kerkvliet, "Village-State Relations in Vietnam," 396; and Nguyễn Duc Nhuận, "Pressions Démographiques," 37-38.

⁹³Beresford, *Vietnam*, 50.

⁹⁴Tiziano Terzani, "Vietnam Revisited: Sweet Tears Turned Sour," *Far Eastern Economic Review*, 19 September 1985, 47.

⁹⁵Nguyễn Duc Nhuận, "Quelques effets paradoxaux," 224; and Marie-Agnès Crosnier and Edith Lhomel, "Vietnam: Les Mécomptes d'un Socialisme Asiatique," *Le Courrier des Pays de l'Est*, no. 320 (July-August 1987): 22.

north-south divide. Whatever goodwill that the southerners had for the north at the end of the civil war quickly disappeared.

One of the more resented policies was the "re-education" of the south. Hanoi quickly moved to reduce the power of southern capitalists, former Republic of Vietnam (RVN) officials, and Army of the Republic of Vietnam (ARVN) soldiers, by exiling them to "re-education" camps. Some 500,000 South Vietnamese workers, peasants, and adolescents were sent to short-term, day camps for political re-education. An additional 200,000 workers and peasants were interned in minimal security camps. Average incarceration was three to twelve months. Some 50,000 southerners, including a great number of former RVN officials and military officers, found themselves political prisoners in medium- and maximum- security long-term re-education camps with sentences that extended into years. In 1988, some 15,000 political prisoners remained incarcerated in these long-term camps.⁹⁶

The socialization of the Southern economy also caused massive dislocations. Among the social groups hardest hit by the transition to a socialist economy was the ethnic Chinese, or *Hoa*, minority. Like most of their Southeast Asian neighbors, the Vietnamese needed and mistrusted the "overseas Chinese." Recruited and protected by the French colonial administration and fostered by the American-backed RVN, the *Hoa* formed the commercial infrastructure of the south: controlling over 70 percent of the southern economy, with even greater ownership over certain sectors (holding 80 percent of industry, 100 percent of wholesale

⁹⁶Douglas Pike, "National Security," in *Vietnam: A Country Study*, ed. Ronald J. Cima, Federal Research Division, Library of Congress, DA Pam. No. 550-32, (Washington, DC: GPO, 1989), 305-6.

trade, more than 50 percent of retail trade, and 90 percent of the export-import business).⁹⁷ The factories and businesses of the richest *Hoa* were among the first targeted for expropriation by Hanoi in 1976. Then, as the communists speeded up the process of socialization in 1978, the rest of *Hoa* commerce was targeted. Small businessmen and traders were sent to “New Economic Zones” (NEZs) near the Cambodian border or were encouraged to “depart.”⁹⁸

The *Hoa* were not the only people relocated to the NEZs. Officially for the development of “backward” frontier areas, these NEZs were in reality established as a means of population control and as a buffer between the restive Khmers and Vietnamese. In order to tackle the unemployment problem and ostracize middle and upper class southerners, Hanoi conducted a massive relocation of the population under the rubric of the “state redistribution of labor.” As China had during the Cultural Revolution, Vietnam moved nearly 5 million city dwellers into the countryside — including half of the population of the Cholon-Saigon and Gia Dinh areas — breaking the existing southern social structure.⁹⁹ Northern peasants from the overcrowded Red River delta were also forced into the mountains to develop the northern border regions.

⁹⁷Vo Nhan Tri, “Transformation Socialiste de l’Économie Vietnamienne, 1975-1985,” in *Viet Nam Post-Révolutionnaire*, ed. Nguyễn Duc Nhuận, 48.

⁹⁸Some 50,000 *Hoa* firms were confiscated and 320,000 ethnic Chinese relocated to the NEZs between 1975-78; see King C. Chen, *China’s War with Vietnam, 1979: Issues, Decisions, and Implications* (Stanford, Calif.: Hoover Institution, Stanford University, 1987), 64; and Tran Khanh, *The Ethnic Chinese and Economic Development in Vietnam* (Singapore: Institute of Southeast Asian Studies, 1993), 87.

⁹⁹D. R. SarDesai, *Vietnam: The Struggle for National Identity*, 3rd ed. (Boulder: Westview Press, 1998), 99-100.

Many southern *Hoa* and former RVN officials chose to leave rather than be “re-educated” or relocated to the NEZs.¹⁰⁰ Northern *Hoa* joined the exodus when it became evident that there would be tension with China. In all, some 800,000 Vietnamese refugees fled the socialization of the south. Until China closed its border, about 200,000 — mostly *Hoa* — fled north. The rest fled by sea; Malaysia and Hong Kong were the preferred locations for Vietnamese “boat people.”¹⁰¹ China, the United States, Canada, Australia, and France often were the ultimate destinations of the refugees; many of whom were among the most skilled managers, merchants, and laborers of both the south and the north. Although predominantly anti-communist, the diaspora formed by this exodus will have an important role in the transformation of the Vietnamese economy in the 1980s and 1990s.

b. International Crises: Wars with Cambodia and China

Vietnamese treatment of the *Hoa* in 1976-78 contributed to a souring of relations with China. Beijing, in turn, stopped all aid to Hanoi and began to support actively the Cambodian Khmer Rouge regime's stepped up border attacks on Vietnam. Hanoi was forced to divert scarce assets to defense, further weakening the economy. With Sino-Vietnamese relations all but severed by summer 1978, Hanoi turned to Moscow, signing a Treaty of Cooperation and Friendship and joining the Council for Mutual Economic Assistance (CMEA) in June, thereby guaranteeing Vietnam Soviet support in the looming conflict with Cambodia and China. Mobilization accelerated through the end of the year, as Hanoi prepared for war — finally invading Cambodia in December 1978. Within two weeks Phnom Penh fell, the Khmer Rouge

¹⁰⁰Pike, “National Security,” 304; and SarDesai, 168-9.

¹⁰¹Pomonti and Tetrais, 153-4.

were driven to the highlands along the Thai-Cambodian border, and Vietnamese forces began to settle into a long and costly occupation. China responded by invading northern Vietnam in February 1979. After two weeks of heavy fighting, Chinese forces took four northern provincial capitals. Exhausted from the unexpectedly strong Vietnamese defense, Chinese forces withdrew in March, leveling villages along their way and destroying an estimated 80 percent of the infrastructure in the Vietnamese border provinces.¹⁰²

c. Food Shortages Push Hanoi to the Edge

With over 50 percent of Vietnam's meager resources diverted to the war effort, there was little left to face the looming agricultural disaster. Production levels throughout the country were far below those mandated in the Second 5-year Plan, and could not keep up with the growth in population. The severe shortages in 1977-1980 led to rice rationing that matched the lowest level of supply during the Vietnam War.¹⁰³

While drought contributed to the poor yields, peasant resistance to collectivization — particularly in the South — was the more likely cause of the crisis. There was little incentive for peasants in the Mekong delta to join collectives, especially when to do so often meant a loss in income because state quota prices for the purchase of rice and other commodities was so far below those on the black market and supposedly subsidized consumer goods and agricultural inputs promised to the peasants were generally unavailable or could only be had at high black market prices. Some peasants, particularly in the Mekong delta, actively resisted the

¹⁰²Steven J. Hood, *Dragons Entangled: Indochina and the China-Vietnam War* (Armonk, N.Y.: M.E. Sharpe, 1992), 55.

¹⁰³SarDesai, 102.

collectivization campaign, refusing to harvest crops on time, abandoning fertile farmland, and secretly killing livestock.¹⁰⁴ Those who did join the collectives worked to capture the collectives for their own interest, just as northern peasants did during the war. It is estimated that over half the southern collectives were socialized in name only;¹⁰⁵ the peasants continued to work their private plots and sell their produce on the open market or refused to produce when forced to turn over increasing percentages of production as taxes and fees.

Northern agriculture, already stressed by a higher population density, could not keep up with demand as well — falling far short of planned production for several of the same reasons as the south. While weather contributed to some of the poor performance, northern collectives were having difficulty in mobilizing labor — many peasants actively avoided participation in collective work, concentrating on own-account production from their five percent lands and/or working at low intensity when they showed for collective duties.¹⁰⁶ Northern peasants and communes-turned brigades, accustomed to some autarky, chafed at Hanoi's renewed attempts to impose a Soviet-style system.¹⁰⁷ Additional cadres, sometimes numbering over 100 per collective, were added in an attempt to break family and brigade control of production and distribution. The new managers aggravated already strained cadre-worker relations at the local level, especially since many of the northern "strongwomen" and other long-

¹⁰⁴Vo Nhan Tri, "Party Policies and Economic Performance: The Second and Third Five-Year Plans Examined," in *Postwar Vietnam*, eds. Marr and White, 79-80.

¹⁰⁵Beresford, *National Unification and Economic Development*, 109-10.

¹⁰⁶Beresford, *Vietnam*, 134.

¹⁰⁷*Ibid.*, 136.

time leaders were displaced from positions of authority in the brigades and collectives to make room for demobilized soldiers.¹⁰⁸

Just as they had in the crisis of war, local cadres often compromised with peasants in order to increase production in the face of economic crisis in the late 1970s. Approximately 75 percent of the cooperatives in northern Vietnam fell short of the degree of control of production and distribution prescribed by the central authorities.¹⁰⁹ "Sneaky contracts" reappeared — this time with some party approval — first around Haiphong in 1978, and then spread to other regions in the north.¹¹⁰

d. Massive Soviet Aid Staves Off Economic Disaster

Unable to mobilize the projected agricultural surpluses upon which Hanoi had based its optimistic Second Five-Year Plan (1976-80), Vietnam failed to meet all development goals and faced a cumulative process of declining production in the whole economy.¹¹¹ With internal resources exhausted, Hanoi had to turn to an outside patron. Isolated from the rest of the world by the U.S.-led, U.N.-sanctioned embargo levied in response to the Cambodian invasion, Vietnam became dependent on the Soviet Union for succor. Moscow underwrote most of Vietnam's war effort and propped up Hanoi's sagging economy, providing an estimated U.S.\$0.8

¹⁰⁸Ibid. and Nguyễn Đức Nhuận, "Pressions Démographiques," 37-8.

¹⁰⁹Kerkvliet, "Village-State Relations in Vietnam," 409.

¹¹⁰Beresford, *Vietnam*, 161.

¹¹¹Beresford, *National Unification and Economic Development*, 116.

to 3.2 billion in loans, grants, and aid per year in 1979-81.¹¹² Completing projects abandoned by the Chinese, Soviet investment saved Hanoi's industrial development plan in the late 1970s. Soviet-financed enterprises produced 100 percent of Vietnam's output of tin, apatite, superphosphates, and sulfuric acid; 89 percent of coal extracted; 61 percent of metal cutting machines, and 25 percent of electricity generated.¹¹³ Unfortunately for Vietnam, the industrial development program, following the Soviet model, focused inappropriately on heavy industry, requiring importation of further inputs, causing a further drain on scarce resources. Consequently, most large state-owned enterprises were operating well below capacity in 1979.

More importantly for Hanoi, the Soviets provided massive commodity aid. Moscow supplied badly needed staples to offset the deficit in Vietnamese production. The Soviet Union and CMEA shipped 1.4 million tons of foodstuffs in 1978, 2.1 million tons in 1979 and 1.8 million tons in 1980 for a total three-year cost of nearly US\$900 million.¹¹⁴ At the end of the decade the Soviets were providing 20 to 30 percent of the rice consumed in Vietnam.¹¹⁵ Between 1976 and 1980 granted or sold at "friendship prices" 5 million metric tons of petroleum products (at an annual cost of around US\$120 million) and 1.5 million tons of chemical

¹¹²Ramesh Thakur and Thayer, *Soviet Relations with India and Vietnam* (London: Macmillan, 1992), 190-9, and Pike, *Vietnam and the Soviet Union: Anatomy of an Alliance* (Boulder: Westview Press, 1987), 130.

¹¹³Thakur and Thayer, 195.

¹¹⁴Pike, *Vietnam and the Soviet Union*, 129.

¹¹⁵*Ibid.*, 128.

fertilizer.¹¹⁶ Without the food, petroleum, and fertilizer aid, Hanoi would have had difficulties feeding its impoverished population.

2. Reform from Below, 1978-80

The economic crisis pushed cooperative, municipal and provincial officials to accommodate local interests and allow the expansion of autonomous, market-oriented opportunities. As previously discussed, agricultural cooperatives began to break down and family-organized production increased. Locally, cadres began to turn a blind eye to the expansion of "five percent lands." As grassroots reform progressed in 1979 and 1980, this process extended dramatically. To keep the cooperative system from dissolving completely, local cadres began to decentralize production management. "Sneaky contracts" between cadres and families or work brigades for set levels of production became more and more the norm on many "collective" farms. Peasants were also given greater freedom to sell on the open market, improving terms of trade and producer incentives.¹¹⁷

Facing shortages in supplies from the state, enterprises again began to "fence-break" by turning to the market for both procurement and sales, sparking further bottom-up reform.¹¹⁸ Examples of such local accommodations occurred throughout the country, although they were particularly evident in the south. Na Nam Ninh province in the north began direct deliveries of inputs to producers by the end of 1979. So too had producers in Phu Khanh province in the south. Industries in northern Ha Son Binh province established direct relations between

¹¹⁶Ibid., 129.

¹¹⁷Fforde and de Vylder, *Vietnam*, 69.

¹¹⁸Ibid., 62; and Fforde, "The Political Economy of 'Reform,'" 300-1.

agricultural cooperatives in the mountains with artisanal production units in the deltas, bypassing the state trading companies. By 1979, the local state-run enterprises had also set up small shops to sell "off-list" (unplanned) products directly to consumers. The Cau Duong brick factory outside of Hanoi likewise worked around supply shortages by renting its own transport to haul coal from Quang Ninh and purchased hundreds of tons of firewood directly from Bac Thai, thereby increasing productivity dramatically.¹¹⁹

In an attempt to find a workable solution, Hanoi shelved the moribund Five-Year Plan during the Sixth Plenum of Party Central Committee in August 1979 and adopted the local market initiatives as "temporary solutions."¹²⁰ These "temporary solutions" had significant long-term consequences. Far from being a quick fix, they touched off a profound structural change — the institutionalization of a dual planned and market economy.

Agricultural reforms in 1979 recognized reality in the countryside: collectivization was well behind schedule; family plots on five percent lands produced as much as the 95 percent of land allocated to collective production; and innovative programs, such as a return to the contract system in the north, increased productivity.¹²¹ Recognizing that the family was the best adapted form of organizing production in a sector with abundant labor, efficient family-run farms were to be left alone and collectivization was slowed.¹²² In order to spur additional production, low state

¹¹⁹Fforde and de Vylder, *From Plan to Market*, 130.

¹²⁰Ljunggren, 60.

¹²¹Kerkvliet, "Village-State Relations in Vietnam," 410-411; and Thayer, "Building Socialism: South Vietnam Since the Fall of Saigon," in *Vietnam Since 1975 — Two Views From Australia*, Carlyle A. Thayer and David G. Marr, (Brisbane: Griffith University, 1982), 39-42.

¹²²Crosnier and Lhomel, 12; and SarDesai, 103.

purchase prices for agricultural goods were raised, quotas were reduced 30-40 percent, and peasants were allowed to negotiate the sales price of commodities in excess of their quotas.¹²³

Similar efforts were made to spur the production of consumer goods. Reversing Hanoi's failed attempts to collectivize small businesses, the 1979 reforms encouraged artisanal and small privately-owned industrial production.¹²⁴ Internal controls on the movement of goods and tariff collection on the part of provinces and municipalities were dropped. Market-inspired reforms in the state sector launched earlier in Ho Chi Minh City were spread nation-wide. Firms were given greater freedom to purchase raw materials on the market and were allowed to sell any surplus production (beyond the state-set quotas) on the market, sanctioning the practice of "fence-breaking."¹²⁵

3. Impact of Reforms

The reforms from below adopted by Hanoi in 1979 were only a bandage. Nonetheless, grain production and state procurement improved in 1979 and 1980 (see table 3.2), in part due to good weather and a relatively improved situation in Cambodia and along the Chinese border and in part due to early effects of the reforms. Even in the Mekong delta, with its strong market for surplus grains, state procurement increased significantly. For example, grain purchased from An Giang province jumped to 146,092 tons from 42,000 in 1977.¹²⁶

¹²³Vo Nhan Tri, "Transformation Socialiste de l'Économie Vietnamiennne," 76-77; and Nguyễn Duc Nhuận, "Quelques Effets Paradoxaux," 225.

¹²⁴Thayer, "Building Socialism," 41.

¹²⁵Beresford, *Vietnam*, 160.

¹²⁶Beresford, *National Unification and Economic Development*, 117.

Table 3.2 Foodgrain Production and Official Transactions, 1975-80

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--|------|------|------|------|------|------|
| Total Foodgrain Production (1), in millions of tons | 11.6 | 13.6 | 12.9 | 12.9 | 13.7 | 14.4 |
| Total Domestic Procurement (2) in millions of tons of which: | 1.69 | 2.03 | 1.84 | 1.59 | 1.40 | 2.01 |
| — Agricultural Tax | | | 1.18 | 0.52 | 0.67 | 0.90 |
| — Quota Sales | | | 0.66 | 1.06 | 0.69 | 0.86 |
| — Negotiated Sales | | | 0 | 0 | 0.04 | 0.24 |
| (2) as a share of (1), in percent | 15 | 15 | 14 | 12 | 10 | 14 |

Source: Beresford, *National Unification and Economic Development*, 118.

Fence-breaking in the industrial sector was not sufficient to pull industry out of recession. Falling grain output, and lack of adequate subsidized supplies forced urban workers to the market to buy food. Prices soared as demand for food jumped. Wages did not keep up, forcing many workers into moonlighting and diverting even more scarce resources into the free market, creating a crisis in productivity for state enterprises and further aggravating the recession.¹²⁷ The state's overambitious production goals only added to the headache. Collectivization of the sector, although paused at times during 1979-81, continued.¹²⁸ Production in 1980 remained at the same level as it was in 1976.¹²⁹

¹²⁷Ibid., 183.

¹²⁸Vo Nhan Tri, "Transformation Socialiste," 60.

¹²⁹Tetsusaburo Kimura, 1043-4.

Nonetheless, fence breaking did serve to stem the downward spiral of the industrial sector. Taking up the slack within the DRV system, it led to rapid recovery in some areas. By passing on the higher costs of inputs, fence-breaking enterprises pressured factories' existing customers pressure to pay higher prices, placing further stress on the state subsidy system.¹³⁰ This, in turn led to further fence breaking as these firms sought to work around the chronic shortages in the planned system. As previously mentioned, the 1979 industrial reforms legitimized some of these local work-arounds.

Forced to adopt the grassroots reforms in 1979, the first generation of leaders, still in control in Hanoi, continued to hold their notions of the supremacy of conventional Marxism-Leninism, and although the collectivization drive in agriculture and industry had been slowed and adapted it was not abandoned. Within the party a struggle developed between the mainly southern-affiliated reformers and the northern- and military-affiliated conservatives. This struggle would play out over the course of the Third Five-year Plan (1981-85) as the momentum would shift back and forth between grassroots reform and official policy and between reformers and conservatives in Hanoi.

¹³⁰Fforde and de Vylder, *Vietnam*, 68.

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IV. TRANSITION TO THE MARKET, 1981-89

The internal debate between party conservatives and reformers became evident in the seeing economic policies adopted by Hanoi. After the liberal reforms of 1979 and 1981 ended the economic crisis caused by the failure of northernizing the south and war with Cambodia and China, the conservatives again tried to impose the collectivized economy throughout the country. Further domestic resistance, the strains of a costly occupation of Cambodia, and the potential loss of Soviet patronage, all led the VCP to reverse its policies once again and begin the *Doi Moi* — *Renovation* — program in late 1986. Originally a policy of gradual economic and political reforms, local accommodations and the actions of state enterprise managers transformed *Doi Moi* into a complete reinvention of the Vietnamese economy. By the end of the decade, Vietnam had withdrawn from Cambodia, the socialist central planning system had been scrapped, and Vietnam was reintegrated into the global capitalist market.

Nevertheless, the pace of change wrought by the liberal political reforms that accompanied the early stages of *Doi Moi* seemed to scare the party. As communism crumbled world wide, the pace of change in Vietnam began to concern the party. In the aftermath of the collapse of East European communism, Tiananmen Square, armed incursions by *Viet Kieu* (overseas Vietnamese), Hanoi began to rein in political freedoms while maintaining the economic transformation. A new bargain seemed to have been made between Hanoi and the economic leaders mainly in the south — accelerated economic reforms in return for continued communist political control. This compact constituted the framework for the development of the Vietnamese market in the 1990s.

A. REFORMS, COUNTER REFORMS AND *DOI MOI*, 1981-86

Hanoi entered the 1980s in the midst of grave crises from within and without that challenged Communist party rule. Southern resistance to the collectivization of agriculture and industry and peasant resistance nationwide to further painful sacrifice forced the first generation of Vietnamese communist leaders, by then well into their 70s, into compromise reforms which ameliorated the food crisis by slowing the expansion of the Marxist-Leninist command economy nationwide. Although partially successful, the 1979 reforms did not correct Vietnam's economic problems. There remained incentives at the local level to accommodate practical work-arounds — family-based agricultural production and additional “fence breaking” — to make the broken economy work. The interaction of grassroots work-arounds with periodic attempts by Hanoi to clamp down on the free market generated new rules of the game, allowing unplanned activities to become legal.¹³¹ In a similar vein, state employees were forced to create their own work-arounds by increasingly turning to the market for food and extra wages to offset scarcities, lost subsidies, and galloping inflation. All of this unofficial activity created a *de facto* commercialization of the economy that further reduced the monopoly power of the state.¹³² Fforde would later characterize this commercialization as the beginning of Vietnam's transition from the Stalinist, centrally-planned DRV economy to the market.¹³³

While the peasants, state enterprise managers, and local cadres were busily commercializing the economy, there were a few voices calling for a concurrent political

¹³¹Fforde and de Vylder, *Vietnam*, 61-2.

¹³²Fforde and de Vylder, *From Plan to Market*, 136.

¹³³Fforde, “Successful Commercialization,” 95.

liberalization. Most prominent of the dissidents in the early 1980s was Dr. Nguyen Khac Vien who complained to the National Assembly that Vietnam faced five major problems: a "hasty, leap-forward mentality" in planning, government inefficiency, a chaotic overlap between party and state functions, a narrow nationalist outlook to foreign relations, and the tendency for culpable high ranking officials to escape responsibility for their errors.¹³⁴ Vien called on the VCP to take a true leadership role in setting and overseeing policy, and leave the day-to-day operations of the government to the bureaucracy, instead of micro-management that characterized the party leadership's relationship with the government. At the 5th Party Congress in March 1982, the party hierarchy made a few passing criticisms of cadre micro-management, but did little to change how the party interacted with the state and society — leaving the issue of political liberalization for the future.

1. 1981 Attempts to Turn Around the Economy

During the winter of 1980-81, the agricultural product contract system was introduced throughout the north and center (it would spread south in 1982).¹³⁵ Legitimizing the "sneaky contracts," cooperatives allocated land to households or work teams and contracted with them for production. Common services, such as land preparation, water, seeds, and social services were treated as deductions or taxes. Quotas were based on production levels for the previous three years. Any production above quota could be sold on the open market. Therefore there was a

¹³⁴Thayer, "Renovation and Vietnamese Society: The Changing Roles of Government and Administration," in *Đôi Mỏi*, eds. Forbes et al., 22.

¹³⁵Beresford, *Vietnam*, 161.

strong incentive to increase production, resulting in large short-term output gains. Food output for the winter season in the north and center jumped 10-25 percent.¹³⁶

Official agricultural prices were then dramatically raised in October 1981, in an attempt to bring them closer in line with prevailing market prices and reduce the incentive to divert state resources into the black market. The official price of most goods jumped 300-400 percent, and those of major inputs by about 1,000 percent.¹³⁷ Although the price hike for inputs would negatively affect the peasants, in reality it helped them because state-supplied resources were less scarce at the higher prices.¹³⁸

A new system of enterprise management was announced in January 1981. Called the "Three Plan System," it merged the conventional planned economy with some of the elements of fence breaking. A SOE was allowed, in essence to operate on three levels ("plans"). Plan A production was the old Marxist-Leninist plan — SOEs were to use state subsidized inputs to produce their quota of outputs sold at a low price to the state distribution system. Plan B allowed the SOE to acquire additional inputs on its own, and to sell production above quota in order to pay for the unplanned inputs. Plan C allowed the SOE to diversify into new unplanned products to meet untouched consumer demand. Since the inputs for this diversified production were to come from the market, Plan C production was unregulated, but state trading companies were to

¹³⁶Fforde and de Vylder, *Vietnam*, 70.

¹³⁷Beresford, *Vietnam*, 163.

¹³⁸*Ibid.*

be given priority in disposing the new production.¹³⁹ Units outside the state system — private enterprises and collective artisanal producers — were allowed to contract for production using a system similar to the agricultural product contract system. In addition, enterprises were given the option to adopt a piece-rate system for employee wages in an effort to spur labor productivity.¹⁴⁰

The four major Vietnamese cities — Ho Chi Minh City, Hanoi, Haiphong, and Da Nang — were permitted to establish their own import-export corporations, further decentralizing the foreign trade sector. For example, Ho Chi Minh City had around 100 municipal enterprises producing for export that were importing inputs in exchange. Under the new rules, these enterprises and local authorities could retain 25 percent of their foreign exchange earnings for the purchase of imported goods.¹⁴¹

2. The 5th Party Congress, March 1982

Although the 1979 and 1981 reforms caused a spurt in production, they also had some undesirable side effects. In particular, spiraling inflation returned, rising unemployment threatened the north, and the rise in luxury imports and cadre corruption caused party stalwarts to fear the return of capitalism. Conservatives wanted to reign in the southern-inspired reforms, while reformers fretted that they were not going far enough to correct the imbalances inherent in the socialist system.

¹³⁹Fforde and de Vylder, *Vietnam*, 68-9; and Lê Trang, "Renewal of the Industrial Management Policy and Organisation," in *Đôi Mới: Economic Reforms and Development Policies in Vietnam*, ed. Per Ronnås and Örjan Sjöberg (Stockholm: Swedish International Development Authority, Stockholm School of Economics, and Central Institute for Economic Management; 1990), 159.

¹⁴⁰*Ibid.*

¹⁴¹*Ibid.*

The debate over reforms delayed the 5th Party Congress until March 1982, where the collective party leadership attempted to reassert central control through concessional reforms. Most noticeable were key theoretical innovations: the notion that a period of "transition" to socialism would favor the development of agriculture, thereby abandoning the priority given to heavy state industry, and the idea of "three interests" in Vietnamese society — the state, the collective, and the family/individual — which were to be "in harmony" in any economic venture, legitimizing the family economy and individual enterprise vis-à-vis the collective and state.¹⁴² Although these theoretical changes encouraged the reformers by supporting private economy, they also were ambiguous enough to allow the conservatives to resist reform and reinitiate collectivization in the Mekong delta.

3. The Collectivization Drive of 1983

By late 1982 it was evident that the conservatives in Hanoi were gaining the upper hand in the internal debate. With the crisis seemingly over, the party issued several directives to curb the southern initiatives. This was most evident in the sacking of leading party reformer Nguyen Van Linh from the politburo for advocating further liberal economic measures that he had successfully tried in the south.¹⁴³ In early 1983, steep taxes were levied on private enterprises deemed inessential, causing many to close or be taken over by the state.¹⁴⁴ A new agricultural tax

¹⁴²Fforde and de Vylder, *Vietnam*, 63.

¹⁴³Ljunggren, 60.

¹⁴⁴For example, restaurants were taxed 50,000-70,000 dong per month (US\$5,000-7,000 at official rates or US\$500-700 at going black market rates) and cloth merchants in a Ho Chi Minh City market were assessed 40,000 dong per square meter of stall space; see Beresford, *Vietnam*, 165.

system was also introduced which favored collectives with lower fixed rates on yields. In an attempt to end fence breaking, Hanoi again required enterprises to buy and sell through state organs. The agricultural collectivization drive, held in abeyance since 1979, was resumed, with a new goal of complete collectivization by the end of 1985.¹⁴⁵

These repeals of liberal reform were resisted at the local level. Success from implementation of the family-based agricultural contract system made the recollectivization of agriculture problematic. In the same manner, return of state enterprises to a strict Stalinist model was unworkable. The "Triangle of Accommodation" profited too much from continued "fence-breaking." Bureaucrats, local politicians, and SOE managers became increasingly linked in a system where SOEs used their access to artificially low-cost planned resources that they either turned around and sold on the open market or used to produce non-planned products for sale in the market.¹⁴⁶ As the decade progressed the state became increasingly involved in this process of commercialization as line ministries reaped the benefits of increased market productivity by the enterprises under their control.¹⁴⁷ The forces of internationalization became evident as the pressure for capital led many state and municipal enterprises into illegal contacts with foreigners through smuggling or into alliances with state trading companies who had legal access to foreigners. In fact, the leading smugglers of industrial goods into southern Vietnam in the 1980s

¹⁴⁵Ibid.; and Beresford, "Dismantling the 'Bureaucratic Centralism and Subsidy System,'" 219.

¹⁴⁶Fforde, "Political Economy of 'Reform,'" 307-8.

¹⁴⁷Ibid., 310.

were the Mekong delta provincial authorities who were interested in competing against the Ho Chi Minh City manufacturers.¹⁴⁸

4. **Disastrous Reforms of 1985**

Hanoi's drive to recentralize the economy was further damaged by a series of wage, price, and currency reforms in 1985. Two pillars of support for the party and its socialist economic system — state employees and state enterprises — pressured for higher wages and prices to offset scarcities in planned inputs, losses of subsidies, and spiraling prices. Unable to resist, the state cut subsidies and dramatically raised wages and prices. Vietnam financed these policies by ever widening deficits, touching off high inflation. Meanwhile, the Hanoi tried to gain greater control over the retail market and private capital accumulation by introducing currency reform; creating a new dong (equivalent to 10 old dong) and severely limiting the quantity of old currency which could be converted.¹⁴⁹ Designed to wipe out large hoards of private wealth, the policy created a crisis among the "fence-breaking" enterprises which were holding large amounts of cash to by-pass state trade channels. This led to greater shortages of consumer goods at the same time that workers had been given significant raises — precipitating hyperinflation.¹⁵⁰ As the economy spiraled further out of control, the central ministries were less able to fetter local initiatives.¹⁵¹ Often, cadres, officials, and state industrial employees themselves had to enter the

¹⁴⁸Ibid.

¹⁴⁹Beresford, *Vietnam*, 169.

¹⁵⁰Ibid.

¹⁵¹Fforde and de Vylder, *From Plan to Market*, 142.

marketplace in order to supplement their meager incomes, further undermining the centralized system.¹⁵²

5. Losing Soviet Support? Gorbachev's Overtures to Beijing

Hanoi's economic problems were not only homegrown. Vietnam had become highly dependent on Moscow to bankroll the expensive occupation of Cambodia and subsidize its sickly domestic economy to the tune of about US\$3 million per day or US\$1 billion per year through the early 1980s.¹⁵³ However, by 1985, it became increasingly evident that Soviet support may dry up. Brezhnev, Andropov, and Gorbachev took secret steps to re-open relations with Beijing in the first half of the 1980s.¹⁵⁴ Then Gorbachev made his July 1986 speech in Vladivostok openly calling for rapprochement with Beijing. As a sign of goodwill toward China, he began to pressure Hanoi to end the Cambodian occupation.¹⁵⁵ Beijing reciprocated by softening its hard line.¹⁵⁶

With the strategic dimension of Soviet-Vietnamese relations diminishing came a change in economic relations. In 1987 Moscow and Hanoi announced that there would be a shift in

¹⁵²One senior official lamented that civil servants had to take a second or even a third job to make ends meet, decrying the imaginary gains and real losses felt by state workers pinched by hyperinflation; see Pomonti and Tetrais, 177

¹⁵³Chanda,, 20; and Pomonti and Tetrais, 24.

¹⁵⁴Michael Leifer, *Cambodian Conflict: The Final Phase?* (London: Centre for Security and Conflict Studies, 1989), 4; Jonathan D. Spence, *The Search for Modern China* (New York: W.W. Norton & Company, 1990), 717-718; and Robert C. Horn, "Vietnam and Sino-Soviet Relations: What Price Rapprochement?" *Asian Survey* 27, no. 7 (1987): 730, 733-734, 737, 739-740.

¹⁵⁵Chanda, 21.

¹⁵⁶Spence, 717-718.

emphasis from loans and subsidized trade to cooperative production. From this point, Vietnam would have to pay market prices for Soviet goods.¹⁵⁷ The very real possibility of losing Soviet support likely prompted Hanoi to be proactive in liberalizing the economy and attempting to reach a solution to the Cambodian problem.¹⁵⁸

6. Return of the Reformers: the Sixth Party Congress and *Doi Moi*

The economic crisis of 1985 caused a dramatic change in the leadership of the VCP. Several conservative ministers, including Tran Phuong, vice premier in charge of the economy, and ideologue To Huu, lost their portfolios. Nguyen Van Linh was reinstated to the Politburo in 1985, and then elected to lead the party into a new era of market reforms at the Sixth Party Congress in December 1986. In typical communist fashion, a self-criticism drive was launched within the party to atone for the economic mistakes. A large proportion of the existing local executive committees were replaced, often with members more receptive to liberal reforms.¹⁵⁹

Disenchantment with the socialist policies of the Third Five-Year Plan period had reached critical levels by late 1986. This disenchantment, coupled with a growing recognition

¹⁵⁷Vladimir Rakhmanin, "Soviet and Russian Policy Towards Southeast Asia (1986-93)," in *Southeast Asia in the New World Order: The Political Economy of a Dynamic Region*, eds. David Wurfel and Bruce Burton (London: Macmillan, 1996), 132-3.

¹⁵⁸Vietnam announced in 1985 would unilaterally withdraw from Cambodia by 1990. Not well covered nor widely believed at the time, this declaration proved remarkably prophetic, as the events put in motion in the summer of 1985 lead to a unilateral Vietnamese withdrawal by the end of September 1989, although there persisted reports of Vietnamese soldiers dressed in Cambodian uniforms patrolling the countryside persisted until 1992. Vietnamese troops stationed along the Vietnam-Cambodia border also made occasional incursions to counter resistance forces until the UN Transitional Authority in Cambodia (UNTAC) troops were in place. See Thayer, *Vietnam People's Army*, 18-19.

¹⁵⁹Beresford, *Vietnam*, 171-2.

that Hanoi's Soviet patron would not likely continue to foot the bill for the sickly Vietnamese economy, set the tone for the adaption of *Doi Moi*, Vietnam's perestroika.¹⁶⁰ Fforde and de Vylder see three political currents coming together to produce the liberal reforms that were announced at the party congress: strong pressure from pro-market reformists and technocrats for a final solution to the DRV model (especially after the political collapse of socialist reforms after the 1985 debacle), encouragement from southern liberals who desired a return to the pre-1975 market system, and rising support from commercial interests within the state sector who yearned for freer access to input and output markets.¹⁶¹

The debate at the congress attacked the DRV system from several angles. The first was to assail the excessive priority given to the state sector. Emphasizing the inputs of the private and cooperative sectors, some interpreted this as a shift toward the freedoms of Lenin's New Economic Policy (NEP). Along the same vein, the reformers condemned the failure to implement previous proclamations to reduce sectoral imbalances in favor of state-dominated heavy industry by redirecting resources to agriculture, consumer products, and exports. The Stalinist central planning system was cast as the villain, as Linh and others assaulted its legitimacy. Nonetheless, the party was unified in its insistence that these reforms were simply a new way to accomplish the objectives of Marxism-Leninism, Democratic Centralism, and single-party rule.¹⁶²

¹⁶⁰Fforde and de Vylder argue that Soviet economic assistance in the early 1980s may have been geared at encouraging greater economic efficiency in Vietnam, and provided for the early stages of transition to the market; see Fforde and de Vylder, *From Plan to Market*, 146-8.

¹⁶¹*Ibid.*, 142-3.

¹⁶²Pomonti and Tetrais, 175.

B. REBIRTH OF THE MARKET: *DOI MOI*, GLASNOST, AND WITHDRAWAL FROM CAMBODIA, 1986-89

After the 6th Party Conference in December 1986, Vietnam began in earnest its transition to the market. At the micro level *Doi Moi* adopted many of the innovations that Mekong delta family farmers, Red River cooperatives, fence-breaking managers, entrepreneurs, and their local cadre partners had been using to work around the problems of the central planning system. At the macro-level, the reforms were facilitated by shifts in regional and global balances of power, as well as in Vietnamese society, touched off in the mid-1980s by Gorbachev's glasnost, perestroika, and foreign policies. Foreseeing an end to Soviet aid, unwilling again to become a Chinese vassal, and unable to attract Washington as a new patron, Hanoi was forced to look to its Asian neighbors and the international market for capital, creating a new major class of stakeholders for reform — foreign capitalists — who found willing partners in the *Hoa* and “red capitalists” to press for further change.

The early years of *Doi Moi* were also characterized by a Vietnamese glasnost, launched by General Secretary Nguyen Van Linh when he criticized in a series of editorials in the party paper, *Nhan Dan* (*People's Daily*), the corruption that had become rampant within the party. Vietnam experienced a measure of intellectual freedom in the years before the Chinese crackdown at Tiananmen Square and the dissolution of the East European communist party-states. It was in this atmosphere of relative freedom that Vietnamese society galloped toward the market.

1. *Doi Moi* Domestic Reforms Foster the Return of the Market

The new leadership troika in Hanoi — Party Secretary Linh, Premier Pham Hung (a southern conservative ideologue who was the Politburo's representative in South Vietnam from 1967-1975 and former interior minister), and President Vo Chi Kong (a weak reformist and former agriculture minister hailing from central Vietnam) — moved to implement the ideas discussed and approved at the 6th Congress. In early 1987, significant free market and private enterprise concessions were made in Ho Chi Minh City, Hanoi, and other areas. Internal customs posts were closed (to the consternation of some provincial leaders who were enriching themselves on the duties) in order to improve the flow of goods. At several party plenums, liberal ideas were codified into policies on foreign investment, land tenure, foreign trade, foreign investment, industrial management, the private sector, the family sector, etc.¹⁶³ Concurrently restrictions on the freedom of expression were loosened. The press, following Linh's lead, began to criticize corruption and abuses of power by party and state officials.¹⁶⁴ This glasnost opened a brief period of limited political liberalization that complemented the economic liberalization.

Unfortunately, the economy failed to respond quickly to the reforms, and by late 1987 a sharp drop in agricultural staples output caused further deterioration. The party reacted by criticizing the slow pace of change, above all in the agricultural sector. These criticisms led to the Politburo's April 1988 Decree Number 10 and a transformation of the agricultural economy.

¹⁶³Fforde and de Vylder, *From Plan to Market*, 145; and Beresford, *Vietnam*, 172-4.

¹⁶⁴Thayer, "Mono-Organizational Socialism," 48-9.

a. The Partial Privatization of Agriculture

As previously discussed, the cooperative system was never very efficient in Vietnam. Although the state alleged success in its 1983 collectivization campaign, claiming that 88 percent of the rural households in the south and 97 percent of those in the center and north had been enrolled in the cooperatives, many, especially in the south, were collectives in names only.¹⁶⁵ A large portion of production was being diverted to the market by households working around the system through five percent lands. Corruption was rampant: local cadres were capturing cooperative assets through kickbacks and favorable allocation of land, equipment, and services to clients and family.

In recognition of what was happening on the ground, Hanoi shifted most production management from the collective to the household. The collectivization drive in the Mekong delta was dropped. Collective lands countrywide were to be divvied up between families, who were given responsibility for the entire production process. The more productive farmers were to be allocated additional land. A new contract system — “number 10 contracts” — was established with fixed five year terms and a guarantee that the families could keep at least 40 percent of the contracted yield. Contracts were to be signed directly between the household and cooperative; production brigades were completely by-passed. Acquisition of inputs and services from sources outside of the collective was legalized, and families could hire seasonal labor on a negotiated basis. Prices of all inputs and outputs were also to be negotiated — signaling an official turn towards the market. Tax concessions were made: long-term crops and forestry resources were not taxed until harvest. Land use rights under the contract system were

¹⁶⁵Beresford, “Dismantling the ‘Bureaucratic Centralism and Subsidy System,’” 221.

set at 15 years or more and were made inheritable in order to encourage household investment. The cooperative was to be transformed into a service entity — retaining ownership of irrigation equipment and other resources that would benefit all the families in the area, providing agricultural extension and social services, and helping to insure access to credit.¹⁶⁶ Under the new reforms, many of the “paper cooperatives,” especially in the south, simply ceased to exist.

There was a cost for this transformation. Peasants with trade skills and cadres were encouraged to give up farming. Some 50 percent of the rural cadres found themselves suddenly without positions.¹⁶⁷ In an attempt to ensure implementation, the Agriculture Ministry originated the decree and prohibited the districts and commune People’s Committees from issuing orders to the cooperatives, thereby destroying the local infrastructure of the command economy. Needless to say these changes were not popular with the local cadres and district administrators, many of whom attempted to delay them.

The reforms also engendered many abuses. The land use rights created a new black market in which the rights were rented, mortgaged, bought and sold. This led to an accumulation of land by wealthy peasants and cadres, squeezing out some of the less fortunate and aggravating rural unemployment. Cooperative land and resource distribution was often rigged by the cadres who favored their families and clients. Discontent over cadre corruption and unequal land distribution was quickly evident and generated over 200,000 written complaints

¹⁶⁶Ibid., 219-220; Kerkvliet, “Rural Society and State Relations,” 70-2; Fforde, “Major Policy Changes and Socio-Economic Development in Vietnam Since Mid 1988,” in *Đôì Mòì*, eds. Ronnås and Sjöberg, 10-1; and Fforde and de Vylder, *From Plan to Market*, 157.

¹⁶⁷An estimated 200,000 rural cadres lost their jobs as local party units carried out the popular decree; see Fforde “Major Policy Changes and Socio-Economic Development,” 12.

between 1988 and 1990. Several protests grew into violent demonstrations in the Mekong Delta and Ho Chi Minh City that required a direct response from the party secretariat to defuse.¹⁶⁸

b. *Doi Moi* Commercialization of the Non-Agricultural Sectors

Although the "Three Plan System" was introduced in 1981 as a tactical concession to defend the Stalinist DRV system, it contributed significantly to its downfall. By legitimizing the commercialization of enterprises that had already begun in Ho Chi Minh City and elsewhere, the reforms placed the central planning system in open competition with the market. It was a competition that the state planners invariably lost as authorities were continually hamstrung by the wide differential between official and market prices.¹⁶⁹ In addition, rapid inflation struck Vietnam when the state introduced elements of the DRV economy that were no longer economically viable into commercial activities. The economy became increasingly dominated by "rent seeking," because the expansion of commercial activities revealed the profitable opportunities open to those who could acquire resources at subsidized state prices and then sell them on the market. Fence breaking accelerated, further weakening the central-planning mechanism.¹⁷⁰

¹⁶⁸Gabriel Kolko, *Vietnam: Anatomy of a Peace* (London and New York: Routledge, 1997): 92-3; Kerkvliet, "Rural Society and State Relations," 72-80; and Beresford, "Dismantling the 'Bureaucratic Centralism and Subsidy System,'" 220.

¹⁶⁹For example, the official price for rice in June 1988 was 50 dong per kilo, while the market price was 450. At the same time, the official price for urea was 190 dong per kilo, while on the market it sold for 500 dong. Part of the differential was due to the official exchange rate which was highly overvalued until 1989. The "black" market price of the dollar was between 5 and 10 times above the official rate, see Fforde and de Vylder, *From Plan to Market*, 294.

¹⁷⁰Fforde, "Successful Commercialization," 96, 106-7.

After the 6th Party Congress, Hanoi began to modify the "Three Plan System" of state enterprise management in order to make firms more market sensitive. Under the new reforms, centrally-planned control was de-emphasized, and Hanoi began to refer to itself as the "manager" of the economy. As manager, the state began to establish the independence of economic units from the administrative system. The first major change was adopting the capitalist definition of profits as revenue less real costs instead of the socialist definition as a planned percentage markup over approved input costs.¹⁷¹ Other decrees began to slowly dismantle the state planning system by consolidating ministries, reducing central control, eliminating subsidized inputs and planned production for most enterprises. Instead of planned quotas and profit targets, these enterprises were given tax targets. The remaining 50 percent of SOEs were grouped into 36 key "enterprise unions" which continued to be subjected to central planning under the "Three Plan System," although these units were given more freedoms in dealing with employees, the state, and other enterprises.¹⁷²

Hanoi also redefined enterprise ownership. To state, collective, and individual (family and other small enterprises) ownership were added the categories of private (capitalist) and joint state-private ventures (which was previously treated as state-owned). In the new joint ventures, resources were no longer allocated by the state to meet state orders. Instead, under commercial thinking, independent economic units contributed their own capital to the venture

¹⁷¹Fforde and de Vylder, *Vietnam*, 84-5.

¹⁷²The "enterprise unions" consolidated enterprises in many of the heavy industry, natural resource and infrastructure sectors, including coal, electricity, transportation, communications, steel, chemicals, fertilizer, textiles, paper, household goods, and electronics; see Fforde and de Vylder, *Vietnam*, 84-5.

whose profits were shared in proportion to the capital supplied. These changes recognized and legitimized adaptations that had already taken place in Ho Chi Minh City and elsewhere as Vietnam was rapidly becoming a more mixed economy.¹⁷³

With commercialization came the need for capital. Early under *Doi Moi*, there were two significant changes that gave birth to capital markets and the loosening of state control over credit. The first was a new foreign investment law promulgated in December 1977, the significance of which will be discussed in the next section. The second was the development of a new State bank and commercial banks in 1988, and a substantial shift to self-financing by state enterprises.¹⁷⁴ The latter recognized the credit creation aspect of fence breaking, while the former met some of the credit need with new, more enterprise-friendly banks.

2. Attracting Foreign Capital: The Foreign Investment Law, IMF, Oil, and the Hoa

While the state had previously tried to attract foreign capital in with an investment law in 1977, the timing had not been right. Many investors were uncomfortable with Hanoi's Stalinist economy. Nonetheless, a few expressed interest in projects, but almost all FDI, apart from Soviet and Eastern Europe friendship investments, ended after the invasion of Cambodia and the border war with China.

By 1987 shifts in the global and regional balances of power dramatically changed the situation. As stated previously, Hanoi realized that changes in Moscow were making Vietnam

¹⁷³Beresford, "Dismantling the 'Bureaucratic Centralism and Subsidy System,'" 221-2; and Fforde, "Successful Commercialization," 109-10.

¹⁷⁴Fforde, "Major Policy Changes and Socio-Economic Development," 9.

less important to Soviet foreign policy. With the probable loss of the Soviet patron, the VCP had to find another source of capital to offset the massive Soviet and CMEA aid and trade that supported Vietnam's Stalinist economy. Once Hanoi signaled its attention to withdraw from Cambodia, attracting foreign capital became much easier. Hanoi had only to liberalize its foreign investment laws along the lines advocated by the International Monetary Fund in order to attract the kind of capital it desired. Among the first Western firms to invest heavily in Vietnam were multinational oil firms interested in exploiting proven resources off the country's southern shore. The rest of foreign investment came mainly from overseas Chinese using their *Hoa* cousins as agents to form new industrial and commercial joint ventures located predominantly in the south, especially around Ho Chi Minh City. As soon as Vietnam opened to increased FDI, the forces of internationalization increasingly influenced Vietnamese economic policies.

a. The 1987 Foreign Investment Law

The 1987 law allowed for up to 100 percent foreign ownership, as compared to 49 percent under the 1977 law, remittance of profits, and repatriation of capital after sale or liquidation subject to a remittance tax. Corporate taxes were generally low, with generous tax holidays available to attract needed capital. Tax exemptions could also be granted for locally reinvested profits. Imports were to be covered by export earnings. Foreign enterprises were required to provide social insurance for their employees and set wages in accordance with agreements made with the Ministry of Labor.¹⁷⁵

¹⁷⁵Socialist Republic of Vietnam, *Report on the Economy of Vietnam* (Hanoi: United Nations Development Programme, 1990), 131-3; and Beresford, "Dismantling the 'Bureaucratic Centralism and Subsidy System,'" 222-3.

Industrial development was Hanoi's primary goal in seeking foreign investment. It especially sought Western production technology to develop consumer goods industries for the domestic market and export products industries that would use abundant Vietnamese labor and raw materials.¹⁷⁶ Hanoi also sought investment in infrastructure and foreign-exchange earning services, such as tourism, finance, port and airfield services, and ship repair.¹⁷⁷

b. The Role of the IMF in Opening Vietnam to Foreign Investment

Another explanation for the success of the 1987 Foreign Investment Law was the convergence of the interests of Vietnamese reformers and the International Monetary Fund. Indeed, leftist historian Gabriel Kolko blames the destruction of Hanoi's hard-won socialist program on the selfish interests of the reformers and the capitalist agenda of the IMF.¹⁷⁸ Most Western analysts agree that the IMF played an important, albeit positive, role in assisting Hanoi with its transformation. Upon victory in 1975, Hanoi inherited Saigon's membership in the international organizations. Instead of defaulting on obligations to non-communist states, Hanoi turned to the IMF for loans and advice. Vietnam received the same advice as most other IMF creditors — flexible pricing, reduced subsidies, fewer exchange controls, export promotion, private foreign investment, and reliance on the market. In 1982, the IMF threatened to end the loans unless major structural reforms were initiated. The reformist policies of Nguyen Van Linh and Vo Van Kiet in Ho Chi Minh City were lauded as examples of what Hanoi should do.

¹⁷⁶Foreign investment priorities were given to agriculture, food processing, fishing, textiles, leather, clothing, forestry, transportation, and resources; see Phan Quang Tue, "Foreign Investment Policy in Vietnam," in *Đôi Mũi*, eds. Ronnäs and Sjöberg, 194-5.

¹⁷⁷*Ibid.*; and Socialist Republic of Vietnam, *Report on the Economy*, 131.

¹⁷⁸Kolko, *Anatomy of a Peace*, chapter 2.

Although the conservative led politburo listened to the IMF's recommendations, they took no action. The fund eventually blocked credits in 1985, citing that Hanoi failed to pay its arrears or adopt reasonable policies.¹⁷⁹ When Linh and Kiet, as vice premier and chairman of the state Planning Commission, took over the reins of the economy, Hanoi was more receptive. In 1987 Hanoi accepted the IMF's terms and implemented some of its recommendations — including budget controls, decentralized decision making, and a new exchange rate and pricing regime.¹⁸⁰ Nonetheless, Vietnam had to wait until Washington dropped its opposition to international aid in 1993 before IMF funds again began to flow.

c. The Role of Big Oil in Opening Vietnam

The new law was not primarily intended to attract Western investment in primary resources, although that is exactly what happened, especially in oil.¹⁸¹ Indeed, the existence of oil off Vietnam's shore was the biggest draw for Western businesses to deal with Vietnam after reunification, and Hanoi seemed interested in negotiating with anyone, including those firms that held leases from the defeated South Vietnamese. Although there was some interest from the large American firms, none would break the embargo on dealing with Hanoi. Postwar foreign investment in petroleum exploration and production began in 1976, when three international companies — France's Elf Aquitaine, Italy's Agip, and West Germany's Deminex — were given

¹⁷⁹Ibid., 133.

¹⁸⁰Ibid.

¹⁸¹Beresford, "Dismantling the 'Bureaucratic Centralism and Subsidy System,'" 223.

licenses to explore off Vietnam's southeast coast.¹⁸² In 1978, a Canadian group headed by Bow Valley Industries Ltd. was given exploration rights in a tract off of southern Vietnam.¹⁸³ Twelve wells were drilled before the Western firms withdrew from operations in the wake of the Cambodian invasion and Sino-Vietnamese War. Hanoi then turned to the Russians to help them exploit the proven off-shore reserves, signing a joint venture agreement in 1981. Vietsovetro, the Vietnamese-Russian joint venture, began exploitation in 1986, and was producing 280,000 tons of oil in 1987, all of which was exported to Japan and Singapore in return for refined petroleum.¹⁸⁴ The Vietnamese and Russian success caught the eye of foreign oil and gas firms who again became interested in the Vietnamese fields. Firms from the United Kingdom, France, the Netherlands, Italy, Sweden, and India all signed agreements after the new foreign investment law allowed 100 percent foreign ownership of operations and Hanoi severed its exclusivity agreement with Moscow.¹⁸⁵ Most of the Western investment in first 18 months after implementation of the law were mainly in the south, amounting to a large slice of the 80 percent southern share for all foreign investment.¹⁸⁶

d. The Role of Overseas Chinese and *Hoa* in Opening Vietnam

Most of the foreign capital attracted in the late 1980s came from the Chinese diaspora, who turned to the ethnic Chinese community in Vietnam to act as their agents. This led

¹⁸²Dario Scuka, *Oil in Vietnam: A Review of Foreign and Domestic Activities*, Congressional Research Service, 93-416-E (Washington, D.C.: GPO, 1993): 10.

¹⁸³*Ibid.*, 13.

¹⁸⁴Socialist Republic of Vietnam, *Report on the Economy*, 139.

¹⁸⁵*Ibid.*; and Scuka, 24.

¹⁸⁶Beresford, Dismantling the 'Bureaucratic Centralism and Subsidy System,'" 223.

to a resurgence in the fortunes of the *Hoa*, who, despite losing most of their commercial networks and financial clout during the anti-comprador and collectivization campaigns, had maintained their contacts with the overseas Chinese throughout Asia and the West. Still barred from most commercial activities, the *Hoa* began to funnel investments light industrial enterprises to make consumer goods for both the domestic and export markets that the state planning system was unable to provide.¹⁸⁷

Overseas Chinese-backed *Hoa* production spurred the development of Ho Chi Minh City as Vietnam's industrial and economic center. With the coming of *Doi Moi*, the *Hoa* and their overseas contacts led an explosion in private enterprise. From the passage of the Foreign Investment Law in December 1987 through December 1992, 556 foreign investment projects totaling US\$ 4.6 billion had been approved with 75 percent of the projects and 80 percent of the capital going to south, especially Ho Chi Minh City and Vung Tau.¹⁸⁸ Over 60 percent of the foreign capital came from the Chinese communities of Taiwan, Hong Kong, Singapore, and Indonesia.¹⁸⁹

3. Vietnamese Glasnost: Political and Social Reform?

Through 1989 Vietnam enjoyed its own measure of glasnost. This was most evident in the press and the arts. Following the lead of General Secretary Nguyen Van Linh, the press openly criticized the failings of individual cadres in implementing economic policy. Censorship

¹⁸⁷*Hoa* products included food processing, hide tanning, construction products, ethnic textiles, footwear, plastics, metals, and mercury-glass; see Tran Khanh, 91-7.

¹⁸⁸*Ibid.*, 99.

¹⁸⁹*Ibid.*, 99-100.

in other media was also relaxed for the short time before 1989. This touched off an explosion of self-expression in the media, academia, and arts. *Doi Moi* also engendered some political reforms as the party allowed the National Assembly to transform itself into a true elected legislature. Political expression also flowed through new and newly revitalized private and semi-private organizations. Through these fora, the party's monopoly of power began to be challenged, often from the inside.

a. The Media, Academia, and the Arts

Nguyen Van Linh's series of editorials in *Nhan Dan* (*People's Daily*) criticizing the corruption that had become rampant within the party, set the tone for Vietnam's brief era of glasnost. Linh's column exposed a number of cases of bureaucratic waste and inefficiency, and was renowned for naming names. *Nhan Dan* reported over 400 allegations of corruption in 1987, just a fraction of what the more progressive media were doing.¹⁹⁰ By early 1988, the party paper was receiving over 300 letters a day, most of which were complaining about party policy or cadre corruption. On average, ten of these letters were published each day. In some cases, the complaints led to the removal or conviction of high ranking officials and thousands of lower ones faced trials for their misdeeds, although nearly 80 percent of the cases were ignored.¹⁹¹ Nonetheless, the period of glasnost proved to be a time of catharsis.

While the press turned its focus on unmasking the corruption, *Doi Moi* also fostered freer expression among intellectuals and artists. New "cultural associations" sprang up in Ho Chi

¹⁹⁰*Nhan Dan* cited in Wurfel, "Doi Moi in Comparative Perspective," 28.

¹⁹¹*Ibid.*

Minh City, Hanoi, Hue, Danang, and other provincial centers.¹⁹² These associations created new fora for the exchange of ideas. Lectures, meetings, informal readings, and discussions flourished. The associations published journals on current affairs, poetry, literature, literary criticism, and local history, giving writers new, non-party dominated outlets for their work. Vietnam's film makers also got into the act, creating a new feature film industry out of what had previously been mainly a newsreel and documentary propaganda machine.¹⁹³

b. A Rejuvenated National Assembly

The political reform that emerged from the 6th Party Congress emerged from two major sources: a realization that the economic failure was due in part to flaws in the political system, and in part to Gorbachev's glasnost and perestroika.¹⁹⁴ The *Doi Moi* political reform focused on making the National Assembly a effective and more representative legislature. Election procedures were modified, opening up the assembly to more non-VCP candidates. Effort was put into making the assembly sessions into something more than a rubber stamp for the politburo and central committee. Deputies began to debate issues and conduct secret ballots — obligatory unanimous votes on substantive issues were dropped. The assembly began to question and criticize individual ministers in public for failing to control inflation.¹⁹⁵ Sub-

¹⁹²Marr, "Education, Research, and Information Circulation in Contemporary Vietnam," in *Reinventing Vietnamese Socialism*, eds. Turley and Selden, 348.

¹⁹³For example, in 1980, 95 newsreels and documentaries and 16 feature films were produced, whereas in 1989 only 24 newsreels/documentaries were made while Vietnamese cinematographers turned out 33 feature films; see *Ibid.*, 348-9.

¹⁹⁴Thayer, "Renovation and Vietnamese Society," 26; and G. Porter, "The Politics of 'Renovation' in Vietnam," *Problems of Communism* 39, no. 3 (May-June 1990): 72, 81.

¹⁹⁵G. Porter, "The Politics of 'Renovation,'" 81.

committees have again become active in vetting proposed draft legislation, giving the assembly a real role in law-making.¹⁹⁶

An element of the new-found democracy in the assembly was the election of the chairman of the Council of Ministers (the prime minister) in 1987 and in 1988. Pham Hung's election in 1987 was the first in which the party's candidate did not have unanimous support. Then in 1988, after Hung's death, there was the unheard of development of open opposition coming from within the party itself. A group of former military officers from the south, the "Club of Former Resistance Fighters," challenged the party's choice of conservative Do Muoi for the post, instead supporting reformist acting Premier Vo Van Kiet. The party tried to pressure Kiet and Foreign Minister Nguyen Co Thach, who had also been nominated for the post, to step down in the interest of unanimity, but the National Assembly bucked the party and insisted on having a choice, electing Muoi over Kiet by a vote of 296 to 168.¹⁹⁷

c. Creeping Pluralism: The Club of Former Resistance Fighters and Other Organizations

The political activism of the Club of Former Resistance Fighters is emblematic of what Gareth Porter termed as Vietnam's "creeping pluralism" of the late 1980s.¹⁹⁸ Formed ostensibly as a veterans mutual aid society in 1983 by former Central Committee member General Tran Van Tra, former Saigon Party Committee Secretary Tran Bach Dang, and former Ho Chi Minh City People's Committee Chairman Nguyen Ho, the "Club of Former Resistance

¹⁹⁶Thayer, "Renovation and Vietnamese Society," 27.

¹⁹⁷G. Porter, "The Politics of 'Renovation,'" 81.

¹⁹⁸Ibid., 80-1.

Fighters" styled itself as an independent pressure group within the VCP to force greater political openness and economic liberalization.¹⁹⁹ The club's activism evolved semi-clandestinely after the 6th Congress through its journal that criticized the party and state for failing to support its southern veterans, many of whom felt pushed aside by their northern compatriots who flowed south after the war. Through articles in the journal, taped speeches, and meetings, the club blamed Vietnam's economic ills on the hasty reunification of the country and advocated an acceleration of reforms that were working in its home base of Ho Chi Minh City. But it was its success in openly challenging the party hierarchy by petitioning the National Assembly that led to the club's downfall. In 1988, the party formed a rival veterans group, the Vietnam War Veterans Association, that worked hard to coopt the distinguished membership of the club. Those who would not join the party-sanctioned organization were silenced during the 1989 crackdown on political liberalization.²⁰⁰

Veterans were not the only ones to organize in the era of Vietnamese glasnost. Indeed, the scope of associational and group activity exploded after the adoption of *Doi Moi*. Students, peasants, professionals, and women all used the atmosphere of openness to form new groups or move existing ones into new areas. The state and party generally tolerated, if not encouraged, the new organizations if they avoided overt political activity.²⁰¹ The state was

¹⁹⁹Thayer, *Political Developments in Vietnam: From the Sixth to the Seventh National Party Congress* (Canberra: Australian National University, 1992), 14-5; Stern, 78-9; Bui Tin, *Following Ho Chi Minh: The Memoirs of a North Vietnamese Colonel*, trans. Judy Stowe and Do Van (Honolulu: University of Hawaii Press, 1995), 154-5; and Yeonsik Jeong, "The Rise of State Corporatism in Vietnam," *Contemporary Southeast Asia* 19, no. 2 (1997): 156.

²⁰⁰Bui Tin, *Following Ho Chi Minh*, 154-5.

²⁰¹Thayer, "Mono-Organizational Socialism," 52-3.

responsive to the desires of these new or newly revitalized interest groups. For example, when South Korean and Taiwanese joint ventures defaulted on contracts and provoked walk-outs by local unions, Vietnamese authorities passed a new Labor Law that authorized strikes as a last resort for workers.²⁰² Even after the conservatives reasserted their authority in 1989, many of these organizations remained viable outlets for public opinion under the umbrella of the Fatherland Front as long as they towed the party's political line.

4. 1989 — The Year of Transitions

Many events came together in 1989 to change the world. Vietnam was deeply effected by the collapse of communism in Eastern Europe and decay within the Soviet Union. Shocked that fraternal communist parties could not control the events let loose by glasnost and perestroika, the VCP began to look at its own policies. Nguyen Van Linh was forced to call on the press to tone down its criticism because of its negative effect on the people's confidence in the party.²⁰³ Then there was Tiananmen Square, where neighboring giant China was forced to violently end a student demonstration spawned in part by glasnost. This was followed in the summer by news that a group of 68 overseas Vietnamese guerrillas led by former South Vietnamese Navy commander RADM Tran Quang Do was intercepted attempting to infiltrate the border from Laos.²⁰⁴ Conservatives in Hanoi, fearful of the party losing control, pressed to end its tolerance of openness. At a party plenum in August the issue came to a head, with the consensus being a

²⁰²Ibid., 53.

²⁰³Thayer, "Dôi Mới and the Emergence of Civil Society," 117.

²⁰⁴Thayer, "Mono-Organizational Socialism," 62 n.11.

rejection of political liberalism and pluralism.²⁰⁵ The party began to reign in the press. The reformist head of the Central Committee Department of Culture and Arts, Tran Do, was sacked, and new censorship regulations went into effect. Publishing houses were closed. Editors and journalists were arrested for alleged fabrications and other crimes.²⁰⁶

Nonetheless, liberal economic reforms were allowed to continue as political freedoms were again severely constrained. The last major element of the planned economy was demolished in March 1989, when Hanoi accelerated price reforms by abolishing the "two price system" of official business prices and free market prices in order to stem resurgent inflation. At the same time, the borders were opened, and high-quality imported consumer goods (mainly from China and Vietnam's Southeast Asian neighbors) began to flood into the country. With the exception of a few social items such as electricity, housing rents, medicines, and a few others, state subsidies were dropped. Markets generally shifted into supply and demand balance, and Vietnam's capitalist system was reborn.²⁰⁷

While Vietnam was accelerating economic change at the same time as it was constraining political freedoms, it was also embarking on an ambitious new foreign policy. As Moscow openly courted Beijing, Hanoi had little choice but to improve its relations with its large northern neighbor as well.²⁰⁸ As a gesture of goodwill, Vietnam hastened its withdrawal from Cambodia, claiming that all troops had left by the end of September, a full three months earlier than

²⁰⁵Thayer, "Dôi Mới and the Emergence of Civil Society," 118.

²⁰⁶Stern, 71.

²⁰⁷Fforde and de Vylder, *From Plan to Market*, 177-8.

²⁰⁸Frost, 33.

promised. Concurrently, Hanoi lobbied to improve relations with its ASEAN neighbors, Taiwan, Japan, and the United States in the hope that improved ties would lead to increased aid and investment.

V. RADICAL REINVENTION? THE MARKET AND VIETNAMESE COMMUNISM, 1990 TO THE PRESENT

By 1990, the hodgepodge of policies adopted by a weak Hanoi in response to strong domestic and international pressures for liberal economic reform led to a dramatic reinvention of the economy. Instead of imposing a socialist centrally-planned economy throughout reunified Vietnam, the party's accommodations led to the dismantlement of that system and the creation of a capitalist market. Totally unprepared, the communist party leadership found itself in the awkward position of governing a capitalist economy, albeit one with several distortions that were vestiges of the defunct planned system. While professing the importance of the household farm and small private enterprise to the new Vietnam, Hanoi stuck to the Stalinist preference for SOEs and industrial development. State credit policies were also skewed in favor of the SOEs, much to the detriment of the countryside where over three quarters of the population live. Nonetheless, agricultural growth has been rather strong. The impressive gains in agricultural productivity — around 4 percent per year — came almost solely from family savings and reinvestment.²⁰⁹

At the same time shifts in the global and regional balances of power left Hanoi without its superpower patron. Hanoi's need to replace Soviet aid with foreign capital drove a policy of reconciliation with its ASEAN neighbors, China, and the United States. In addition, Vietnam actively courted the international aid community for development assistance to develop the infrastructure of a market economy.

Rapprochement with the capitalist West and Asia paved the way for the growing influence of internationalization on the Vietnamese economy. Foreign investment — mainly in

²⁰⁹Fforde, "Dyed-in-the-Wool Tigers?" 6.

joint ventures with SOEs — became a major force in the economy, accounting for nearly one-third of all industrial output in 1998.²¹⁰ With the foreign funds came increased pressure to liberalize the economy, as investors pushed for more transparency, legal reform, and administrative reform.

Internationalization theorists predict that as an economy opens, investment will flow to the sectors in which an economy has comparative advantages. Blessed with fertile farm lands; a large, relatively skilled workforce; and plentiful natural resources, Vietnam holds comparative advantages in agriculture, artisanal production, and resource extraction. Interestingly, only resource extraction — especially oil and gas production — attracts large amounts of FDI. Agriculture and Vietnam's nascent private sector are largely ignored by foreign investors.

A major reason for this has been an intriguing confluence of interests: the SOE bias of conservative communists, SOE managers who wish to continue to benefit from favorable access to state capital, foreign investors who need Vietnamese partners with widespread influential contacts in the government and party, and corrupt local and central officials who profit from this system. This coalition of "red capitalists" and foreign investors have captured the scope and course of reform policy. Despite Hanoi's rhetoric claiming that agriculture and private industry are the priorities for Vietnamese development, FDI and state credits have almost exclusively gone to SOEs in resource extraction, heavy industry, and tourism. Far from becoming less important than the private sector, as many international economists predicted, the inefficient state-owned sector remains a powerful force in Vietnam.²¹¹

²¹⁰Ibid.

²¹¹Ibid., 9.

This distortion of the economy has led to the biggest challenge to communist rule since reunification. The disparity of wealth between the "red capitalist" apparatchik/cadre/SOE managers and the poor peasants and workers has become a source of grassroots discontent, especially when local cadres and bureaucrats are seen stealing the people's assets through widespread corruption. So far the protests have been limited mainly to rural provinces and the abuses of local officials. In the eyes of most Vietnamese, Hanoi has not been part of this problem. Indeed, as evidenced by rural appeals to the Central Committee and the politburo response, many see Hanoi as a part of the solution. In response, the party has begun a self-criticism campaign that promises to root out the wrongdoers in its ranks and has proclaimed a renewed emphasis on agricultural and private-sector industrial development.

Hanoi's ability to implement these pledges are constrained by several factors. Primarily, the weak party leadership will find it difficult to buck the strong coalition of SOE managers, foreign investors, local apparatchiks, and cadres who have captured the reforms. This will be further complicated by the Asian economic crisis. Since most of Vietnam's aid and investment and trade comes from its Asian neighbors who are currently in recession, it will be difficult for Vietnam to continue the status quo. Hanoi has placed much of its legitimacy on providing a growing standard of living and stability to the populace, therefore it will likely be pressured into acting. Whether Hanoi will again take control of the economy through central planning or will open further to international investment and the global market will depend on the bargain it will be able to make with powerful interest groups within society, such as the "red capitalists," peasants, and state employees.

A. LOSING THE SOVIET PATRON

In 1990 Moscow informed Hanoi that aid would be drastically cut in 1991 and that all commercial relations would be conducted in hard currency at world market prices. As the Soviet Union imploded in 1990, Moscow was unable to meet its commitments to provide vital supplies, such as petroleum, oil, steel, and cotton, severely hampering Vietnamese industry. Meanwhile, Soviet enterprises backed out of between 20 to 60 percent of their contracts to purchase Vietnamese textiles, clothes, shoes, handicrafts and light industrial products. In turn, Vietnam defaulted on over a quarter of its contracts.²¹²

As a result of the long expected break, unemployment and inflation increased. Shortfalls in the supply of Soviet fertilizer caused a drop in rice production and a doubling of the market price. Oil and steel prices tripled. When Moscow demanded that Vietnam pay dollar salaries for all of the Soviet experts and technicians in the country, Hanoi balked and Moscow began to pull them out, nearly halving their number by mid-1991. Trade with the Former Soviet Union dropped dramatically — from a high of over 60 percent of total Vietnamese foreign trade in the 1980s to 50 percent in 1990 and 14 percent in 1991.²¹³ At the end of 1991, the International Monetary Fund estimated that the loss of Soviet and East European aid amounted to 7 percent of Vietnamese GDP.²¹⁴

²¹²Thayer, "Russian Policy Toward Vietnam," in *Russian Foreign Policy Since 1990*, ed. Peter Shearman (Boulder, Colo.: Westview Press, 1995), 213.

²¹³Ibid.

²¹⁴IMF, *Vietnam — Recent Economic Developments* (Washington, D.C.: International Monetary Fund, 1991), 1.

B. EMBRACING CHINA AND ASEAN

To make up for these dramatic losses, Hanoi scrambled to improve relations with its neighbors. Yet, even though Hanoi had withdrawn its troops from Cambodia in September 1989, Vietnam was still blocked by the U.S.-led international embargo from rapprochement with ASEAN and China. When U.S. Secretary of State James Baker announced in July 1990 that Washington was dropping its support of the anti-Hun Sen coalition in Cambodia and that the U.S. was willing to negotiate with Vietnam for peace in the region, Hanoi had the opening it needed to patch up in short order differences with its neighbors. Secret meetings with the Chinese leadership in September 1990 led to normalization in November 1991.²¹⁵ ASEAN's anti-Vietnam stance soon crumbled after Indonesia normalized relations in November 1990.²¹⁶ Rapprochement with the other five ASEAN states quickly followed. French observers Jean-Claude Pomonti and Hugues Tetrais noted:

La réorientation de la diplomatie vietnamienne, brutalement privée de son appui soviétique, est radicale. . . . Le tournant — et quel tournant ! — s'est effectué en espace d'une année. L'insertion du Viêtnam dans des circuits économiques régionaux se réalise beaucoup plus rapidement qu'on aurait pu le penser, comme si, la machine une fois en marche, rien ne pouvait l'arrêter.

[The reorientation of Vietnamese diplomacy, brutally cut off from Soviet support, was radical. . . . The turn-around — and what a turn-around! — occurred in the space of one year. Vietnam's integration into regional economic relations took place much more rapidly than anyone could have dreamed, as if once it started, there was no way to stop it.]²¹⁷

²¹⁵Denny Roy, *China's Foreign Relations* (Lanham, Md.: Rowman & Littlefield, 1998), 194; Frost, 34; and Singh, 222.

²¹⁶Singh, 222.

²¹⁷Pomonti and Tetrais, 142.

Vietnam's rapprochement with its neighbors paid real dividends. Total approved FDI grew from US\$366 million in 1988 to over US\$1.9 billion in 1992, with over one sixth of the funds coming from ASEAN states.²¹⁸ By 1996, ASEAN accounted for 40 percent of FDI.²¹⁹ Vietnamese-ASEAN trade grew from a meager US\$86 million in 1988 to more than US\$2.6 billion in 1992 to approximately US\$5 billion in 1997 — 6.5 percent, 31 percent, and 30 percent respectively of Vietnam's total trade.²²⁰ Trade with China also skyrocketed after the border was opened in late 1988, but, due to the perception of China as Vietnam's major strategic threat, there was no corresponding jump in approved Chinese investment.²²¹ From an estimated US\$10 million in 1988, Sino-Vietnamese trade increased after normalization of relations to US\$584 million, or 8.8 percent of total Vietnamese trade, in 1992 and about US\$ 1 billion in 1995, or 9 percent of total trade.²²² Cheap Chinese consumer goods flooded the Vietnamese market,

²¹⁸Actual disbursements of FDI funds were much lower due to Vietnamese bureaucratic red tape, corruption, and foreign investor reticence; see Singh, 224; and John R. Dodsworth, et al., *Vietnam: Transition to a Market Economy* (Washington, D.C.: International Monetary Fund, 1996), 18.

²¹⁹Chang Pao-min, "Vietnam and China: New Opportunities and New Challenges," *Contemporary Southeast Asia* 19, no. 2 September 1997): 148.

²²⁰Singh, 224; and "Vietnam-ASEAN Trade Ties Develop Rapidly." *Vietnam News Agency*, 7 December 1998, trans. Foreign Broadcast Information Service, *FBIS Daily Report — East Asia*, 7 December 1998. Available [Online]: FBIS/Search/Vietnam [19 December 1998].

²²¹The legalization of cross-border trade was in part a legitimization of the existing smuggling activities that had been occurring since trade was cut off in the late 1970s. After the opening of the border, Chinese investment in Vietnam was extremely limited and almost exclusively tied to the cross-border trade; see Womack, "Sino-Vietnamese Border Trade," 509-10.

²²²*Ibid.*, 499-500, 506; Roy, 195; and Institute of Southeast Asian Studies, *Regional Outlook: Southeast Asia, 1996-97* (Singapore: Institute of Southeast Asian Studies, 1996), 59.

reversing years of chronic shortages.²²³ This increased trade was not all positive, in that the imported consumer goods competed directly with the lesser quality products of Vietnamese enterprises, and domestic production suffered.²²⁴

Vietnam formalized its ties to ASEAN by becoming a full-fledged member in 1995, bringing the organization full circle from being a predominantly anti-Vietnam association of Southeast Asian capitalist economies to being a truly regional economic confederation. It also symbolized Hanoi's reintegration into the global marketplace. With the accession of Laos in 1997 and Cambodia in April 1999, Vietnam too went full circle, becoming, instead of the local hegemon, an equal partner with the rest of Indochina in ASEAN.

The partnership with ASEAN has proved crucial to Vietnam in many respects. From an international relations standpoint, it helps to balance against the regional predominance of China, while at the same time engages Beijing through the ASEAN Regional Forum (ARF) and joint ASEAN-Chinese discussions on the South China Sea islands. From an economic standpoint, ASEAN balances against an over reliance on aid and investment from Japan, Taiwan, and Hong Kong.

Improvement in relations with its neighbors undermined the U.S. embargo, giving Vietnam access to needed Western (and American) goods and technologies through ASEAN proxies. Concurrently, it opened the door for most other Western nations to normalize relations

²²³Womack, "Sino-Vietnamese Border Trade," 505.

²²⁴Due to the competition of imports, Vietnam in 1991 was producing less coal, chemical fertilizers, cotton, salt, sugar, soap, medicine, bicycles, and electric fans per capita than in 1986; see Richard K. Betts, "Vietnam's Strategic Predicament," *Survival*, 37, no. 3 (1995): 71; and Womack, "Sino-Vietnamese Border Trade," 507-8.

with Hanoi in 1991. It also assisted Hanoi in breaking down the barriers to renewed economic and political ties with Washington.

C. RAPPROCHEMENT WITH THE UNITED STATES

As Washington began negotiating with Hanoi over the future of Cambodia, American corporations lobbied for the end of the embargo. American products, such as Coca Cola, Marlboro cigarettes, and IBM and Apple computers were among the most popular items imported by Thai, Singaporean, and Hong Kong traders after Hanoi opened its borders.²²⁵ Some American corporations, like IBM and Kodak, cheated the embargo by using Australian and other subsidiaries to trade with the Vietnamese.²²⁶ Nonetheless, the U.S. multinationals wanted the freedom to compete in an economy in which rivals from France, Japan, Australia, Taiwan, Singapore, and Hong Kong were snatching up the best business opportunities. For example, such diverse firms as AT&T, Boeing, Pratt & Whitney, Delta Airlines, Bechtel, and Citibank, began courting Hanoi in the hopes of capturing a slice of the Vietnamese market as soon as Washington would let them.²²⁷

Among the most interested in renewed U.S.-Vietnamese relations were the major American oil companies. Mobil Oil, Chevron, Exxon, Unocal, and others began negotiations

²²⁵“Apparatchiks and Entrepreneurs,” *U.S. News & World Report*, 14 February 1994, 24.

²²⁶Susan Boyd, “Vietnam Since the VIII Party Congress: What Does It Mean for Australian Business?” in *Doi Moi: Ten Years After the 1986 Party Congress*, ed. Adam Fforde (Canberra: The Australian National University, 1997), 139.

²²⁷Murray Hiebert, “Economic Relations: Late Into the Fray,” *Far Eastern Economic Review* (7 January 1993): 48.

with the Vietnamese for off-shore concessions well before Washington dropped the sanctions.²²⁸

They were also among the busiest lobbyists in Washington for an end to the embargo.

Hanoi was just as keen to have American partners in the South China Sea for political as well as economic reasons. In May 1992, China granted a concession in the disputed Vanguard Bank region of the Spratly Islands to Crestone Energy, an American exploration company.

Although President George Bush allowed American firms in December 1992 to open representative offices in Vietnam and sign contracts that would be valid after Washington ended the embargo, Hanoi had to wait until after President Clinton did so in February 1994 to counter the Chinese move by granting an adjoining field to a joint venture led by Mobil Oil, the American firm that had originally explored the region in the 1970s under a South Vietnamese concession.²²⁹ In April 1996, Hanoi used another American oil company, Conoco, to directly challenge the Chinese by granting a block overlapping the Chinese Vanguard Bank concession, now held by another American firm, Benton Oil.²³⁰

Securing American partners to balance against Chinese interests in the disputed South China Sea was not the only dividend of improved relations with the United States. Washington's support was also crucial to Hanoi for obtaining needed international development assistance. IMF, World Bank, and Asian development Bank projects were put on hold in the 1980s when the

²²⁸Scuka, 29, 32.

²²⁹Leifer, "Chinese Economic Reform and Security Policy: The South China Sea Connection," *Survival* 37, no. 2 (Summer 1995): 51-2; Hiebert, "Late Into the Fray," 48; and Hiebert, "Hanoi's Tit for Tat," *Far Eastern Economic Review*, 30 June 1994, 20.

²³⁰Michael Studeman, "Calculating China's Advances in the South China Sea: Identifying the Triggers of 'Expansionism,'" *Naval War College Review* 51, no. 2 (Spring 1998): 85.

U.S. Congress threatened to withhold American contributions if the international organizations continued to aid Vietnam after its invasion of Cambodia. Hanoi subsequently defaulted on IMF loans, making future aid nearly impossible to receive. When Vietnam again opened itself to the noncommunist world, France Japan, and others offered to give Hanoi a bridge loan to clear the arrears, but Washington objected, effectively continuing the freeze on development aid. It was only after President Clinton dropped the American opposition in July 1993, that the IMF, World Bank and Asian Development Bank were able to release over US\$ 885 million for approved infrastructure projects.²³¹

Although Hanoi had made great strides in getting Washington to drop American opposition to aid and the longstanding economic embargo, its efforts were incomplete until it could establish diplomatic relations with Washington. Ever since it was apparent in the mid 1980s that Moscow would likely not continue its patronage of Hanoi, Vietnamese reformers had hoped to gain American support for their efforts. For Hanoi, American recognition was important an emblem of the new Vietnam's successful integration in the world system. It was a symbol that took a decade to come to fruition. In July 1995, President Clinton finally felt that he had sufficient support from the business community and other interested parties to overcome the opposition of many conservatives and veterans for the normalization of relations. The process was completed in 1996 with the establishment of embassies in the two capitals and the exchange of ambassadors.

²³¹Susumu Awanohara and Chanda, "Foreign Relations: The Wages of Peace," *Far Eastern Economic Review*, 15 July 1993, 10-1; and Awanohara, "Borrowing: Open the Floodgates," *Far Eastern Economic Review*, 7 October 1993, 92.

While normalization of economic and political relations was welcomed by Vietnam and U.S. companies, it did not produce the American investment flows that Hanoi desired. Although Coca Cola, Pepsico, and American oil companies did jump to invest in Vietnam, many firms did not. American FDI commitments leaped from zero before the end of the embargo to 6.9 percent of the total in 1994, they fell far behind the levels reached by Taiwan, Singapore, Hong Kong, and Japan.²³² Vietnam's endemic corruption, inadequate laws, bureaucratic red tape, and the Asian economic crisis have kept American investment relatively low, especially compared to the funds coming from Vietnam's Overseas Chinese connections.

D. FDI AND STATE OWNED ENTERPRISES

Although the American component of FDI remains relatively small, foreign investment overall has become extremely important to the Vietnamese economy. The growth in foreign-invested joint enterprises was dramatic before the Asian economic crisis. Ho Chi Minh City's foreign-invested firms were growing at a yearly pace of around 50 percent.²³³ Even with the sharp decline in FDI disbursements due to the crisis, the foreign-invested sector is growing at about 22 percent per year.²³⁴

Western economists, including most internationalism theorists, observing the transition to the market in Vietnam and other former Stalinist economies predicted that FDI funds would flow into sectors with "comparative advantages." For Vietnam, they touted a relatively well-educated,

²³²Dodsworth, et al., 18.

²³³Fforde, "The Vietnamese Economy in 1996 — Events and Trends — The Limits of *Doi Moi*," in *Doi Moi*, ed. Fforde., 173.

²³⁴Fforde, "Dyed-in-the-Wool Tigers," 6.

cheap workforce and vast agricultural potential. Investment in this direction was seen as providing both good sectorally and socially, in that Vietnam's 80 percent rural population would benefit from rapid employment and wealth creation.

Instead, the funds flowed mainly to the cities, especially in the south, and to sectors that were favored under the Stalinist economy — oil and gas extraction and heavy industry — as well as to sectors with a strong “red capitalist” presence, such as tourism.²³⁵ Multinational corporations were drawn to capital intensive projects that had the promise of a quick return, to the detriment of the private sector and employment growth. One explanation for this phenomenon was that foreign investors preferred to enter into joint ventures with SOEs because of their knowledge of the market and extensive network of contacts within the state bureaucracy.

Another explanation is that the VCP and the state apparatus maintained their bias toward SOEs and the sectors in which they operate. At first, World Bank, IMF, and ADB officials supported the SOE bias, because they felt that SOEs would “slowly shrink in a rising pond of emergent private-sector firms.”²³⁶ In the early 1990s, this looked to be the case because in the economic crisis that surrounded the final transition to the market, SOEs were being heavily squeezed and the state lacked the resources to continue subsidies. Unfortunately, when the economy got better, investment continued to flow to the capital-intensive SOEs and not to the private sector. This can partially be explained by a renewal of state subsidies— this time through nearly exclusive SOE access to credit — to the detriment of the private sector and agriculture.

²³⁵This drives a continued rapid growth in capital-intensive sectors. For example, oil and gas industries are expanding at a 24 percent annual rate. Cement is growing by 22 percent, while rolled steel is growing by 9 percent; see Fforde, “Dyed-in-the-Wool Tigers,” 6.

²³⁶*Ibid.*, 9.

E. "RED CAPITALISTS" CAPTURE THE REFORMS

A coalition of SOE managers, *Hoa* merchants, foreign investors, local officials, ministry technocrats, and party cadres has emerged to capture the direction and scope of reform. So entrenched is the new alliance, that the VCP cannot, or perhaps does not desire to, enforce its own diktats proclaiming agriculture and private enterprise as the leading sectors of the market economy. From this union, a class of "red capitalists" has evolved in the cities. These families are a microcosm of new urban economy — a party-member father in the bureaucracy or managing an SOE, the wife involved in commerce and possibly moving into other areas as the economy liberalizes, and children in a mixture of public and private sector jobs.²³⁷ Initially enriched by the land "share out" (or commercialization of land) in the early 1990s that gave them urban real estate valued in the hundreds of thousands of U.S. dollars, the wealth of this new class is a mixture gleaned from outright graft, party privilege, family and "old boy" networks, and hard work.²³⁸

The status symbols of this new class are Honda Dream or Spacey motorcycles, priced at more than US\$2,500, Electrolux washing machines at US\$1,000, color televisions, VCRs, etc. Inexpensive domestics, tailors, ready-to-eat meals, restaurants, and street food allowed "red capitalists" to transform their lifestyles. Clothes, perfume, and jewelry sales are up dramatically. Interestingly, the most ostentatious of the nouveaux riches are not the *Hoa* or Viet capitalists of

²³⁷Ibid., 16.

²³⁸Ibid.

Ho Chi Minh City, but rather the bureaucrats of Hanoi, whose lifestyle sharply contrasts with their poor urban and rural neighbors.²³⁹

The “red capitalists” of Hanoi and Ho Chi Minh City are emblematic of a the growing income divide in Vietnam. Under the DRV system, income levels were fairly level, with only a 4:1 ratio between the rich (officially cited as the top 4.3 percent of the population) and the poor (defined as the bottom 20 percent) in 1970-80.²⁴⁰ In 1993, the income disparity had grown to 13:1.²⁴¹ The top ten percent of the Vietnamese in 1993 received 29 percent of the income, compared to 26 percent in France and 25 percent in the United States. The top quarter received 44 percent of the income, while the poorest quarter only received 7.8 percent. Benedict Kerkvliet recounts this stark example of the new Vietnam:

Leaping out before my eyes in Hanoi in September 1995 were several automobile show rooms which I had not seen before. Particularly striking was a Chrysler dealership, which had a gleaming red model basking in the plate-glass filtered sunshine. The first time I saw it, there happened to be squatting in the shade a few meters away an elderly lady wearing tattered, dusty clothes. She soon stood up and raised to her shoulder, with a grimace crossing her wrinkled face, a long bamboo pole with a heavy basket of bananas hanging from each end. The contrast between her appearance and gait, on the one hand, and hundreds of Honda motorcycles whizzing around her, on the other, was stark enough; the sight of her shuffling down the street directly in front of that red Chrysler was mind boggling.²⁴²

²³⁹Ibid.

²⁴⁰Kolko, *Anatomy of a Peace*, 102.

²⁴¹Ibid.; and Kerkvliet, “Partial Impressions of Society in Vietnam,” in *Doi Moi*, ed. Fforde, 61-2 n. 37.

²⁴²Ibid., 59.

Ninety percent of the poor live in rural areas. Sixty percent of Vietnam's farmers live below the poverty line as compared with 19 percent of the white collar workers and 14 percent of government employees. Among the rural population, the old patterns of income distribution still hold: those in the north central and northern uplands are the poorest, while farmers in the southeast are relatively better off.²⁴³ Just as the income divide has become starkly evident in the cities, so, too, as Kerkvliet notes, has it in the countryside:

From roadways on top of the tall dikes winding through the Red River delta one sees in village after village recently built three, four, even five story homes towering over the single story houses of residents of more modest means. In southern villages, sturdy brick and concrete houses with tiled roofs and elaborate courtyards stand in contrast to the far more numerous homes made of bamboo and thatching.²⁴⁴

A defining factor in rural prosperity often is access to a non-farming job. Many households supplement their income either by small-scale rural industry, selling food in the markets of nearby towns, or sending family members off to work in the factories of the cities. But the most prosperous are the families of rural cadres and officials who profit from the many opportunities for corruption that their positions afford.

F. GROWING VOICES OF DISSENT

The biggest threat to the regime is a well-spring of discontent among those who feel they are being bypassed by Vietnam's economic growth. Grassroots rural protest, seen in the south in the mid 1980s, has extended to the north in the 1990s. The latest unrest — most evident in the

²⁴³Ibid., 61.

²⁴⁴Ibid., 63.

north's Thai Binh province — appears to be widespread.²⁴⁵ It is not against the party or its rule, but instead loudly trumpets the abuses of local cadres. The population has accepted the premise that “first that the economy will perform better under a market regime that it did under central command, and second that improved performance will translate into measurable improvements in consumption and living standards.”²⁴⁶ What the Vietnamese have not accepted is the widespread corruption which unfairly enriches the local cadres and their families.

Less dangerous to the regime, but still problematic, are the protests from a more vocal and critical intelligentsia. So far these voices of dissent are unorganized, and have not sparked any anti-government demonstrations.²⁴⁷ Most call for a return of the glasnost of the last half of the 1980s. Some, including well-known former party members, call for a gradual shift to a multi-party democracy, but there seems to be little popular support for this idea.

As long as the party delivers on an improved economy and lifestyle, the population seems to tolerate party rule. Former British Ambassador to Vietnam Derek Tonkin explains it this way:

There is a concordat between the Party and the population that the Party will govern with a light touch of the reins and without cracking the whip, while the

²⁴⁵Fforde, “Dyed-in-the-Wool Tigers?” 3; and Do Muoi, “A Lesson From Thai Binh Province’s Incidents,” *Tap Chi Cong San*, no. 4, February 1999, trans. Foreign Broadcast Information Service, “Do Muoi Views Thai Binh Unrest,” *FBIS Daily Report — East Asia*, 13 March 1999. Available [Online]: FBIS/Search/vietnam. [17 March 1999].

²⁴⁶D. M. Leipziger, *Awakening the Market: Viet Nam’s Economic Transition* (Washington, D.C.: the World Bank, 1992), 30.

²⁴⁷Minxin Pei, *From Reform to Revolution: The Demise of Communism in China and the Soviet Union* (Cambridge, Mass.: Harvard University Press, 1994), 22.

people have something of a heyday in seeking material improvement after so many years of struggle and sacrifice.²⁴⁸

Even the poorest farmers claim that life now is better than it was during the hardships of war and reunification. The only major complaints of the masses seem to be anger over corruption at the local level.

1. Thai Binh

In 1997, frustration over corruption among local officials and party cadres turned into widespread violent protest in the northern rural province of Thai Binh. This seemed to catch Hanoi off guard, since Thai Binh is in the heartland of communist support dating back to the early days of the party. The leadership responded by sending a delegation of politburo members to help resolve the situation. According to Hanoi grassroots complaints began to accumulate in 1994 over cases of corruption among commune, cooperative, and local party officials at the village, district, and provincial levels. The major allegations were that officials extorted money from farmers by levying excessive fees and taxes, recording a small amount of revenues, and pocketing the remainder. There were also instances where local officials profited from illegal land sales and distributions to family members. Inaction in response to written complaints and perceived cover-ups enraged farmers to the point where several took matters into their own hands in March and April 1997 by protesting before local government and party offices, seizing several

²⁴⁸Derek Tonkin, "Vietnam: Market Reform and Ideology," *Asian Affairs* (London) 28, part 2 (June 1997): 194.

policemen and officials, and destroying state property.²⁴⁹ Reports of the unrest were suppressed until September 1997, and details only came to light after the politburo investigation in 1998. Sketchy information on similar protests elsewhere has reached the Western press, suggesting that state power is being effectively challenged at the local level.

Hanoi used Thai Binh as a warning to local officials and cadres against further abuses. In good communist fashion, a self-criticism campaign was initiated. Public pronouncements were made about a reorientation of development priorities, capital flows, and credit back to the countryside.²⁵⁰ However, there has been little evidence of any real change in policy.

2. Dissident Calls for Democracy

Less nettlesome to Hanoi, but still potentially dangerous, are the increasing calls for a return to glasnost and real democracy from a small group of dissidents at home or exiled abroad. As soon as Nguyen Van Linh began curtailing the freedom of the press in 1989 that he himself had initiated in 1986, intellectuals and a few party members objected. Some, such as COL Bui Tin, editor of the Sunday magazine of the People's Army daily *Quan Doi Nhan Dan* and the North Vietnamese officer who received the surrender of Saigon in 1975, chose exile to speak

²⁴⁹Tran Duc Luong, "Speech by SRV State President Tran Duc Luong at the Conference of Leading Cadres in Thai Binh Province," *Voice of Vietnam*, 1 March 1998, trans. Foreign Broadcast Information Service, "Vietnam: President Comments on Thai Binh Problem," *FBIS Daily Report — East Asia*, 5 March 1998. Available [Online]: FBIS/Search/vietnam [13 March 1998]; Le Kha Phieu, "Bringing into Play the People's Right to Mastery, Building Grassroots Democratic Institutions," *Tap Chi Cong San* (Hanoi), no. 3. (February 1998): 3-7, trans. Foreign Broadcast Information Service. "Vietnam: Le Kha Phieu Urges Democracy at Grassroots," *FBIS Daily Report — East Asia*, FBIS-EAS-98-070, 11 March 1998. Available [Online]: FBIS/Search/vietnam [13 March 1998]; Do Moui, "Lesson From Thai Binh," and Andy Soloman, "Vietnam's Troubled Thai Binh Province Still Tense," *Reuters Newswire*, 19 February 1998. Available [Online]: <<http://www.vinsight.org/1998news/0219.htm>> [19 March 1998].

²⁵⁰Fforde, "Dyed-in-the-Wool Tigers?" 4; and Do Muoi, "Lesson From Thai Binh."

their minds when they could no longer continue serving the communist regime.²⁵¹ Others chose to stay and critique the changes from the inside. For example, politburo member Tran Xuan Bach, director of the party's Foreign Affairs Department, was ousted in March 1990 for having advocated political pluralism.²⁵²

More recently, GEN Tran Do, a senior party ideologue who at one point was the superior of current VCP General Secretary LTG Le Kha Phieu in the People's Army Commissariat, has issued a series of letters to the party leadership calling for democracy. From late 1997, GEN Do has criticized Hanoi's handling of the Thai Binh crisis.²⁵³ Calling on the party to "change or die," Do laments that the VCP and Vietnamese socialism are becoming irrelevant.²⁵⁴ Quoting Ho Chi Minh, Do claims, "[a] choice must be made. I myself chose a Vietnam with 'people enjoying adequate food, clothes, freedom and happiness,' with or without socialism."²⁵⁵ Do's commentary seems to have caused much commotion and debate within the party hierarchy. Nonetheless, his

²⁵¹Bui Tin, a senior party member, defected in 1990, issuing a famous twelve-point "Petition from a Citizen" via the BBC which called on Hanoi to democratize and the VCP to return to its roots as a "Workers' Party." See Bui Tin, "A Citizen's Petition," *Vietnam Commentary*, no. 18 (November-December 1990):13-5; and Bui Tin, *Following Ho Chi Minh*, chapter 8.

²⁵²G. Porter, *Politics of Bureaucratic Socialism*, 100.

²⁵³Frederik Balfour, "Vietnam: SRV Leaders Chided for Orchestrating Smear Campaign," *Agence France Presse*, 0343 GMT, 19 April 1998, transcribed by Foreign Broadcast Information Service, *FBIS — East Asia*, FBIS-EAS-98-109, 19 April 1998. Available [Online]: FBIS/Search/vietnam [23 May 1998].

²⁵⁴"Vietnam General Hits Out at Communist Party," *Reuters Newswire*, 1239 EDT, 11 January 1999. Available [Online]: Infoseek/News/News Wires/Vietnam [17 January 1999].

²⁵⁵Quoted in Soloman, "Vietnam Communist Party Expels Outspoken General," *Reuters Newswire*, 0646 EDT, 7 January 1999. Available [Online]: Infoseek/News/News Wires/Vietnam [17 January 1999].

outspokenness went too far, and, although he is highly respected and has friends in high places, the party leadership expelled Do in January 1999.

A chorus of academics and professionals have also called on the party to change. Dr. Nguyen Kac Vien, a noted physician, petitioned party leaders in for democracy.²⁵⁶ Pediatrician Duong Quynh Hoa, former health minister of the south's National Liberation Front, complained, "Our leaders don't have enough knowledge to run the country. They're very dictatorial, and are only trying to keep their seats."²⁵⁷ Dr. Hoa called for a gradual transformation to democracy. She backs her words with actions, having opened several clinics in the Mekong River countryside to provide medical care to peasants who lost their access to care under the *Doi Moi* reforms. Mathematician Phan Dinh Diu, deputy head of the Scientific Studies Institute, petitioned for further economic and political liberalization, to include a move to multi-party democracy.²⁵⁸

In an attempt to appease foreign aid donors, Vietnam conducted a series of amnesties in late summer and fall 1998. Nearly 8,000 prisoners, including several prominent dissidents including academic Doan Van Hoat, Physician Nguyen Dan Que, monk Thich Quang Do, secretary-general of the banned United Buddhist Church of Vietnam.²⁵⁹ Some of the released dissidents, like Dr. Hoat, were allowed to emigrate. Most were detained under house or pagoda

²⁵⁶Bui Tin, *Following Ho Chi Minh*, 175-6.

²⁵⁷Hiebert, "Profile: Duong Quynh Hoa," *Far Eastern Economic Review*, 2 December 1993, 90.

²⁵⁸Bui Tin, *Following Ho Chi Minh*, 176.

²⁵⁹Sidel, "Vietnam in 1998: Reform Confronts the Regional Crisis," *Asian Survey* 34, no. 1 (January/February 1999): 92.

arrest. Continued detention failed to silence dissidents like Thich Quang Do, who again called for religious freedom and democracy.²⁶⁰

3. Conservative Backlash

With the expulsion of GEN Do in early 1999, Hanoi began what appears to be a crack down on dissidents. Those caught in the net include geophysicist Nguyen Thanh Giang, arrested 4 March 1999 in possession of documents considered anti-communist, and Thich Quang Do, briefly detained in March.²⁶¹ Officials and ideologues warned that future dissent, especially within the ranks of the party, would not be brooked.²⁶² This seems to be an attempt by the new generation of leaders installed in 1997 — conservative Secretary General Le Kha Phieu, reformist Premier Phan Van Khai, and moderate President Tran Duc Luong. — to enforce internal discussion and external solidarity.

Meanwhile, party conservatives seem to have increased the heat on the ruling troika by making the usually secretive internal debate heated and public. In spring 1999, word of a scathing anonymous letter, addressed to senior party conservatives General Secretary Le Kha Phieu, former General Secretary Do Muoi, and former President Le Duc Anh, which viciously attacks liberal leaders, including former Prime Minister Vo Van Kiet, and Deputy Prime Minister Nguyen Van Cam, reached the press. Supposedly, the letter warns of a split in the leadership,

²⁶⁰Soloman, "Vietnam Monk Makes Plea for Democracy," *Reuters Newswire*, 0022 EDT, 8 April 1999. Available [Online]: Go Network/Infoseek/News/News Wires/vietnam [13 April 1999].

²⁶¹Dean Yates, "Challenges mount for Vietnam's Communists," *Reuters Newswire*, 0843 EST, 4 March 1999. Available [Online]: Go Network/Infoseek/News Wires/vietnam. [16 March 1999].

²⁶²"Vietnam Justifies Clampdown on Dissidents," *Reuters Newswire*, 2325 EST, 17 March 1999. Available [Online]: Go Network/Infoseek/News Wires/vietnam. [20 March 1999].

laments widespread corruption among party members, bemoans the VCP's loss of credibility, blames the CIA for trying to undermine Vietnam through "peaceful evolution," and derides reformists for all of the current ills of the state. Kiet and Cam are portrayed as capitalists at heart who are dupes of Washington. The letter goes on to complain that Kiet gutted the state firms and condemns the former prime minister for his support of merit appointments.²⁶³

This open debate sheds light on the current regime's reluctance to move on additional reforms. It also is indicative of the strength of entrenched interests within the party and among "red capitalists" interested in maintaining the current SOE bias. While espousing the spirit of *Doi Moi*, the Phieu government has done little to inspire confidence among Vietnam's foreign investors and donors. Hanoi has not received IMF and World Bank assistance for over two years because of its refusal to implement harsh measures to fix the banking system and open the economy.²⁶⁴

G. THE EFFECT OF THE ASIAN ECONOMIC CRISIS ON VIETNAM

Compared with its Southeast Asian neighbors, especially Thailand and Indonesia, Vietnam has weathered the Asian economic crisis rather well. Unlike the deep recession facing Thailand, Malaysia, Indonesia, and South Korea, Vietnam appears to be experiencing a relatively slight contraction. Major reasons were a relatively stable currency, a high degree of confidence in domestic banks, and the lack of an open capital market.²⁶⁵

²⁶³Faith Keenan, "Comrades in Conflict," *Far Eastern Economic Review*, 15 April 1999, 28.

²⁶⁴*Ibid.*

²⁶⁵Fforde, "Dyed-in-the-Wool Tigers?" 6-7.

1. Strong Beginnings, 1990-97

After turning the economy around in the early 1990s with the assistance of massive foreign aid and investment, Vietnam was enjoying an average annual growth of between 8 and 9 percent before the crisis.²⁶⁶ Poverty was down by a third between 1986 and 1996.²⁶⁷ Exports grew even faster, but still were not approaching the high levels of imports, causing a large trade deficit that became a brake on the economy as other aspects of the regional crisis began to be felt.²⁶⁸

2. 1998 Downturn

With the advent of the Asian downturn in 1997-8, Vietnamese growth fell off sharply to an estimated 3 to 5 percent in 1998.²⁶⁹ Exports dropped for the first time in many years. Manufacturers who were producing low cost goods for sale in the region found their market dry up. Tourism fell to a trickle. Government revenues were also down and SOEs were wracking up higher losses, causing Hanoi to postpone several large infrastructure projects.²⁷⁰ Unemployment has jumped to an official 6 percent, but more likely much higher as SOEs began to lay off

²⁶⁶Raymond Mallon, "Doi Moi and Economic Development in Vietnam: A Rapid Overview of a Decade of Reform." in *Doi Moi*, ed. Fforde, 11-2; Fforde, "Dyed-in-the-Wool Tigers?" 5; and Ari Kokko, "Vietnam: Ready for Doi Moi II?" *ASEAN Economic Bulletin* 15, no. 3 (December 1998): 320.

²⁶⁷Kokko, 320.

²⁶⁸*Ibid.*, 321-2.

²⁶⁹Fforde, "Dyed-in-the-Wool Tigers?" 5.

²⁷⁰Faith Keenan, "Vietnam: Reality Check," *Far Eastern Economic Review*, 3 September 1998, 57.

employees.²⁷¹ Weakness in Japan, Korea, Hong Kong, Thailand, and Indonesia adversely affected both FDI and development aid flows (both from regional and international sources). Realized FDI in 1998 was down over 50 percent from the year before, while new investment — predominantly Asian in the past — nearly ceased, falling 60 percent in the first ten months of 1998 after having fallen 50 percent in 1997.²⁷² Many foreign companies closed or reduced staff to a minimum; 120 branch and representative offices had been closed by November and large multinationals, such as Nike and Daewoo, were laying off staff from their manufacturing operations.²⁷³

3. Outlook

Economic indicators for the first quarter of 1999 are no better than in 1998. Real growth rates are likely to be negligible.²⁷⁴ Export growth will remain weak as long as neighboring Southeast Asian are depressed. FDI will remain anemic until regional patrons recover. Consumer spending will also stay soft, as layoffs and a weak economy produce greater pessimism.

Given Vietnam's history of wartime sacrifice and low income level, the people were willing to forgo political liberties as long as Hanoi produced what it promised — a higher standard of living.²⁷⁵ Since Hanoi has placed so much of its legitimacy on improving economic

²⁷¹Kokko, 325.

²⁷²Ibid., 323-4; and Sidel, 90.

²⁷³Sidel, 91-2.

²⁷⁴Fforde, "Dyed-in-the-Wool Tigers?" 7.

²⁷⁵Kokko, 325.

performance and political stability, domestic pressure will mount for state action. There are three likely scenarios to bring Vietnam out of this contraction: the status quo, a return to government control over the economy à la central planning, or a new round of liberal economic reforms — a *Doi Moi II*.²⁷⁶

It is possible that Hanoi may limp through the current situation without having to effect any significant changes. To do this, Vietnam would need sufficient capital that could come through additional IMF and World Bank funding or FDI. Hanoi may be successful at convincing the aid agencies for additional help, but attracting new investment without structural change will be difficult in the current economic environment.

A return to central planning may please some key constituents, such as the SOEs, state sector employees, and party conservatives. Nonetheless, Vietnam's transition suggests failure if Hanoi attempts this option. Just as the SOEs of the 1980s helped destroy the Stalinist system by fence breaking, the SOEs of the 1990s would find other ways to work around or benefit from any new government participation. In any rate, reversing the transition would be almost impossible. As business Professor Eldon Griffiths points out, "[t]he free market genie is irreversibly out of the bottle."²⁷⁷ Today store shelves are packed with commodities. No one pines for the shortages that were inherent to the Stalinist system.

The other option is an increasing outward orientation. Already integrated into the regional economy, it will not be as easy to attract the same levels of new FDI until after its neighbors recover. Reducing the barriers to investment through real structural change may

²⁷⁶Ibid., 325-6, n. 10.

²⁷⁷Eldon Griffiths, "Is Vietnam *Doi Moi* Working? *World Trade*, February 1998, 20.

attract the needed funds from new sources, spurring a new recovery. Whether there is sufficient support in the party for further liberalization remains to be seen.

VI. CONCLUSION

The current Asian economic crisis provides an opportunity to reassess the dramatic changes that have occurred in Vietnam and the world in the quarter century since reunification. Once the vanguard in the struggle between communism and capitalism, Hanoi lost its superpower patron when the Soviet Union and European communism imploded. Bankrupt, Vietnam dropped its Stalinist planned economy, embraced the market, and integrated itself within the regional and global capitalist systems. Yet when the European and former Soviet states rushed into multi-party democracy, Vietnam, like its giant northern neighbor China, retained its communist polity.

A. VIETNAM AS A WEAK THIRD WORLD STATE

Until recently, observers lauded the VCP for its strong leadership in managing the dramatic transformation. Most either assumed or superficially observed that the change was directed from the top down, that it was the product of a coherent set of policies, and that the shift from the Stalinist planned economy to capitalism was sudden. But reality was less simple.

Unlike the Soviet Union and the People's Republic of China which aggressively stamped out capitalism early in their histories, Vietnam still had strong capitalist tendencies when reunified in 1975. The south had a well-developed, albeit distorted, capitalist economy when Saigon fell. But the north, too, had retained elements of the market during 30 years of anti-colonial and anti-American war.

Victory afforded the first generation of communist leaders the opportunity to extend the Soviet-inspired Stalinist planned economy and communist polity throughout Vietnam. Hanoi labored to complete the collectivization of the north and rushed to transform the south in the

north's likeness. Peasant resistance mainly in the south's Mekong delta, but also in the north, led to food shortages and economic crisis. Meanwhile state enterprises were undermining the plan by using subsidized inputs to produce goods for sale on the black market. Souring relations leading to war with Cambodia and China aggravated the already grave economic situation. Massive Soviet aid staved off the worst, but Hanoi was also forced to adopt liberal reforms that were working in the south and in the countryside to reverse the downslide. These reforms, with antecedents in war-era work-arounds and southern capitalism, laid the foundation for the future transformation.

Failure in extending the planned economy southward was the first major indicator of regime weakness vis-à-vis strong elements within society. Nonetheless, after the economy stabilized, the party leadership again tried in the early 1980s to collectivize the country. Once more, peasant resistance, SOE "fence-breaking," misguided currency and price reforms, and the costly occupation of Cambodia contributed to hyperinflation and crisis. Meanwhile Mikhail Gorbachev's overtures to China foreshadowed the loss of Vietnam's Soviet patron. In another sign of regime weakness, the VCP leadership was forced to turn to southern reformers, led by Nguyen Van Linh, to fix the economy. Their *Doi Moi* reforms recognized reality in the countryside and cities – family-based agricultural production, small private enterprises, and the unplanned activities of SOEs. Linh also adopted elements of Gorbachev's glasnost, initiating a brief spell of political freedoms which saw the transformation of the National Assembly to a true legislature, public criticism from within and without the party of cadre corruption, and the rebirth of civil society.

Events came to a head in 1989. Sino-Soviet rapprochement diminished the importance of Vietnam and Cambodia in Soviet foreign policy. As a prerequisite for improved relations with Beijing, Moscow pressured Hanoi to end the Cambodian occupation. Vietnam began a gradual pull-out in the late 1980s, which ended in September 1989. Concurrently, it became increasingly evident that the Soviet aid which was keeping the Vietnamese economy afloat would soon come to an end. Vietnam began to look elsewhere for capital. Unwilling to become a vassal of China and unable to court the United States, Vietnam instead turned its Asian neighbors, some European friends, and multinational corporations for aid and FDI. Again, Hanoi turned to the south and countryside to adopt economic reforms based on accommodations of local interests. Designed to woo further foreign investment and spur domestic production, these reforms incrementally led to the abolishment of the plan in 1989. Nonetheless, successful economic liberalization was not followed by political liberalization. Appalled by the rapid dissolution of communism in Central Europe and heartened by China's example at Tiananmen Square, the VCP, led by Linh, began in 1989 to crack down on political liberties, effectively ending Vietnamese glasnost.

While there were vocal protests from the Vietnamese diaspora and from some intellectuals, there was little domestic protest to the move. The Vietnamese seemed to have been more interested in improving their standards of living in the new market economy rather than pushing for political freedom. In an apparent pact with society, Hanoi continued the economic reforms which were benefitting the south, farmers, and a new class of "red capitalists" in return for continued communist political control. *Doi Moi* became the key to VCP longevity: as long as

Hanoi produced a stronger economy and better standards of living, popular pressure for political reform would remain low.

To expand the economy rapidly, Vietnam had to improve its relations with the capitalist world. As soon as the United States dropped its support of the Cambodian opposition, Hanoi had the green light to negotiate with its neighbors and China to end the regional crisis. These negotiations led to rapprochement, eventual integration into ASEAN, and a vigorous cross-border trade with China. This, in turn, led to better relations with Japan, South Korea, Taiwan, Europe, and eventually the United States. Levels of FDI exploded, allowing Vietnam to grow at an annual rate of nearly 9 percent through the mid 1990s. Once American opposition to international aid was dropped in 1993, Vietnam began again to receive massive aid from the IMF, World Bank, and Asian Development Bank. Gradual rapprochement with the United States led to the end of the American embargo in 1994 and normalization of relations in 1995. Nonetheless, the high levels of desired U.S. aid and FDI failed to materialize, as American companies cautiously entered the Vietnamese market once the major barriers were lowered. However, Vietnam's continued lack of transparency, endemic corruption, and restrictive capital markets remain disincentives to investment.

While increasing FDI became a major driver of the Vietnamese economy, the funds were not flowing in the direction that international economists and state policies predicted. Instead of going to the sectors in which Vietnam has a comparative advantage — agriculture and small-scale private industry — foreign investment has been attracted mainly to the state-owned sector, especially in oil and gas extraction, heavy industry, and tourism. This pattern indicates further regime weakness, as investment and reform policies seem to have been captured by a strong

coalition of "red capitalists" — SOE managers, local and national government officials, and party cadre — and their foreign partners.

The growing disparity in incomes, the lack of rural credit, and the blatant corruption on the part of party and state officials at all levels has caused discontent. So far, grassroots protests in Thai Binh province and elsewhere have been over the abuses of the local cadres, and not party control. Hanoi has recognized the potential danger of unrest in the countryside and has responded by calling for a party-wide self-criticism campaign and by reiterating the state's priority for agricultural and private enterprise development, but little activity along these lines has been seen.

The end of Vietnamese glasnost also induced dissent from a vocal minority of intellectuals, including some prominent party members. Most decry the slowness of economic and political reform, and call for a multi-party system akin to the nascent democracies in the former communist states of Europe. Some also lament the lack of religious freedom and the slow growth of civil society in Vietnam. To date, this dissent has been relatively uncoordinated and poses less of a threat to the regime than does the protests in the countryside. Instead of a self-criticism campaign and promises to reorder state priorities, Hanoi has responded by cracking down on these dissidents. After a recent amnesty granted in order to garner more international support, some of the more well-known dissidents were assisted in emigrating. They have added their voice to other overseas Vietnamese calling for political reform. Other outspoken activists have been arrested or are under constant surveillance.

Meanwhile hardliners have released missives of their own complaining that the reformers are dupes of America and other forces for "peaceful evolution." In their eyes economic

liberalization is forsaking the fundamentals of Vietnamese communism — the people's revolution and the state-owned sector. By taking the normally secret internal debate between reformers and conservatives public, these hardliners have put pressure on the new ruling troika — conservative General Secretary Le Kha Phieu, reformist Prime Minister Phan Van Khai, and moderate President Tran Duc Luong — to put the brakes on economic liberalization.

Unfortunately for Hanoi, the popular unrest and conservative backlash has come at the time when the mantle of leadership is being passed to the second generation of communist leaders. Regime weakness is more than evident in the seeming inability of the new leadership to implement any new substantive reforms. Still unsure of its power, the Phieu-Khai-Luong regime is very cautious in its moves. Nonetheless, it has pledged to stay the course on economic reforms, albeit at a much slower pace than under their predecessors.

Part of this caution can be attributed to the Asian economic crisis that is plaguing Vietnam's ASEAN partners and East Asian neighbors, many of whom are also major sources of FDI. Partially insulated from the regional depression by strict monetary and credit policies, Vietnam mainly has been affected by the dramatic drop in foreign investment. Nonetheless, economic growth, which had been chugging along at the pace of around nine percent per annum in the mid 1990s, has stalled, dropping to below best estimates of three percent.

B. DUAL-LEVEL ANALYSIS OF THIRD-WORLD STATES: THE MODIFIED MIGDAL MODEL

The pattern of Vietnamese economic reforms over the past 25 years lends itself well to a dual-level analysis based on the model of Third World state-society relations proposed a decade ago by Migdal. Going inside the box, Migdal finds that in most Third World states, a relatively

weak regime must interact with strong elements within a highly fractured society. Nonetheless, Migdal does not ignore the international dimension of this relationship. Indeed, it is the actions of European colonialism that set the stage for this weak state-strong society model. His model can be expanded by discussing the influence of shifts in the regional and global balances of power on policy. State capacities to act can be greatly affected by its position within the balances of power. In addition to balance of power analysis, the Migdal model can be updated by substituting the atomizing effects of internationalization – or integration into the global capitalist economy – on state strength.

1. The Domestic Dimension

Swallowing capitalist and somewhat democratic South Vietnam was a difficult proposition. Maintaining the same kind of social control as Hanoi had in the north during the war years was nearly impossible. As society has become more fragmented, Hanoi has found itself increasingly frustrated in its attempts to make and implement operative policy by rival centers of power — the “strongwomen” who forced family-based farming in the north during the war, their analogs in the south who turned collective farms into support agencies for household production, SOE managers who employed “fence breaking” to meet plan requirements and make a profit, and the “red capitalists” who were successful in maintaining SOE advantages in the 1990s — which are able to capture state resources and apply their own rules to segments of the society and the economy.

Key to this process is what Migdal calls the “Triangle of Accommodation.” In essence it is a partnership between local “strongmen,” implementors (government officials charged with implementing state policy), and party cadres to capture state resources for local consumption.

Using the above examples, the northern rural “strongwomen” in collusion with collective farm managers and party cadres created the “sneaky contract system” that in essence devolved production decisions down to the production brigade and household level. Later in the south, when Hanoi was pushing collectivization, some farmers, with the assistance of local cadres and state farm managers got around the system by forming “paper collectives” or by turning existing cooperative arrangements (for example, common tilling, fertilizing, and irrigation) into service cooperatives. “Fence breaking” SOE managers were only able to operate with the assent of city, provincial, ministry officials and their counterparts within party committees. Today’s “red capitalists” expand the triangle to include SOE managers, local party cadres, government bureaucrats, and their foreign partners in order to capture credits and reform policies to favor state enterprises and their foreign-invested joint ventures.

Meanwhile, at the national level, the state and party leadership has practiced the “politics of survival” to maintain power in the face of fragmented social control and to prevent the growth of rival power centers. A good example of this in action was the 1982 purge of Nguyen Van Linh from the politburo. After conservatives gained the upper hand within party decision making circles, Linh, with his southern power base and reformist agenda became a threat. It is interesting that after the conservatives bungled their second attempt to collectivize the whole country, the politburo canned leading conservatives and turned to Linh and his colleagues in the south to fix the economy. Hanoi also used “politics of survival” against rival civil organizations. When disgruntled southern veterans and party members in the Club of Former Resistance Fighters challenged Hanoi’s choice for prime minister and called for democracy, the VCP responded by

both cracking down on the group and assimilating its members into the Vietnam War Veterans Association, a group under party control.

2. The International Dimension

While Migdal focuses on the domestic dynamics weak states operating within strong societies, he does not dismiss the international dimension. For him it was the actions of European colonizers that fractured traditional methods of social control throughout the developing world. Promoting their own class of "strongmen" who would keep the local populations in line, the European colonizers created strong forces within an atomized society that would later challenge the weak new states of the post-colonial era.

This social change is wrought in an environment where the developing state is interacting with other states in regional and global balances of power. Looking at the colonial era, nations became entwined in the global mercantilist system through European expansionism. Weak peripheral colonies were established to be exploited by a strong metropole. These weak colonial administrations needed indigenous strongmen to help control the local population. In fostering these strongmen, the colonial governments fractured traditional patterns of social control.

Vietnam's position in shifting regional and global balances of power also affected policy decisions. Nestled firmly within the communist bloc, Hanoi felt confident in expanding its Stalinist planned economy and communist polity to the south after reunification. At the same time as southern and peasant resistance to collectivization led to economic crisis, relations with Cambodia and China were souring. When war came in 1979, the already stressed economy was pushed to the breaking point. Only massive aid from the Soviet Union saved Vietnam from economic disaster. Moscow propped up the sickly Vietnamese economy and financed the

Cambodian occupation through the 1980s, in part to irritate Beijing. When Gorbachev made overtures to China, Vietnam became less important to Soviet strategy. As a precondition to Sino-Soviet normalization, Moscow pressured Hanoi to end its occupation of Cambodia. Meanwhile, Vietnam prepared for the day when Soviet aid would be diminished by opening its economy to its neighbors and the West. When that anticipated day did come in 1990-1, Hanoi normalized relations with the Southeast Asian states, China, Europe, Japan, and the United States. In doing so, Vietnam was able to attract the needed trade, foreign investment, and aid to revitalize its nascent capitalist economy.

In Migdal's model, traditional patterns of social control were destroyed by the stresses of colonial expansion. This idea can be modernized by adding the equally stressful experience of the internationalization of vulnerable Third World economies. Just as colonialism integrated many nations into the global mercantilist system of the eighteenth and nineteenth centuries, internationalization integrates developing countries into the contemporary global capitalist system. The colonizer of the last century has been replaced by the foreign investor of today. International capital flows and multinational corporations have replaced the fleet and crown trading companies.

As a country becomes more integrated in the global marketplace, the greater the pressures of internationalization becomes. The dramatic transformation of the Vietnamese economy may not have been initiated by the forces of internationalization, but once Hanoi opened its market to the capitalist world in the mid-1980s Vietnamese policies have become increasingly shaped by them. This is especially true in the 1990s. In desperate need of a patron once the Soviet Union faded from the scene, Hanoi turned to seeking aid and investment from its Asian neighbors,

Europe, Canada, and the United States. After the liberal 1987 investment law, FDI skyrocketed to the point that in 1998 the foreign-invested sector of the economy accounted for accounting for almost one-third of all industrial output.²⁷⁸

3. Applicability of the Modified Migdal Model

Although this dual-level analysis was applied to a single case — economic reforms in Vietnam since 1975 — it yields a useful explanation of the domestic and international determinates of policy in a Third World country. The modified Migdal model would be useful for analysis of transformative change within developing states. It would especially be useful for analysis of the politics of economic reform in other Third World countries, particularly those who, like Vietnam, are reinventing themselves from communist-centrally planned economies to capitalist markets. The Vietnamese experience would probably most resemble that of China, which is also undergoing a transition to capitalism while retaining a communist polity. Of the remaining communist states, Cuba may also be a good candidate for application of this model.

C. IMPLICATIONS FOR VIETNAM'S FUTURE

Hanoi's weakness vis-à-vis strong elements within society has implications for its future. Although it professes that it will stay the course on economic reform, the new Phieu-Khai-Luong administration has done very little in its first full year. Major issues for the regime include dealing with the rural unrest that has broken out in Thai Binh and other provinces, the endemic corruption on the part of party cadres and government officials, growing calls from the intelligentsia and from within the party itself for political reform, a concurrent push from the

²⁷⁸Fforde, "Dyed-in-the-Wool Tigers?" 6.

conservatives to slow or halt reform, continuing north-south differences, "red capitalist" control over the economy, and the effects of the Asian economic crisis on the fragile Vietnamese market.

Luckily the current rural unrest is focused on the misdeeds of individual local cadres and bureaucrats. It is not only their graft and corruption, but also their conspicuous consumption that upsets many Vietnamese. Hanoi is not blamed for the rural woes, and is perceived as part of the solution. High-level interest in the problems of Thai Binh seems to have appeased the disgruntled farmers. Promises to root out corruption within the party, to free up credit for farmers, and to reemphasize agriculture play well in the provinces. It is now up to the leadership to implement these policies over the likely opposition of local cadres and officials. Bucking these strong entrenched interests will probably be difficult. But if it is perceived that Hanoi is covering for corrupt local officials, discontent could spread to the central government, a situation that the regime will want to avoid at almost all costs.

Less troublesome to Hanoi are calls from scattered voices in the diaspora and intelligentsia for accelerated economic reform and political liberalization. Slightly more nettlesome is dissent from within the party. Venerated party members, such as General Tran Do, who brake with Hanoi over the pace of economic and political reform could become a viable opposition within or without the party if they could build popular support. Indeed, it is likely that Hanoi hesitated in acting against Do because of his friends in very high places. Nonetheless, the VCP moved early this year at quieting Do by dismissing him from the party. The regime will likely use the "politics of survival" to deal with any other high-level dissenter.

Meanwhile Hanoi is also being assaulted by some party conservatives. Reformers, especially Premier Khai, are being lambasted for taking Vietnam well away from its Marxist-

Leninist roots. The Vietnamese Foreign Ministry dismissed the conservatives' claims as "a distortion of a slanderous nature."²⁷⁹ The conservative backlash does not seem to threaten the new regime, but it is likely indicative of the acrimonious internal debate which is occurring within the party leadership. If the regime moves too far towards liberal reforms, the conservatives could make a play for control. But with a conservative General Secretary as part of the ruling troika, it is not likely that Hanoi would deliberately move to upset this important constituency.

As evidenced by the increasingly public debate between these opposing factions within the party leadership, there are great differences between the conservatives and reformers. Nonetheless, they currently are strong enough to break the solidarity of the party. This is particularly true after the leaders observed the chaos wrought when the European parties splintered. Animosity between the conservatives and reformers would have to grow to such a level that the two groups can no longer live under the same party banner, and this is unlikely.

In the introduction the question was posed as to whether *Doi Moi* represented a southern counterrevolution. While Hanoi is the undisputed political capital of Vietnam, Ho Chi Minh City (ex-Saigon) is its economic capital. Most of Vietnam's FDI flows to the south: 64.8 percent of total foreign investment between 1988 and 1995, with Ho Chi Minh City accounting for 53.7 percent of the total.²⁸⁰ Ho Chi Minh City has been the laboratory for liberal change. Any northern attempts to control or slow the pace of change in the south are tempered by resistance at the local level.

²⁷⁹Keenan, "Comrades in Conflict," 28.

²⁸⁰Dodsworth et al., 17.

Nonetheless, it is difficult to call Vietnam's economic transformation a counterrevolution. Ho Chi Minh City may be driving some of the reforms, but Hanoi is firmly in charge politically. Southern businessmen seem content to lead economically, while leaving politics to the north. As long as Hanoi keeps its heavy hand out of Ho Chi Minh City's business, the southern burghers will likely continue to acquiesce to northern diktats. The problem for the regime is that if it breaks this pact by interfering with southern control of the economy, it risks touching off the opposition of another strong constituency. Again this is not likely.

Another important constituency are the "red capitalists." Many party members are profiting from their relationships with SOE managers and foreign investors. This "Triangle of Accommodation" has captured the scope and direction of *Doi Moi* in the 1990s. Again, bucking this strong interest group would be extremely difficult for the VCP leadership. Nonetheless, if popular discontent spreads to the great wealth currently going to this coalition, Hanoi may be forced to act, at least symbolically, at curbing the "red capitalists."

While Vietnam's neighbors slowly recover from the regional economic crisis, the Vietnamese economy faces a continued downturn. Asian investments and trade both are weak, and likely will remain so for the near future. The danger for Hanoi is if the downturn continues, the Vietnamese people will begin to feel the pinch. If it is perceived that the VCP cannot continue to deliver continually improving standards of living, the Vietnamese might start to question the last source of regime legitimacy. Therefore, Hanoi will work to soften the blow on the people. As long as it can maintain the image that the party is delivering prosperity, it will likely maintain its monopoly on political power.

D. THE IMPLICATIONS OF VIETNAM'S REINVENTION FOR U.S. POLICY

No longer a threat to American interests in the region, Vietnam now provides new opportunities for the United States. Most importantly, a market-oriented Vietnam represents 80 million potential consumers for American products. It also constitutes a relatively inexpensive source of tropical products (rice, coffee, rubber, etc.). Currently, the efforts to find American MIAs dominate Vietnamese-American relations. Hanoi has pledged to continue its search, appeasing American veterans groups, conservatives, and congressmen.

The Vietnamese leadership recognizes the importance of improving relations with America. In the past, it was the key to gaining access to international aid. Now it is key to joining the World Trade Organization and expanding trade. Hanoi will continue to cautiously court Washington for supporting its application and for increasing U.S.-Vietnamese trade.

Interestingly, in its attempts to find a new superpower patron to balance against China, Hanoi launched some trial balloons about America once again leasing Cam Ranh Bay, but so far there has been little interest on the part of Washington. There is little profit in returning to Cam Ranh Bay and upsetting Beijing. The U.S. presence in the region, represented by the Seventh Fleet, is sufficient to protect American interests. Of course, this could change if Sino-American relations chill.

If America ever did accept this offer, there would be serious implications for Hanoi. For the hardliners, the U.S. still represents the enemy. They see economic liberalization as a manifestation of U.S.-led "peaceful evolution" conspiracy. A permanent American presence would likely generate a very vocal protest and further disunion within the party. Conservatives could become so upset that they may openly challenge the current leadership, possibly leading to

the atomization of the party. In addition, China would likely be upset and could retaliate by trade sanctions, a border closure, diplomatic pressure, and increased economic and military activity in disputed areas of the South China Sea and near the Sino-Vietnamese border. Depending upon the commitment from Washington, these Chinese moves could be very detrimental for Hanoi.

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