# The New Class in Vietnam

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# Abstract

Vietnam has posted impressive gains in growth of output, exports and poverty reduction over the last twenty years. The standard explanation of this sustained success views Vietnam's transition from socialism to capitalism as an extension of markets and removal of obstacles to their efficient operation. This view of transition is based on a particular view of the origins of capitalism, in which capitalism emerges due to the expansion of trade, technology and the removal of obstacles to the natural tendencies of human interaction. However, this view of the origins of capitalism cannot explain the uniqueness of capitalism as a distinct historical social formation.

A Marxist framework will be used, stressing the emergence of a new social division of labour based on the emerging class relation between capital and labour. This transformation forces a shift to accumulation through the market, requiring capitalists to operate under the market imperative in order to survive. This will be combined with Djilas (1957) and the concept of communist bureaucracies as a New Class in order to investigate the emergence of capitalism in Vietnam.

The research question is how does the appearance and reproduction of the New Class provide insight into the development of a specifically Vietnamese capitalism? Data on Vietnam's largest 200 firms will be analyzed through the New Class lens to explore the transformation occurring in Vietnam.

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# Acronyms

| | |
|---|---|
| A/PARC | Asia/Pacific Research Centre |
| ABBank | An Binh Bank |
| ADB | Asian Development Bank |
| AEA | American Economic Association |
| Agribank | Bank for Agricultural and Rural Development |
| Agtex | Company No. 28 |
| APEC | Asia Pacific Economic Cooperation |
| ASEAN | Association of Southeast Asian Nations |
| Bao Viet | Vietnam Insurance Corporation |
| BIDV | Bank for Investment and Development of Vietnam |
| Biti’s | Binh Tien Consumer Goods Production Ltd |
| Cadivi | Vietnam Electric Wire and Cable Company |
| Camimex | Ca Mau Frozen Seafood Processing Import Export Corporation |
| Casumina | Southern Rubber Industry Company |
| Cataco | Can Tho Agricultural and Animal Products Company |
| CCP | Chinese Communist Party |
| CEO | Chief Executive Officer |
| CERT | Centre for Economic Reform and Transformation |
| Chalco | Aluminum Corporation of China |
| Chalieco | China Aluminum International Engineering Company |
| Cholimex | Cho Lon Investment and Import Export Corporation |
| CIEM | Central Institute for Economic Management |
| Cienco 5 | Civil Engineering Construction Corporation No. 5 |
| CIT | Corporate Income Tax |
| CMEA | Council of Mutual Economic Assistance |
| Dakruco | Dak Lak Rubber Company |
| DFID | Department for International Development |
| Dona Biti’s | Binh Tien Dong Nai Import Export Corporation Ltd |
| DRC | Danang Rubber Company |

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|---|---|
| DRV | Democratic Republic of Vietnam |
| DSI | Development Strategy Institute |
| EBRD | European Bank for Reconstruction and Development |
| EIJS | European Institute of Japanese Studies |
| ERD | Economics and Research Department |
| EVN | Electricity of Vietnam |
| FDI | Foreign Direct Investment |
| FETP | Fulbright Economics Teaching Program |
| FPT | Corporation for Financing and Promoting Technology |
| FYP | Five Year Plan |
| Garco 10 | Garments Company No. 10 |
| GC | General Corporation |
| GDP | Gross Domestic Product |
| Geruco | Vietnam Rubber Group |
| GP Bank | Global Petrol Bank |
| GSO | General Statistics Office |
| Habubank | Hanoi Building Bank |
| HACC | Hanoi Construction Corporation |
| HAGL | Hoang Anh Gia Lai Corporation |
| Handico | Hanoi Housing Development and Investment Corporation |
| Hanel | Hanoi Electronics Corporation |
| Hanosimex | Hanoi Textile and Garment Company |
| Haprosimex | Hanoi General Production and Import Export Company |
| HCMC | Ho Chi Minh City |
| ICOR | Incremental Capital Output Ratio |
| IFC | International Finance Corporation |
| Incombank | Industrial and Commercial Bank |
| IPO | Initial Public Offering |
| ISEAS | Institute of Southeast Asian Studies |
| IT | Information Technology |
| Imex | Import Export Company |

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|---|---|
| IMF | International Monetary Fund |
| ISIC | International Standard Industrial Classification |
| IZ | Industrial Zone |
| JICA | Japanese International Cooperation Agency |
| JSB | Joint Stock Bank |
| JSC | Joint Stock Company |
| JV | Joint Venture |
| Lilama | Vietnam Machinery Erection Corporation |
| LLC | Limited Liability Company |
| MFA | Multi-Fibre Agreement |
| Mipec | Military Petrol Company |
| MITI | Ministry of Industry and Trade |
| MoA | Ministry of Agriculture |
| Mobiphone | Vietnam Mobile Telecom Services Company |
| MoD | Ministry of Defence |
| MoF | Ministry of Finance |
| MoFD | Ministry of Food |
| MoI | Ministry of Industry |
| MoPT | Ministry of Post and Telecommunications |
| MPDF | Mekong Private Sector Development Facility |
| MPI | Ministry of Planning and Investment |
| MSB | Maritime Bank |
| Navibank | Nam Viet Bank |
| NBER | National Bureau of Economic Research |
| NES | Not Elsewhere Specified |
| Nhabeco | Nha Be Garments Company |
| NIAS | Nordic Institute of Asian Studies |
| NIC | Newly Industrialized Country |
| OECD | Organization for Economic Co-operation and Development |
| PCI | Provincial Competitiveness Index |
| Petrolimex | Vietnam National Petroleum Corporation |

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|---|---|
| Petrovietnam | Vietnam Oil and Gas Group |
| PJICO | Petrolimex Insurance Company |
| PPC | People’s Committee |
| Protrade | Binh Duong Production and Import Export Company |
| PVFC | Petrovietnam Finance Corporation |
| PVI | Petrovietnam Insurance Company |
| PV Power | Petrovietnam Power Corporation |
| RVN | Republic of Vietnam |
| Sasco | Southern Airport Services Company |
| Satra | Saigon Trading Corporation |
| SBV | State Bank of Vietnam |
| SCIC | State Capital Investment Corporation |
| Seaprodex | Vietnam National Sea Products Corporation |
| Seaprodex Danang | Danang Sea Products Import Export Corporation |
| SEARC | Southeast Asian Research Centre |
| SFC | Southern Fertilizer Company |
| SHB | Saigon Hanoi Bank |
| SITC | Standard International Trade Classification |
| SME | Small and Medium Enterprise |
| SOAS | School of Oriental and African Studies |
| SOCB | State Owned Commercial Bank |
| SOE | State Owned Enterprise |
| SRC | Sao Van Rubber Company |
| SRV | Socialist Republic of Vietnam |
| Tacombank | Tan Viet Joint Stock Commercial Bank |
| Tamexco | Tan Binh Production Service Trading and Export Company |
| Techcombank | Technological and Commercial Joint Stock Bank |
| TVE | Township and Village Enterprise |
| UHT | Ultra High Temperature |
| UN Comtrade | United Nations Commodity Trade Statistics Database |
| UNDESA | United Nations Department for Economic and Social Affairs |

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|---|---|
| UNDP | United Nations Development Programme |
| UNIDO | United Nations Industrial Development Organization |
| UNU/WIDER | United Nations University/World Institute for Development Economics Research |
| US | United States |
| USBTA | United States Bilateral Trade Agreement |
| USCS | United States Commercial Service |
| USD | United States Dollar |
| USSR | Union of Soviet Socialist Republics |
| Ut Xi | Ut Xi Aquatic Products Processing Company |
| VAT | Value Added Tax |
| VCCI | Vietnam Chamber of Commerce and Industry |
| VCP | Vietnamese Communist Party |
| VDF | Vietnam Development Forum |
| VEAM | Vietnam Engine and Agricultural Machinery Corporation |
| VGCL | Vietnam General Confederation of Labour |
| Vietcombank | Bank for Foreign Trade of Vietnam |
| Vietsovpetro | Vietsovpetro Joint Venture Enterprise |
| Viettel | Military Telecom Corporation |
| Vifaco | Vifaco Animal Husbandry Company |
| Vinacafe | Vietnam Coffee Corporation |
| Vinachem | Vietnam National Chemical Corporation |
| Vinacomin | Vietnam Coal and Mineral Industries Group |
| Vinaconex | Vietnam Construction and Import Export Corporation |
| Vinafood 1 | Northern Food Corporation |
| Vinafood 2 | Southern Food Corporation |
| Vinaincon | Vietnam Industrial Construction Corporation |
| Vinalines | Vietnam National Shipping Corporation |
| Vinamilk | Vietnam Dairy Products Company |
| Vinapaco | Vietnam Paper Corporation |
| Vinaphone | Vietnam Telecom Services Company |

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|---|---|
| Vinapimex | Vietnam Paper Corporation |
| Vinashin | Vietnam Shipbuilding Industry Group |
| Vinataba | Vietnam Tobacco Corporation |
| Vinatex | Vietnam National Textile and Garment Group |
| VMS | Vietnam Mobile Telecom Services Company |
| VNCC | Vietnam National Cement Corporation |
| VND | Vietnam Dong |
| VNPT | Vietnam Post and Telecommunications Group |
| VNR | Vietnam Railway Corporation |
| VoIP | Voice over Internet Protocol |
| Vosco | Vietnam Ocean Shipping Company |
| VPA | Vietnam People's Army |
| VPSC | Vietnam Postal Savings Services Company |
| VSC | Vietnam Steel Corporation |
| VSIC | Vietnam Standard Industrial Classification |
| Vtec | Viet Tien Garments Company |
| WDI | World Development Indicators |
| WTO | World Trade Organization |

# 1 Introduction

Between 1990 and 2007, annual GDP growth in Vietnam averaged 7.5 percent and annual export growth averaged nearly 20 percent. Between 1995 and 2007, annual growth of gross fixed capital formation averaged over 11 percent, and rose from 24.3 to over 37 percent of GDP between 1994 and 2007 (World Bank 2008b). Recorded household poverty has fallen from 58 percent in 1993 to 29 percent in 2002 (World Bank 2006). Vietnam has become one of the leading exporters of rice, rubber, seafood, coffee, garments and footwear and is a leading destination for foreign direct investment. On a range of indicators, Vietnam has demonstrated a sustained dynamism and growth second in the world only to China.

The standard explanation of Vietnam's success is based on the extension of markets. De-collectivization of agriculture in the late 1980s strengthened property rights for farmers, resulting in output increases which ended near famine conditions. Vietnam quickly went from a net rice importer to a major rice exporter. Following the declaration of the *đổi mới* (renovation) policy and the shift to what would become the 'socialist-oriented market economy' at the VI$^{th}$ Party Congress in 1986 and macroeconomic stabilization in 1989, output and trade rapidly expanded. The ability of the government to maintain macroeconomic and political stability remains a key feature of Vietnam's growth and development. Gradual but ongoing liberalization of trade and investment have contributed to aligning domestic prices with international prices and attracting significant inflows of foreign investment. Reform of state-owned enterprises (SOEs), while sporadic, has continued to move forward alongside legal reforms to level the playing field for businesses of all ownership types. This has resulted in an explosion of private sector firms seeking to take advantage of new opportunities (Dollar 1994; Dollar, Glewwe and Litvack 1998; World Bank 2005). The orthodox transition policy triad of stabilize, liberalize and privatize appears to be the right recipe for Vietnam.

The transition story for Vietnam is derived from standard theories of transition developed for Eastern Europe and the former Soviet Union in the early 1990s. Successful transition to a market economy is viewed as the removal of obstacles, in particular from the state, to the efficient functioning of firms and markets:

> In the initial stages of transition in Eastern Europe and the former Soviet Union, the dominant challenge was to reduce and reorient the state's role in the economy. In particular, the strategies of liberalization and privatization were intended to change the way in which the state interacts with firms, shifting from command methods to market mechanisms (Hellman, Jones and Kaufmann 2003, p.752).

> Private ownership would ensure profit-oriented corporate governance, while liberalization of trade and prices would set free the competitive market forces that reward profitable activities. Firms would have therefore both internal and external incentives to restructure (EBRD 1999, p.16 quoted in King 2002, p.4; see also Sachs 1992).

Stabilization, liberalization and privatization entail the extension of markets and retreat of the state. As 'transition' is a move away from central planning, this is not controversial. It also explains the attractiveness of such arguments about, for example, agricultural liberalization in Vietnam being a fundamental determinant of subsequent growth.

For Eastern Europe and the former Soviet Union, transition "was often conceptualized as a return to something 'normal' and 'proven'. There were implicit assumptions that the simple removal of the market's institutional barriers would cause its organic, spontaneous development." (Amsden, Kochanowicz and Taylor 1994, p.171). However, this view of the emergence of a market economy is based on a particular formulation of the origins of capitalism itself, what King (2002) refers to as 'the Smithian transition strategy':

> If the state withdraws from the economy, markets and market activity will lead to capitalist development through voluntary exchanges in the pursuit of profit. In this world, there are only two types of economies – state dominated and the more 'natural' market economy (King 2002, p.3-4).

Discussing the standard view of the emergence of capitalism in England, Wood (2002) refers to this as the commercialization model:

> The most common way of explaining the origin of capitalism is to presuppose that its development is the natural outcome of human practices almost as old as the species itself, which required only the removal of external obstacles that hindered its realization … Capitalism, then, or 'commercial society', the highest stage of progress, represents a maturation of age-old commercial practices (together with technical advances) and their liberation from political and cultural constraints (Wood 2002, p.11-12).
>
> Whatever variations are introduced into the story, basically capitalism is just a lot more of what already existed in proto-capitalism and long before: more money, more urbanization, more trade, more wealth (Wood 2002, p.32).

According to the commercialization model, capitalism resulted from the progressive development of trade and accumulation of wealth, the division of labour and the advancement of science. It was a quantitative expansion of existing natural human tendencies rather than a qualitative transformation, with no conception of transition from one social system to another (Wood 2002, p.36). Here the connection between standard conceptions of current transitions and the link to conceptions of the initial origins of capitalism becomes apparent. The central problem is that:

> Almost without exception, accounts of the origin of capitalism have been fundamentally circular: they have assumed the prior existence of capitalism in order to explain its coming into being … In most accounts of capitalism and its origin, there really *is* no origin. Capitalism seems always to *be* there, somewhere; and it only needs to be released from its chains … to be allowed to grow and mature (Wood 2002, p.4).

This poses a more fundamental challenge to the standard explanation of transition in Vietnam. Capitalism as a quantitative extension of natural tendencies through the removal of obstacles to their full expression cannot differentiate between different periods in history. Land, labour, capital, markets, money, technology – all have existed for a very long time in many different places. Periods are simply more or less market oriented, corresponding more or less to the essential character of being human.

> If capital were only goods used in production or money needed to buy materials and labour, then capital would be as old as civilization, and there would be no purpose in singling it out as an identifying element of one kind of society, worthy of becoming, in fact, its historical badge. It is precisely the failure to recognize this distinctive aspect of capital … shared by conventional economics as well, which treats capital as a material category of things, or as money, and which accords it no special properties that would explain why the social formation in which we live is described by the 'ism' of capital (Heilbroner 1985, p.35-36).

> The commercialization model made no acknowledgement of imperatives specific to capitalism, of the specific ways in which the market operates in capitalism, of its specific laws of motion … There was, in fact, no need in the commercialization model to explain the emergence of capitalism at all. It assumed that capitalism existed, at least in embryo, from the dawn of human history … If the emergence of a mature capitalist economy required any explanation, it was to identify barriers that have stood in the way of its natural development, and the process by which those barriers were lifted (Wood 2002, p.16).

It is possible at this point to ask why this matters. The standard explanation of transition, grounded in a view of capitalism as the removal of obstacles to the realization of natural human tendencies to 'truck, barter and exchange', does capture, it could be argued, some of the salient features of the processes at work in Vietnam. For example, de-collectivization and liberalization of agriculture as the extension of markets surely matters.

However, if the question were instead: what is Vietnam transitioning *to*?, then the problem is fundamental. The standard explanation cannot answer this except as more markets. Therefore, a different theoretical framework is required to understand the processes at work in Vietnam, one which allows for differentiation of capitalism as a unique and specific mode of production. This will allow the answer to the question to be: transition to *capitalism*, where 'capitalism' actually means something. In addition, it is not simply that the standard story suffers from theoretical weakness due to its inability to identify the unique features of Vietnam's development. As Kitching (1982) argues, poor theory leads to poor policy recommendations. Failure to understand the dynamics of the emergence of capitalism in Vietnam leads to recommendations that are at best often ineffective and at worst can stall the process or fail to mitigate its negative effects.

The remainder of this chapter argues for the importance of using a Marxist definition of capitalism, stressing the emergence of a new social division of labour based on the emerging class relation between capital and labour. This transformation forces a shift to accumulation through the market, requiring capitalists to operate under the market imperative in order to survive. This provides a framework capable of capturing the unique features of capital as an 'ism' and provides a guide to empirical investigation. However, there is a tendency towards the doctrinaire in Marxism that will be avoided. The approach adopted here will be what Pelley (2002) refers to as a 'Marxish framework'. While a theoretical model of capitalism is useful, it needs to be applied with flexibility in practice. Given unique historical and political circumstances, Vietnam will have its own variety of capitalism. Attempting to identify which type or model of capitalism is operating in Vietnam misses the point since there is no one correct form. The more important question is: what is the nature of Vietnamese capitalism?

The purpose of this chapter is to argue for an alternative approach to the study of growth and development in Vietnam. However, this dissertation has narrow ambitions. The full story of the development of capitalism in Vietnam would require examination of the economic structure and bureaucracy from at least the 19th century Nguyễn dynasty, tracing its evolution through the period of French colonialism and into two major wars. It would also require extensive discussion of the rise of nationalism, along with changes in land tenure, the formation of wage labour, and the role of trade and foreign investment. The discussion here will only focus on the planning period and subsequent transformation in Vietnam, serving as an initial contribution to examining changes in Vietnam as the development of capitalism. The main argument of this dissertation is that the capitalist class in Vietnam is emerging from within the state.

The remainder of this dissertation is structured as follows. Chapter Two introduces Djilas (1957) and the concept of communist bureaucracies as a New Class. This will be used as a lens for exploring the formation of a capitalist class in Vietnam. For Djilas, the New Class is based on a contradiction between national property and control over its use. This contradiction is predicated on a disjunction between a legal definition of property as collective and *de facto* ownership and control by state bureaucrats and managers. It cannot be resolved without jeopardizing the position of the New Class. The foundation of New Class power therefore erodes during transition as property is privatized and the plan is dismantled. Reproduction of New Class power during transition becomes an issue of fundamental importance, and how the Djilas contradiction is resolved influences the formation of a capitalist class.

Attempts to reproduce New Class power do not occur in a vacuum. Under a command economy, the New Class accumulates based on leveraging access to the state. In Eastern Europe and China, resolution of the New Class contradiction during transition followed a pattern of state-related accumulation that has its roots in the planning period. However, different countries experienced different outcomes, with state continuity a key element in orienting this process towards economic growth. The specific methods used to resolve the Djilas contradiction in Eastern Europe and China will provide guidance for identifying similar processes of capitalist class formation in Vietnam. Discussion will also include the development of capitalism in Southeast Asia and its relevance to the emergence of capitalism in Vietnam.

Chapter Three serves the dual purpose of literature review and discussion of events between 1954 and 2006 in Vietnam. It will be argued that, as in Eastern Europe and China, a pattern of accumulation based on leveraging access to the state emerged under planning. In the initial period between 1954 and 1974 in the north this functioned primarily to overcome shortages and improve living standards. However, after national reunification in 1975, it expanded into a process of commercializing the state. The continued ability to arbitrage price differentials between plan and market by diverting inputs and assets from the state system, along with opportunities to engage in smuggling through travel abroad, increasingly became sources of capital accumulation. State firms and those connected to the state increasingly engaged in commercial activities outside the plan. The process accelerated through the 1980s and ultimately destroyed the basis for central planning, forcing the Vietnamese Communist Party to attempt resolution of the New Class contradiction.

In the 1990s and 2000s, temporary resolution of the Djilas contradiction followed a relatively straightforward application of the Stalinist definition of socialism as state ownership. The state sector would play the 'leading role' in the economy and this led to a state enterprise focused development model. As in China, state-related accumulation included both state and private entrepreneurs and shaped the process of capitalist class formation. Although based on leveraging access to the state, the growing influence of the market imperative, manifested as increased competition, resulted in remarkable economic dynamism.

Much work has been done on these issues in Vietnam, but has tended to focus on processes occurring at lower levels in the state hierarchy or is based on aggregate comparisons between state and private. None have systematically investigated Vietnam's largest firms. This dissertation will present research on Vietnam's 200 largest firms to assess how the ongoing attempt to resolve the Djilas contradiction is influencing the emergence of a capitalist class from within the state.

Chapter Four reviews methodology. The firm is used as the unit of analysis because it is in firms that capital and labour meet. Firms are the ‘vehicles’ of capitalism. The focus will be on large firms because large firms are better able to achieve the economies of scale and scope that contribute to international competitiveness. They also invest in the acquisition and development of technologies and products and therefore pioneer entry into higher value-added activities. In addition, large firms’ requirements for infrastructure, capital and skilled labour have significant and often positive spillover effects for the rest of the economy. Nevertheless, competitive large *and* small firms are important to a dynamic economy. However, most of the work done in Vietnam tends to focus on small and medium sized enterprises. This dissertation presents research findings on Vietnam’s largest firms in order to address this limitation. The remainder of the chapter explains the methodology used for selecting the Top 200 firms.

Chapter Five presents the research results. Two key features emerge. The first is the rising importance of the market imperative, with increasing competition forcing firms to adapt and improve. In response, Vietnam’s largest firms have adopted three general strategies: upgrading core business into more complex and higher value products; expanding markets; and diversifying business areas, often into real estate and finance. These strategies are frequently related and most firms are engaging in more than one, with some firms pursuing all three strategies simultaneously. Diversification into finance and real estate is a fairly common practice, but is particularly pronounced amongst Vietnam’s state corporations and economic groups.

The second feature is the pervasiveness of state-related accumulation. However, state-related accumulation does not require intentionality on the part of the state. Indeed, the historical roots of this process in Vietnam are predicated precisely on a *lack* of control. State-related accumulation also occurs irrespective of ownership type. Private firms leverage access to the state just as state firms seize new market opportunities to expand and accumulate. In many instances the boundary between state and private is blurred. However, political connections and access to the state remain insufficient conditions for success. Some firms, even with ample privileges, fail to exploit emerging opportunities.

Twelve case studies of individual firms will be presented which illustrate the three general adaptive strategies, along with a considerable degree of dynamism. The firms reviewed also highlight the centrality of state-related accumulation to the process of class formation in Vietnam. This pattern of accumulation comes in a variety of forms identifiable from the Eastern Europe and China literature. However, it is not necessarily corrupt and can even be quite mundane. Nevertheless, this broad pattern of accumulation demonstrates that the capitalist class in Vietnam is emerging from within the state. Chapter Six concludes with a summary of the argument and discussion of its implications.

## *1.1 Varieties of Capitalism*

The term 'capitalism' has a contentious history, but has recently come in from the cold.[1] "For many years this term [capitalism] … has been regarded as vaguely obscene. All sorts of euphemisms – free enterprise, individual enterprise, the competitive system and the price system – are currently in its place. None of them has the virtue of being more descriptive and none is as succinct." (Galbraith 2004, p.4, footnote 1). The rehabilitation of the term is in part a result of the 'institutional turn' in economics. This turn is a combination of several strands of theory, including developments in transaction cost economics, the economics of information, and economic history, all of which stress the importance of institutions in resolving limitations in neoclassical models.[2] Williamson (1985) puts the term in the title with *The Economic Institutions of Capitalism*.

The emphasis is on moving beyond simply 'getting the prices right'. Particular institutions are also required to make markets work, including secure property rights, contract enforcement, and rule of law. Capitalism is then defined as an institutional configuration which allows the market to function. For transition countries, the focus on

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[1] See Swedberg (2005), p.32, footnote 4 for a brief history of the term 'capitalism'.
[2] See Williamson (1985) on transaction cost economics, Stiglitz (1994) on the economics of information, and North (1981) and North (1990) on property rights and economic history. For an excellent but neglected overview, which anticipates much of the developments in institutional economics, see Van Arkadie (1990a).

institutions grew out of the failures of the ‘shock therapy’ approach predicated on capitalism as natural and simply requiring the removal of obstacles to generate growth.[3]

> The conventional wisdom is that markets do not need to be painstakingly constructed by government – they emerge spontaneously … A thriving market economy is not, contrary to what some may say, simply the result of ‘letting capitalism happen’ – not something that emerges spontaneously out of thin air. It requires a special set of institutional arrangements that most countries in the world do not have (Olson 1992, p.viii).

However, the critique of the standard ‘noninstitutional approach’ (Amsden *et al* 1994) to transition countries tended to conflate institutional form and function, such that *one* set of institutions was specified to correct the limitations of mainstream economic theory.[4] A particular institutional form (e.g. an independent central bank) was directly associated with a particular institutional function (e.g. reduced inflation), and capitalism required creating these particular institutional forms in order to secure their associated functions and allow the market to operate. A country has “a particular historical narrative but with common denominators of the essential institutions” (North 2005, p.50).

As the focus on institutions extended beyond economics into comparative politics, sociology, and management, emphasis was placed on the variety of institutional configurations under capitalism. The ‘varieties of capitalism’ literature examines the institutional differences between various advanced capitalist countries, often with the intention of justifying multiple institutional configurations as ‘valid’ capitalisms. Typically Japan and Germany as ‘coordinated’ capitalism are juxtaposed against the US as ‘free market’ or ‘arm’s length’ capitalism (Whitley 1999, Hall and Soskice 2001, Amable 2003).

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[3] No attempt will be made to review the large ‘shock therapy vs. gradualism’ literature. See Nolan (1995) for an overview.

[4] This is not limited to application of institutional economics to transition countries, but is a feature of much of the institutionalist literature. See Cheshier (2004) for a review.

The varieties of capitalism approach, emphasizing diversity of institutional forms, found its corollary in the transition literature, particularly with regard to China.[5] Not only did China confound the standard transition story by achieving sustained growth even though refusing rapid liberalization and privatization, it also confounded the 'simple' institutional story which equated particular institutional forms with specific and necessary institutional functions. At the formal level, China's transition has been marked by ambiguous property rights, high levels of corruption and weak rule of law (Walder and Oi 1999). The 'essential institutions' were not in place and yet China continued to grow.

To explain this apparent anomaly, Rodrik (2003, 2007), building on the work of China specialists, argues that neo-classical economic principles are institution free.[6] Protection of property rights, sound money and appropriate incentives via price signals are *functions* of institutions, none of which map into particular institutional forms. "Unorthodox institutions work precisely because they produce orthodox results" (Rodrik 2003, p.9). China has managed to engineer alternative institutional structures, through trial and error contingent on local circumstances, that nevertheless generate the 'right' functions. For Rodrik, there are varieties of institutional forms, but similarity of functions. North (2005) supports this view, arguing that "the key is to create the necessary incentive structure, not slavishly to imitate the institutions of developed countries" (North 2005, p.51, footnote 6).

Recognition of institutional variety dependent on historical and political factors unique to particular countries represents a positive step in understanding the role of institutions and institutional change in generating growth. However, even in the best of this literature, capital-*ism* is not defined, except as a set of institutions that allow markets to work.

In its most basic expression, in the varieties of capitalism literature 'capitalism' is simply equated with markets or market economies. Hall and Soskice (2001) have 'capitalism' in

[5] The literature on China will be covered in more detail in Chapter Two.
[6] An important source from the China literature is Qian (2002), one of the few scholars to acknowledge the influence of Gerschenkron (1962) on the varieties of institutions literature. For the view that textbook economics was right all along and growth in China was due to private firms, see Huang (2008).

the title, but in the 540 page edited volume 'the market' is defined (Hall and Soskice 2001, p.9) but capitalism is not. Amsden *et al* (1994) differentiate between markets and capitalism, acknowledging that market exchange has been a nearly universal feature of economic life throughout history. Not so with capitalism. Markets only require fairly simple institutions, but capitalism is unique because it requires "specific, complicated, and abstract institutions" (Amsden *et al* 1994, p.171) such as credit, banks and property rights to organize exchange through markets distant in time and space. In capitalism, complex institutions facilitate accumulation for long term investment, risk-taking and structural change.

In terms of transition countries, the emphasis is on the move 'from plan to market'.[7] The market remains the key referent, and various institutional configurations exist to enable its operation. Planning is portrayed as an institutional distortion. Transition entails the removal of obstacles to the operation of the market and institutional transformation to ensure the market functions properly.[8] But capitalism as a unique system is reduced to markets and (varieties of) complex institutions. The standard story, with its assumptions about capitalism as natural, remains the foundation. All that has been added is another layer, emphasizing institutions. However:

> [T]he market is itself an institution. It is still an article of faith … that commodity exchange is an inherent part of the interaction among human beings in a state of nature. The social conditions that make possible the emergence of the institution of generalized market exchange, such as class structure and access to the means of production, remain a closed book (Fine, Lapavitsas and Pincus 2003, p.xvi).

Work in economic sociology has attempted to address this. Nee and Swedberg (2005) build upon the work of the varieties of capitalism literature and its emphasis on

[7] This was the title of a World Bank report on transition (World Bank 1996) and is something of a stock phrase in describing the transition process (e.g. Stark 1990, Fforde and de Vylder 1996).
[8] Not all of the literature follows the plan vs. market dichotomy. Amsden *et al* (1994) and Nolan (1995) both emphasize the importance of the role of the state in transition and economic growth. Nolan (1995) specifically rejects the notion of 'planned economies', arguing that 'command economy' is a more accurate description of socialist economic systems. Planning, in this view, is an indispensable part of state involvement in the economy, whatever the mechanisms for allocating resources (command vs. the market).

institutions by incorporating social structure as a way to arrive at capitalism as a unique social system.

> [M]uch of the literature on the varieties of capitalism is perhaps better described as studies of the political and economic history of individual Western countries and how these compare to each other, than as studies of capitalism and its specific dynamic … [C]apitalism has to be understood as a social system centred around profit-making, and not as a collection of social, economic, and political institutions for governance (Swedberg 2005, p.30).

The starting point is that the market is the central institution of capitalism (Swedberg 2005, p.12). Capitalism is a particular institutional order, with political and economic institutions as the "scaffolding for modern capitalism" (Nee and Swedberg 2005, p.xxxvii). However, institutions are not just a system of incentives that influence individual decision making as in North (1981). Rather, institutions are the "embodiment of concrete interests and social relations" (Nee and Swedberg 2005, p.xl). The emphasis is on social structure as 'congealed interests', with a "need to set interests and the way that these are played out in social relationships at the centre of the analysis" (Swedberg 2005, p.31).

In institutional economics, institutions generate incentives that influence individual decision making. In economic sociology, institutions as 'congealed interests' determine individual behaviour. The difference is that for institutional economics the focus is on the individual and how institutions influence interactions between individuals. The individual is the unit of analysis and the key agent. For economic sociology, it is the interest groups which matter, and interaction between structural groups or blocs that influence outcomes rather than individual choices (Swedberg 2005, p.31). "Interests … are always socially defined, and they can only be realized through social relations" (Swedberg 2005, p.8). Institutions are "not just humanly devised constraints but social structures that provide a framework and conduit for collective action by shaping the interests of actors" (Nee and

Swedberg 2005, p.xxxviii). These interests “drive the actions of individuals” and “are what supply *the force* to the economic system” (Swedberg 2005, p.5).

While Nee and Swedberg (2005) shy away from using the term ‘class’, other work in the economic sociology of capitalism and transition freely uses the term (Eyal, Szelényi and Townsley 1998; Eyal 2000; King 2002). The notion of class employed borrows much from Weber, Polanyi and Bourdieu (but not Marx), and is consistent with the Nee and Swedberg (2005) emphasis on structural groups. Again, it is the interaction between various interest groups as social relations which determines outcomes.

> The type of capitalism to emerge after the fall of communism was determined by struggles and alliances in the late communist field of power. Where the nomenklatura managed to convert itself into a propertied class via ‘spontaneous privatization’, the result was a system of ‘capitalists without capitalism’, i.e., a relatively powerful propertied social class thriving in the context of weak, rudimentary, or even absent capitalist market institutions. Where, on the other hand, the nomenklatura was blocked by an independent intelligentsia, the latter began to understand itself and act as a *bildungsbürgertum*, a cultural bourgeoisie in charge of building capitalist institutions … The result was ‘capitalism without capitalists’ (Eyal 2000, p.49-50).

The economic sociology emphasis on institutions as congealed interests embedded in social relations leads to a specific definition of capitalism as a unique social system. The primary element used to differentiate different types of economic systems is the method of distribution (Swedberg 2005, p.7). In capitalism, the market is the central distribution mechanism. However, this goes beyond the simple varieties of capitalism substitution of markets for capitalism. “In the great majority of societies throughout history, markets have indeed played a role, but usually a marginal one … When one speaks of a market economy, in other words, what is meant is an economy where the market is not only used for exchange; it also dominates production” (Swedberg 2005, p.12).

This definition also goes beyond the Amsden *et al* (1994) view of capitalism as complex institutions, which also differentiates between markets and capitalism. For Nee and Swedberg (2005), the essential feature of capitalism is exchange based production driven by the profit motive.

> Exchange characterizes the capitalist organization of the economy; and this type of economy derives its dynamic from the fact that the end goal of the economic process is not exclusively consumption, but also *profit*. The more that this profit is reinvested into production, the more dynamic the economy will be. The two key mechanisms in capitalism, in other words, are *organized exchange (the market)* and *the feedback loop of profit into production* (Swedberg 2005, p.8).

The link between this definition of capitalism and structural groups occurs through the role of profit-making interests and the institutions generated to realize these interests (Nee and Swedberg 2005, p.xlvi). In its application to various contexts, for example China (Nee 2005) and Central Europe (Eyal *et al* 1998), the economic sociology perspective incorporates the best of the varieties of capitalism literature, with its emphasis on multiple institutional forms influenced by history and politics. However, the question remains whether or not this perspective, predicated on structural groups and an exchange based definition of capitalism, is adequate for understanding the dynamics of capitalism.

## 1.2 Defining Capitalism

The most immediate feature of the economic sociology perspective is its latent Marxism. Class, social relations, reinvestment of profits into production – all are elements of a Marxian definition of capitalism. Nevertheless, most of economic sociology is quite explicit in its rejection of Marx. The reasons for this are irrelevant, it is enough to ask if it is warranted. By examining the two central dimensions of the economic sociology perspective – institutions as congealed interests embedded in social relations and an exchange based definition of capitalism – it will be argued that a Marxist approach is more applicable.

The first pillar of economic sociology, the conception of social relations as interest groups, is an important improvement on the methodological individualism of most economics. However, social relations – whether called classes or not – are seen as discrete and separate categories. The interest groups, blocs, classes invoked are disembodied categories, postulated as existing and exerting influence with little explanation of how they came into being.

For example, in Eyal (2000) quoted above, the explanation of why the 'independent intelligentsia' awakens as a self-sacrificing 'cultural bourgeoisie' is based on examination of the nationalist writings of the intelligentsia itself. The whole argument, distilled to its essence, reduces to an explanation that in Czechoslovakia a self-aware, independent and organized intelligentsia cared more about their country than the nomenklatura thieves in Russia. Without delving into the literature on the class position of the intelligentsia, it is enough to note that 'the intelligentsia' in any country is itself heterogeneous and requires disaggregation and explanation.[9] Furthermore, it must be explained why 'the intelligentsia' is an enduring bloc capable of acting in the way described by Eyal (2000).

> There can be a flare-up of solidarities in other groups, but if they are quite heterogeneous in character, the ties may disappear once a particular irritant or problem is removed. Thus, a category like … 'the intelligentsia' could, quite often, share opinions and lines of action but would rarely produce something akin to a stable trade union (Lewin 1995, p.131-132).

Burawoy (1979) criticized this 'metaphysical' tendency in sociology, arguing that analytic categories cannot be assumed. It is necessary to explain how they are produced and reproduced.

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[9] An enormous debate within the Marxist literature also grapples with the position of the intelligentsia and the 'intermediate classes'. The content of this debate is not relevant here. See Poulantzas (1973) for further discussion.

On the second pillar of economic sociology, an exchange based definition of capitalism, Brenner (1977) provides an extensive critique.[10] The economic sociology definition of capitalism is not actually a definition, it is simply a description. It does not explain *why* the profit motive is the main driver or why profits *need* to be reinvested into production. Capitalism exists when this happens, when profit-driven interests exists and institutions exist to realize them through exchange. Brenner (1977) argues that it is impossible to base a definition of capitalism on exchange. Instead, it is necessary to base the definition of capitalism in the realm of production.

In order to understand why this is the case, it is necessary to start with a basic summary of a Marxian definition of capitalism and establish some basic concepts. Marx (1976) and Marx and Engels (1998) can be summarized as follows:

> Marx's enduring achievement was to recognize … that … capitalism … was not simply the result of the natural build-up of scientific and technological advances over the centuries, or of the steady accumulation of wealth following on from specialization, the division of labour and the resulting expansion of markets as imagined by Adam Smith. Marx looked beyond these apparent stimuli to the growth of manufacturing industry to consider the transformation of *social relations* underlying these changes. For Marx, capitalism's unique dynamism stems from a new *social* division of labour that compels capitalists to compete in markets through investment in innovation and forces workers to sell their labour to meet their subsistence needs. For the first time in history, the extraction of economic surplus from the direct producers could no longer be achieved through political, judicial and/or military coercion, but needed economic means to realize the increases in labour productivity required for accumulation (Sender and Pincus 2006, p.45).

[10] Although Brenner (1977) offers a critique of neo-Marxian dependency theory, labeled by Brenner as 'neo-Smithian Marxism', it is equally applicable to the economic sociology perspective. Wood (2002), a student of Brenner, developed the 'commercialization model' to extend Brenner's critique to standard (non-Marxist) views of the origins of capitalism.

> No amount of accumulation, whether from outright theft, from imperialism, from commercial profit, or even from the exploitation of labour for commercial profit, by itself constitutes capital, nor will it produce capitalism. The specific precondition of capitalism is a transformation of social property relations that generates capitalist 'laws of motion': the *imperatives* of competition and profit-maximization, a *compulsion* to reinvest surplus, and a systematic and relentless *need* to improve labour-productivity and develop the forces of production (Wood 2002, p.36-37).

While using slightly different terminology, this view of capitalism is quite similar to that used in economic sociology. The crucial elements here are the transformation of *social relations* and identification of an *imperative* that compels capitalists and workers.

Important to the Marxian definition of capitalism is a distinction between absolute and relative surplus. Marx divided the working day into necessary and surplus labour. Necessary labour is that labour required to produce the wage of the labourer and ensure the reproduction of the worker, whereas surplus labour is the additional labour produced by the worker which accrues to the owner of the means of production. Surplus labour forms the basis for accumulation.

Absolute surplus results from extending the working day. Accumulation can be increased by forcing workers to work additional hours. Relative surplus arises from shortening the necessary labour component through increased labour productivity. This extends surplus labour within a given working day and increases accumulation. The unique feature of capitalism is that for the first time surplus is systematically generated through increasing labour productivity, through increasing relative surplus. The systematic tendency to increase labour productivity is also the source of capitalism's dynamism and the main driver of organizational and technological change (Marx 1976, Brenner 1977, Harvey 2006).

It is not simply that capitalists always *want* to accumulate, it is that they always *must*. Increased productivity by one capitalist forces all others to either catch up or go out of business, since increased productivity reduces production costs and increases output. The constant attempt to increase productivity arises from the constant need to increase accumulation, either to temporarily leap ahead or catch up with others that have already done so. This is the source of the *need* to reinvest surplus in production and capitalism's tendency towards "unprecedented, though neither continuous nor unlimited, economic development" (Brenner 1977, p.30).

However, these are 'laws of motion' for an already existing capitalism. How do these laws of motion arise? Where does capitalism come from? Addressing these questions provides a means to deal with the shortcomings of an exchange based definition of capitalism.

Brenner (1977) argues that accumulation through innovation, through increasing productivity and relative surplus, is the key process in capitalism. Exchange based definitions of capitalism mislocate this process in production for profit in the market.

> [T]here is no doubt that capitalism is a system in which production for a profit via exchange predominates. But does the opposite hold true? Does the appearance of widespread production 'for profit in the market' signal the existence of capitalism, and more particularly a system in which, as a characteristic feature, 'production is constantly expanded and men constantly innovate new ways of producing'[?] Certainly not, because production for exchange is perfectly compatible with a system in which it is either unnecessary or impossible, or both, to reinvest in expanded, improved production in order to 'profit'. … [T]his is the norm in pre-capitalist societies. For in such societies the social relations of production in large part confine the realization of surplus labour to the methods of extending absolute labour. The increase of relative surplus labour cannot become a *systematic feature* of such modes of production (Brenner 1977, p.32).

‘Production for profit via exchange’ is a necessary but insufficient condition for capitalism. This is because the social relations of *production* determine the imperatives of the system. The essential condition for capitalism, and its dynamic growth through increasing productivity, is the existence of ‘free’ wage labour, with labour power as a commodity (Brenner 1977, p.55).[11] The workers must be separated from direct (non-market) access to the means of production, forced to sell their labour in order to survive.

> [T]he emergence of possibilities for profitable production thanks to the establishment of commerce … does not necessarily mean the movement of producers to take advantage of them. For this to occur … there must be no substantial barriers to leaving agriculture, such as serfdom or slavery. In other words, any direct forceful controls over the movement of the direct producers, arising from the social relations by which the ruling class extracts a surplus from them, must be eliminated (Brenner 1977, p.35).

Brenner (1977) spends considerable time demonstrating how ‘production for profit via exchange’ in pre-capitalist (especially feudal) relations of production does not result in the imperative to increase productivity. This is because, in feudalism, neither the lords nor the serfs depended on the market for survival. Serfs retained direct access to the means of production, and lords were able to extract surplus from serfs (typically in the form of corvée labour) directly. While surplus might be generated and traded, feudal relations of production did not require any necessary improvements in labour productivity in order to survive. Since surplus was extracted by force, it was systematically diverted from reinvestment into production, instead used to expand the non-economic capacity to apply force in order to extract additional surplus.

[11] For Weber (1992), as for Marx (1976), an essential condition for capitalism is the existence of wage labour. The use to which this essential condition is put is quite different between Weber and Marx. Weber was interested in understanding the emergence of the ‘spirit of capitalism’, the reorientation of the economy towards sustained growth and the change in values that underpinned this. Wage labour, rather than the profit motive, was a key feature of ‘bourgeois capitalism’, part of what differentiated the economic process occurring in Europe from all other types of economic organization. See Greenfeld (2001) for discussion. Weber will be discussed further in Chapter Two.

The crucial point is that it is the relations of production, and not the existence of profit driven production for exchange, which determines outcomes and ‘laws of motion’. This is why the social division of labour is fundamental.

> What therefore accounts for capitalist economic development is that the class (property/surplus extraction) structure of the economy as a whole determines that reproduction carried out by its component ‘units’ is dependent upon their ability to increase their production (accumulate) and thereby develop their forces of production, in order to increase the productivity of labour … In contrast, in pre-capitalist economies, even those in which trade is widespread, can develop only within definite limits, because the class structure of the economy as a whole determines that their component units … neither can nor must systematically increase the forces of production, the productivity of labour, in order to reproduce themselves (Brenner 1977, p.32-33).

The “historically developed structures of class relations (relations of surplus extraction and property) open up or foreclose different patterns of development” (Brenner 1977, p.38). The rise of the market, of production for profit via exchange, cannot explain the emergence of capitalism because it does not determine the transformation of class relations of production.

> If, then, the class-structured system of reproduction in which labour power is a commodity lies behind capitalist economic development, while ‘production for profit in the market’ cannot in itself determine the development of the productive forces, it follows that the historical problem of the origins of capitalist economic development in relation to pre-capitalist modes of production becomes that of the origin of the property/surplus extraction system (class system) of free wage labour – the historical process by which labour power and the means of production become commodities (Brenner 1977, p.33).

It is class relations, relations of *production*, which are pivotal. Capitalist relations of production, based on the existence of 'free' wage labour and the extraction of surplus through production for exchange, generate the imperative to increase productivity by reinvesting profits. The dynamism of capitalism is located in the realm of production, in the relations of production, and not in the realm of exchange. While the economic sociology definition of capitalism is a significant improvement on the non-institutional, a-historical standard view of capitalism as natural, it nevertheless is built upon the same foundations. The primacy of relations of production also demonstrates why an institutional definition of capitalism is insufficient. It is not allocation through the market or varieties of complex institutions which define capitalism, it is the class structure – a particular class structure based on wage labour and surplus extraction through production – which provide a definition capable of explaining the uniqueness of capitalism and its distinct 'laws of motion'.

An important implication of a production based definition of capitalism is that 'transition' is an inadequate term for understanding the development of capitalism. As Brenner (1977) and Wood (2002) emphasize, it is the *transformation* of the relations of production which are crucial. This is necessary in order to overcome the limitations of the standard story as commercialization model, where capitalism exists everywhere in embryo as natural human tendency. It is the essential difference between 'transformation' and 'transition' which separates a Marxist perspective on Vietnam from the standard explanations.[12]

There is, however, a potential danger in using 'capitalism' as a unique and specific mode of production. In order for capitalism to be an 'ism', it must have some defining characteristics. These have already been elaborated. The danger is getting trapped into the classification game: is Vietnam *really* capitalist?

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[12] Some authors in the transition literature do emphasize the importance of transformation over transition, but not in the same way. For example, Burawoy (2001) does this in the context of Marxist sociology, Ellman (1997) occupies a sort of middle ground, while Fischer and Gelb (1991) simply substitute the terms and remain focused on the extension of markets and the removal of obstacles.

## 1.3 Ersatz Capitalism

Using a strict or narrow definition of capitalism frequently results in formulation of an ideal type of capitalism. Analysis then proceeds to demonstrate how various actually existing forms of capitalism are deformed not quite capitalism, lacking the components and dynamism of the ideal type. 'Ersatz' capitalism is a common feature in the transition literature, from both the right and left of the political spectrum.[13] From the ideological right, the most frequent modification of 'pure' or 'real' capitalism is 'crony' capitalism (Frye and Shleifer 1997). Corruption, opaque connections between governments and firms and in the extreme a form of ignorant cultural condescension (the inscrutable orient) all disfigure the true potential of the market as capitalism. From the ideological left, 'gangster' capitalism is most often invoked (Greenfield 1994; Walker 2006), but for alternative reasons. The difference is that for the right, crony capitalism is a stunted form of capitalism requiring the further removal of barriers to allow true capitalism to flourish, while for the left, gangster capitalism either prevents the full development of the proletariat and forces of revolution or is a dystopian nightmare destroying the idyllic former (nominally) socialist days.

Ersatz capitalism takes a particular form within the Marxist literature, in its extreme resulting in the rather unhelpful modes of production debates.[14] Capitalism is composed of specific features – class relations of production based on 'free' wage labour, generalized market exchange, competition, and the resulting imperative to increase productivity – and any actually existing production system lacking these components is therefore not capitalist. For example, Brenner (1977) frequently wields the narrow definition of capitalism to highlight how various agrarian structures in Europe were pre-capitalist rather than capitalist.

The approach is useful in identifying the key elements of capitalism, but can become a theoretical straightjacket rather than useful analytic device. "[T]he search for a 'pure'

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[13] The term 'ersatz capitalism' comes from Yoshihara (1988) and will be discussed with reference to its original application to Southeast Asian capitalism in Chapter Two.

[14] For a brief and excellent overview of the mode of production concept and the classification debates in the Marxist literature, see Harvey (2006), p.25, footnote 12.

form of capitalism is misleading, if not inappropriate … [as] there is no single path to capitalist dominance" (Hewison 1989, p.2). To overcome the limitations of capitalism as ideal type, it is necessary to differentiate between a theoretical mode of production and an actually existing society.

> The formal analysis of the capitalist mode of production seeks to unravel the stark logic of capitalism stripped bare of all complicating features. The concepts presuppose no more than is strictly necessary to the task. But a social formation – a particular society as it is constituted at a particular historical moment – is much more complex (Harvey 2006, p.25-26).[15]

For example, when Marx analyzes actual historical events, he uses "broader, more numerous and more flexible class categories" which are a "far cry from the neat two-class analytics laid out in much of *Capital*" (Harvey 2006, p.26).

An important implication of the complexity of real life is that multiple modes of production can exist simultaneously (Lenin 1960, Poulantzas 1973, Sender and Smith 1986).

> In actual historical situations we will certainly find several modes of production intertwined or 'articulated' with each other, even though one mode may be clearly dominant. Residual elements of past modes, the seeds of future modes and imported elements from some contemporaneously existing mode may all be found within a particular social formation … [T]o understand them [actual historical situations] we have to adopt a far more complex frame of analysis than that dictated by the analysis of any one particular mode of production (conceived of in the narrow sense) (Harvey 2006, p.26, footnote 12).

[15] The concept 'social formation' is important in the 'Althusserian' tradition of structural Marxism, for example Althusser and Balibar (1970). See Harvey (2006), p.25-26, footnote 12 for a brief review. The content of the debates on modes of production and social formations is not relevant here. The point is simply to highlight that actually existing societies are more complex than the strict narrow definition of the capitalist mode of production. This also helps avoid the 'vulgar' Marxist debates on base and superstructure, while still employing a production based definition of capitalism.

Identification of the unique features of capitalism is necessary in order to generate a definition whereby capitalism is different from previous periods of history and alternative ways of organizing productive life. However, this theoretical ideal type need not completely correspond to a particular type of actually existing capitalism. The theoretical definition is necessary, since it points to specific features to look for in the development of capitalism in a particular society, such as the development of 'free' wage labour.

But dogmatic adherence to theory is unhelpful. While a Marxist theoretical orientation is useful for understanding the development of capitalism in Vietnam, "it cannot be true that the answers are immutable" (Aronowitz 2003, p.2). It is necessary to identify the unique features of Vietnamese capitalism and the development of capitalism in the actually existing particular place that is Vietnam. This requires theoretical flexibility rather than rigid application of theory. "The aim is not to produce another model, but rather to allow a theoretically informed analysis" (Hewison 1989, p.3).

This requires a return to the varieties of capitalism approach, informed by a production based definition of capitalism. Rather than agonize over whether or not Vietnam is really capitalist, or only kind of capitalist, whether as crony or gangster or something else, Minsky (1991) will be used as the orientation for investigating the changes occurring in Vietnam: "there are as many varieties of capitalism as Heinz has pickles" (Minsky 1991, p.10). It is extremely difficult to maintain that what is occurring in Vietnam, in the context of current global capitalism, is not itself the ongoing development of capitalism. Attempting to identify which type of ersatz capitalism is operating in Vietnam misses the point since there is no one correct form of capitalism. The more important question is: what is the nature of Vietnamese capitalism?

## *1.4 Summary*

The standard story for the success of Vietnam is based on a particular conception of the origins, and hence transition to, capitalism. In this conception, which Wood (2002) refers to as the commercialization model, capitalism is the default tendency of human beings to exchange. All that is required for its emergence is the removal of obstacles and barriers to these natural tendencies. This view informed much of the transition literature, where the solution to the problems of central planning pivoted on stabilization, liberalization, and privatization to get the state ‘out of the way’.

The institutional literature, sharing affinities with the varieties of capitalism literature, argued against the simplistic standard story. Capitalism is not just about ‘getting the prices right’, not just about incentives to individuals, but also entails complex institutions. Without these institutions, the market will not function properly. These institutions can appear in various forms, influenced by the particular history and politics of specific countries.

While an important improvement on the standard story, the institutions literature also relies on an exchange based definition of capitalism, with the market as the key institution. It is therefore still built upon the foundations of the commercialization model, where exchange is the natural state of human beings. However, this view of capitalism cannot identify the unique characteristics that make capital an ‘ism’, which differentiates it from other periods in history.

A production based definition of capitalism is necessary to overcome these limitations. Particular class relations of production, predicated on the existence of a ‘free’ wage labour force separated from direct access to the means of production, define capitalism. These class relations force workers to sell their labour power in the market, and force the owners of the means of production to reinvest surplus to increase productivity in order to survive. This class relation is the essence of capitalism, and its source of dynamism. The constant need to ‘revolutionize the forces of production’ is why capitalism is oriented towards long term investment and growth – accumulation on an ‘extended scale’, combining accumulation, innovation and structural change (Brenner 1977, Kitching 1982, Chandler 1990).[16]

[16] This trifecta – ‘accumulation, innovation and structural change’ – is borrowed from Brian Van Arkadie.

A specific theoretical model of capitalism is required to identify and specify its uniqueness, and provide a guide to empirical investigation into its emergence, but needs to be applied flexibly in practice. History and actually existing societies are complex and necessitate a broader approach, with a theoretically informed return to the varieties of capitalism approach rather than using a narrow ideal type of capitalism and its ersatz forms. For Vietnam, it is necessary to examine the process and patterns of accumulation, and the degree to which this results in long term investment and structural change. Using a production based definition of capitalism as foundation, attentive to unique historical and political influences, what are the specific features of the development of capitalism in Vietnam?

# 2 The New Class

A key issue for understanding the development of capitalism in Vietnam concerns patterns of accumulation and formation of the capitalist class. The primary hypothesis is that the capitalist class in Vietnam is emerging from within the state. This is not simply because the state has historically played a central role in the development of capitalism (Greenfeld 2001, Chang 2002). It is also because of the role of the state apparatus in the accumulation of capital in communist Vietnam.

In 1957, Milovan Djilas, a former high-ranking communist official in Yugoslavia, published *The New Class: An Analysis of the Communist System*. He argued that a New Class develops in communist societies:

> The role of the bureaucracy in society, i.e., monopolistic administration and control of national income and national goods, consigns it to a special privileged position … Ownership is nothing other than the right of profit and control. If one defines class benefits by this right, Communist states have seen, in the final analysis, the origin of a new form of ownership or of a new ruling and exploiting class (Djilas 1957, p.35).

> The new class obtains its power, privileges, ideology, and its customs from one specific form of ownership – collective ownership – which the class administers and distributes in the name of the nation and society (Djilas 1957, p.45).

A contradiction emerges between the legal definition of property as collective and the *de facto* ownership of national property by the New Class:

> The new class instinctively feels that national goods are, in fact, its property, and that even the terms 'socialist', 'social', and 'state' property denote a general fiction. The new class also thinks that any breach of its totalitarian authority might imperil its ownership. Consequently, the new class opposes *any* type of

> freedom, ostensibly for the purpose of preserving 'socialist' ownership. Criticism of the new class's monopolistic administration of property generates the fear of the possible loss of power … Property is legally considered social and national property. But, in actuality, a single group manages it in its own interest … *This contradiction cannot be resolved without jeopardizing the class's position* (Djilas 1957, p.65, emphasis added).

How this contradiction is resolved will influence class formation and the development of capitalism in Vietnam. The New Class concept will be used as a lens to explore this transformation.

## 2.1 The New Class Context

The term 'New Class' was coined by Bakunin around 1870 (King and Szelényi 2004, p.vii). Using this term associated Djilas with an existing tradition focused on the role, class position, and power ambitions of intellectuals. King and Szelényi (2004) identify three 'waves' of New Class theories, locating Djilas in the second 'bureaucratic-technocratic' wave of the 1930s, 1940s and 1950s.[17] This 'wave' attempted to define the role of bureaucrats, particularly in socialist systems, and debated the degree to which these systems were 'socialist' or in fact 'state capitalism'.

Although not regularly mentioned in discussions of Djilas, he does refer to communist systems as state capitalism when describing the bureaucracy as the New Class (Djilas 1957, p.33-35). By the time Djilas wrote *The New Class*, the debate over state capitalism had by then been going on for over thirty years.[18] It originated with Lenin, who argued that state ownership and ongoing exploitation of workers by bureaucratic managers was

[17] The first wave identified by King and Szelényi (2004) encompasses the anarchist theories of the late 19th and early 20th centuries, including Bakunin, which viewed the supposed vanguard role of intellectuals as masking class power ambitions, with intellectuals using the working-class movement to engineer their own rise to power through state bureaucracies. The third wave in the 1970s focused on the 'knowledge class', emphasizing the role of scientists and managers in large corporations with diffused share ownership. As already mentioned, debates on the role of intellectuals are not the focus here and the discussion will centre on Djilas and the second 'wave'.
[18] This discussion of state capitalism is based on Lewin (1995), chapter 8; Resnick and Wolff (2002), chapter 4; and King and Szelényi (2004), chapter 3.

state capitalism, but nevertheless was progressive and an important step in the direction of socialism. This was debated between Stalin and Zinoviev at the Fourteenth Party Congress in 1925, with Stalin arguing for a legalistic conception of property rights in which state ownership of the means of production *was* socialism. The issue of property rights and state ownership framed the subsequent state capitalism debate.[19]

The central issue was the definition of capitalism itself. For those in favour of defining socialist systems as state capitalism, public ownership did not necessarily abolish underlying capitalist class relations.

> Lenin said long ago that the whole problem amounts to the question of who is controlled by whom, i.e. which class is controlling and which is controlled. Thus it is not possible to accept *prima facie* as progressive every instance of the State undertaking economic activity. If the tobacco monopoly meant socialism, observed Engels once, then Napoleon and Metternich should be considered the founders of socialism (Sachs 1964, p.58).

Poulantzas (1973) argues that nationalization is only a change in juridical ownership, not underlying relations of production. Nationalization in Britain, or the United States during World War II, did not make them any less capitalist. Until workers control production themselves, socialism does not exist. In the Soviet Union, "collective juridical ownership conceals a new form of economic 'private' ownership" where enterprise directors and Party bureaucrats constituted a 'new bourgeoisie' (Poulantzas 1973, p.29). Cliff (1974) argues that the state bureaucracy in Russia performed the historic functions of the bourgeoisie, namely, accumulation and proletarianization.[20] Resnick and Wolff (2002) explicitly reject the need for private ownership of the means of production as a requirement for capitalism, arguing that in the USSR bureaucrats functioned as *de facto* capitalists since they continued to exploit workers. Central planning is an institutional

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[19] In addition to Lenin, Stalin and Zinoviev, important participants in these debates over time were Kautsky, Bauer, Trotsky, Poulantzas, Cliff, Bettelheim, and Resnick and Wolff.
[20] Cliff (1974) is discussed in King and Szelényi (2004), p.51-53.

configuration, and ongoing accumulation of surplus extracted from workers is an exploitative class relation, it is state capitalism.

Much of the state capitalism literature is driven by an anti-Stalinist orientation, disillusioned with purges, charismatic totalitarianism, and ongoing exploitation. Hence the need to dispute that socialism existed in Stalin's Russia by simple fact of state ownership. The emphasis on accumulation through bureaucratic privilege is an important contribution, but, as Wood (2002) argues, quoted above, accumulation itself, even if occurring through exploitation of labour in production, is not capitalism. It does not necessarily generate capitalism's imperatives and 'laws of motion'.

An additional position in these debates posits that Soviet-style bureaucratic systems are not socialism, nor are they state capitalism. Mandel (1992) argues that essentially these bureaucracies are an Asiatic mode of production, in which state appointed officials extract surplus but fritter it away rather than reinvest it productively. Konrád and Szelényi (1979) take a similar position, and argue that abolishing the centrality of private ownership of the means of production to justify the new class as state capitalism dissolves Marxian analytic categories of any meaning. If capitalism is simply accumulation through exploitation, then capitalism has always existed. Instead they argue, extended further in King and Szelényi (2004), for use of the Weberian distinction between rank and class. Soviet-style bureaucracies were neo-feudal patrimonial estates, with privilege and patronage based on rank in the bureaucratic system, rather than an economic class deriving power from economic production. Lewin (1995) argues that the USSR was neither socialist nor capitalist, but instead a peasant society force marched into industrialization with surplus extracted through extraeconomic direct compulsion, an 'agrarian despotism' turned 'bureaucratic absolutism'.

Ultimately, the state capitalism debates and the communist bureaucracy classification game devolve back into the unhelpful modes of production debates. There is general agreement that these bureaucracies systematically leveraged privileged positions to accumulate, but disagreement about whether this is socialism, capitalism, an 'Asiatic' form, or something else. Recognition of the features of these systems is important, classifying them is not. Of more relevance to the changes occurring in Vietnam is the Djilas focus on resolving the contradictions of transition.

## 2.2 New Class Explanations of Transition

Djilas focused on the emergence of a New Class *within* communist systems. In transition settings, a fundamental concern is the reproduction of class power. Under communism, New Class power derived from the disjunction between *de jure* national ownership but *de facto* private control. This foundation for New Class power erodes during transition, in particular due to the move away from national ownership and command based allocation systems. What happens to Djilas' New Class?

As will be argued in the remainder of this chapter, the New Class under the command economy generated a pattern of accumulation based on leveraging access to the state. This pattern influenced the ways in which the Djilas contradiction was resolved during transition, such that capitalist class formation in Eastern Europe and China continued to depend on state-related accumulation. However, important differences exist between countries and regions, although the broad pattern holds across them all.

The next section discusses Eastern Europe and the former Soviet Union. It introduces the concept of 'political capitalism', in which bureaucratic authority over state assets is converted into private property. This allows for identification of key methods used to resolve the Djilas contradiction, for example insider privatization. A major consequence of these activities is that the line between state and private property is often deliberately blurred. Since different countries experienced different outcomes due to unique historical and political circumstances, a review of the empirical evidence is conducted to assess the validity of political capitalism in Eastern Europe. The over-riding tendency in the literature on Eastern Europe and the former Soviet Union is to view attempts to reproduce New Class power as inherently corrupt. However, many of the methods used were technically legal and the section concludes with the observation that it is often difficult to distinguish between predatory rent-seeking and more productive activities.

Many of these points also emerge in the literature on China, for example the centrality of state-related accumulation, the blurred nature of property forms and the lack of clear property rights. Nevertheless, growth in China has been phenomenal. One key difference between China and Eastern Europe is state continuity. This played a crucial role in orienting state-related accumulation towards economic growth. Another feature of the China literature is the wide variety of methods used to resolve the New Class contradiction. These are discussed in detail to provide insight into processes of capitalist class formation relevant for Vietnam. In contrast to much of the literature on Eastern Europe which remains preoccupied with the welfare of cadres and the degree to which they acquire formal ownership in private businesses, the China literature includes growth of private entrepreneurs through connections to the state. It also includes dynamic state enterprises. This represents a more nuanced approach to state-related accumulation. The common feature remains accumulation through leveraging access to the state, which has its roots in New Class accumulation under planning. The review of the China literature ends with brief discussion of recent changes in the Chinese Communist Party (CCP).

Following review of the China literature, the literature on the development of capitalism in Southeast Asia is examined. While obviously not a direct New Class story given the lack of communist bureaucracies, the Southeast Asia literature is nevertheless relevant to Vietnam. The literature on Indonesia, Malaysia and Thailand in particular is quite explicit in arguing that the capitalist classes in these countries were created by the state. This shares certain affinities with the notion of state-related accumulation and capitalist class formation emerging from resolution of the New Class contradiction. Review of the Southeast Asia literature also allows discussion of Weberian notions of capitalist development and Weber's varieties of ersatz capitalism to contrast with the Marxist framework advanced in Chapter One. This is used by Hutchcroft (1998) to differentiate between the under-performing Philippines and the more dynamic economies of Indonesia and Thailand in the 1980s, in which state capture in the Philippines generates a lack of dynamism similar to state collapse in Eastern Europe. In addition, Yoshihara (1988) – who coined the term ‘ersatz capitalism’ – is discussed in order to evaluate the claim that capitalism in Southeast Asia lacks an indigenous technological base and is oriented more towards rent-seeking than upgrading and expanding the complexity of output and exports. Ultimately, however, as for Eastern Europe, it is quite difficult to separate rent-seeking from productive investment in state-related accumulation. Following the discussion in Chapter One, this leads to a rejection of the various ersatz capitalisms. The review of the Southeast Asia literature ends with discussion of post-Asian Financial Crisis Indonesia, in which a powerful oligarchy captures the state, transforming the once dynamic Indonesia into a version of the Philippines. This stands as an example of how the development of capitalism can be derailed and provides a warning relevant for Vietnam.

### 2.2.1 Eastern Europe and the former Soviet Union

Staniszkis (1991) argues that what emerged in Poland is political capitalism, a process of ‘making owners of the nomenklatura’.[21] Political capitalism involves the linkage of power and capital, turning bureaucratic power over state assets into private capital through conversion of political authority into economic power based on private property (Staniszkis 1991, p.46). Iván Szelényi, in his foreword to Staniszkis (1991), refers to this process as the ‘bourgeoisification of the nomenklatura’. It “was a strategy to change the foundation of the dominant position of the ruling apparatus without disturbing the system of domination” (Szelényi 1991, p.x). Political capitalism resolves the Djilas contradiction by creating a new foundation for class power.

Frydman, Murphy and Rapaczynski (1998) extend the concept of political capitalism to all of Eastern Europe and the former Soviet Union, referring to it as ‘capitalism with a

[21] *Nomenklatura* is a Russian word meaning ‘coded list’ and was the term used to describe Party control of high-level appointments, including enterprise managers and government officials. Available positions were collected into special lists and appointment to a listed position required approval from the relevant Party organ (Lavigne 1999, p.4-5; Eyal *et al* 1998). For further discussion of theorists of political capitalism see Eyal *et al* (1998). The review of political capitalism starts with Eastern Europe and the former Soviet Union simply because this is where the idea of transition leading to political capitalism was first discussed. Contributions from the China literature will be considered in the next section. The geographic separation of the transition literature is artificial, since scholars of Eastern Europe did engage with developments in the China literature and vice versa.

comrade's face'. They argue that "the nomenklatura has been extremely successful at converting its political domination into economic might" (Frydman *et al* 1998, p.44) and that "the old nomenklatura has, indeed, mutated into the new capitalist class" (ibid, p.42).

The development of political capitalism is directly connected to the privatization process. An important method for accomplishing this is insider or 'spontaneous' privatization, the process whereby managers and state bureaucrats (and, to a lesser extent, workers) become owners of state companies they manage. Prior to privatization in most Eastern European countries, state enterprises were transformed into joint stock companies. The nomenklatura could then acquire shares in these transformed companies, often at steep discounts. Furthermore, managers could split up state companies, spinning off the most profitable sections into private companies which they own, leaving the less profitable divisions within the hollowed out state enterprise (Lavigne 1999). Additional techniques included using state equipment and machinery for private production, in which the state enterprise would shoulder much of the overhead costs while the output was sold by a private company owned by managers and other officials, and leasing out departments, functions and machinery at below cost to private companies owned by state managers and officials (Staniszkis 1991).

It is important to note that these methods were often perfectly legal as part of ongoing reforms, for example leasing out state machinery and equipment (Staniszkis 1991, Frydman *et al* 1998, Lavigne 1999). The emergence of political capitalism did not require outright theft. However, a key element of 'making owners of the nomenklatura' depended on leveraging access to state privilege. This included the ability to shift costs onto state enterprises while profits accrued to private firms, and preferential access to large state contracts and orders, export licenses, land and investment funds.

Since political capitalism involves leveraging state privilege, often by managers and officials remaining in the state sector while shifting assets and revenues to private companies, ambiguous property rights are a central feature of the process (Staniszkis 1991). For example, it becomes extremely difficult to separate insiders from outsiders.

"What gradually emerges in the privatized companies is a complex ownership structure involving banks, investment funds, other enterprises, state asset management agencies, and local governments, with a network of cross-ownership" (Lavigne 1999, p.184). Stark (1996) refers to this as 'recombinant property', "a form of organizational hedging, or portfolio management, in which actors respond to uncertainty in the organizational environment by diversifying their assets, redefining and recombining resources" (Stark 1996, p.997). Emerging property rights deliberately blur the boundary between state and private and between enterprises (ibid, p.997, 1015). "The results … are not well-defined rights of private property, yet neither are they a continuation or reproduction of old forms of state ownership" (ibid, p.999-1001).

Leveraging state privilege is a legacy from the planning period. Central planning never worked according to the model (Kornai 1979). Chronic shortages and material imbalances led to institutionalized disinformation, cheating and negotiation between bureaucrats and firm managers (Gerschenkron 1962, Van Arkadie and Karlsson 1992, Lavigne 1999). Evading the plan to overcome shortage was required to meet actual targets and also led to the emergence of a quasi-legal 'parallel' or 'shadow' economy, what Gerschenkron (1962) referred to as "the normalcy of Soviet mercantilism, concealed beneath a generous veneer of socialist phraseology" (Gerschenkron 1962, p.295). Elements of this parallel economy operated *within* the state planning system, and "was based on corruption and pilfering or large-scale stealing of state property" (Lavigne 1999, p.9-10).[22] For example, differences between artificially low state prices and higher parallel market prices provided significant arbitrage opportunities for firms able to dispose of products acquired through the state system. Furthermore, these activities were quite pervasive and it "would have been difficult to find anybody not practicing it on any scale: moonlighting, use of state buildings, machinery, materials for personal needs, use of official positions to derive private advantages" (Lavigne 1999, p.42). The continued ability to leverage access to the state for private gain allowed the nomenklatura to

[22] Winiecki (1989) distinguishes between centrally approved and disapproved corruption in Soviet-type states. Centrally approved corruption included the privilege to shop at special stores, extra food rations, and chauffeured cars. Centrally disapproved corruption included payment for favours in obtaining goods and services.

overcome the Djilas contradiction posed by transition and re-emerge as 'nomenklatura capitalists' (Frydman *et al* 1998). As Stark (1996) puts it, "actors in the postsocialist context are rebuilding organizations and institutions not *on the ruins* but *with the ruins* of communism" (Stark 1996, p.995).

However, political capitalism did not produce identical results in all countries. Hanley (2000) argues that 'cadre capitalism' took different forms in Poland and Hungary because "the ability of nomenklatura members to accumulate economic assets is greatly contingent upon the privatization policies instituted by postcommunist governments, which in turn reflect the balance of class forces within a given country at the time of transition" (Hanley 2000, p.176). Strong working class power resulted in smaller scale nomenklatura privatization in Poland, creating a petite rather than grand bourgeoisie (ibid, p.177). In Hungary, stronger managerial power allowed greater scope for siphoning assets into private satellite firms and hollowing out state enterprises (ibid, p.177-178). The Hungarian nomenklatura was therefore able to acquire a larger share of ownership rights over productive assets in Hungary than in Poland (ibid, p.176). Hanley concludes that "the claim that the communist-era elite has transformed itself into a propertied class has been greatly overstated" (ibid, p.144). Hence the need to examine outcomes in particular countries.[23]

Róna-Tas (1994) examines Hungary to determine if cadres have been able to convert previous political power into economic advantage. Following an excellent review of the then available literature on who benefits from transition, with Staniszkis (1991) in the 'power conversion' school, Róna-Tas uses survey responses from interviews conducted in 1989 and again in 1991 to argue for different outcomes in different segments of the economy, each with its own pattern of recruitment and reward. In private farming, ex-cadres have no advantage. In non-corporate enterprises (sole proprietorships and partnerships), education is more important than former Party membership, but cadres are

[23] Stark and Bruszt (2001) also argue for empirical investigation of specific countries due to path dependency and legacies of planning. These influence but do not determine outcomes and results will vary across countries. The importance of planning legacies influencing transition outcomes is also discussed in Hare, Ishaq and Estrin (1996); Stark (1996); Frydman *et al* (1998); Vlachousticos (1999); Lavigne (1999); Ericson (2002); Hostetler (2009); and Cheshier and Pincus (2010).

more likely to have higher education. In corporate enterprises and limited liability companies, cadres have a distinct advantage. They facilitate enterprise creation and improve financial performance compared to firms run by non-cadres (Róna-Tas 1994, p.62, 65). This occurs because cadres are able to access an informal network to acquire scarce information and resources.[24]

King (2002) sets out to explain differences between transition outcomes in Poland and Russia based on interviews with senior enterprise officials in both countries.[25] Part of the economic sociology tradition, King argues that transition to capitalism is shaped in each country by "the pattern of class and intra-class conflict and cooperation during the transition" and that "the internal structure of the postcommunist dominant class determines how privatization is carried out, which greatly affects enterprise restructuring and firm behaviour, which, in turn, determines the nature of the economy" (King 2002, p.6).[26] The pattern of alliance between three dominant class factions – the bureaucracy, the technocracy (including managers), and intellectuals – determines the particular 'path' to capitalism in each country. King argues that in Russia the technocrats aligned with bureaucrats to produce 'capitalism from above', resulting in asset stripping, rent-seeking and a patron-client based patrimonial political capitalism. In Poland, however, the technocrats aligned with the intellectuals to produce 'capitalism from without', blocking the transmogrification of the bureaucrats into a grand bourgeoisie and instead relying heavily on foreign capital.[27]

This perspective shares a common theoretical approach with Eyal *et al* (1998), one of the more comprehensive attempts to empirically test the concept of political capitalism and its variants in different countries.[28] Finding the argument of political capitalism

[24] Informal networks as an important legacy of planning which provide advantages to cadres are also discussed in Stark (1990, 1996), Vlachousticos (1999), Frydman *et al* (1998), and Lavigne (1999).
[25] These officials include owners, top management and union officials (King 2002, p.10). King interviewed officials from 25 firms in Russia and 23 firms in Poland.
[26] This is similar to Hanley (2000), who is also part of the economic sociology tradition.
[27] King identifies a third form: 'capitalism from below' which grows out of the former parallel economy. Bureaucrats allow private actors and lower level elites to accumulate in order to increase the legitimacy of the reigning bureaucracy. According to King, this is supposed to be occurring in China.
[28] One of the co-authors, Iván Szelényi, wrote the Foreword to Staniszkis (1991).

intuitively appealing, they set out to discover "what happened to the old nomenklatura" (Eyal *et al* 1998, p.114) in the Czech Republic, Hungary, and Poland. In each country they interviewed 1000 members of the 1988 nomenklatura; 1000 members of the new economic, political, and cultural elites in 1993; and collected the personal life histories of 5000 adults randomly selected from each country's population. Their general finding is one of "massive downward mobility among members of the old nomenklatura" and that "the old communist nomenklatura had not established itself as a new propertied grand bourgeoisie" (ibid, p.115). They allow that political capitalism may explain outcomes in Russia, China and other countries like Romania, Bulgaria, and Belarus, but political capitalism does not explain what happened in the Czech Republic, Hungary or Poland (ibid, p.4, 166). It is worth reviewing their data and theoretical conclusions in more detail, since it would appear to falsify the notion of political capitalism as way to resolve the Djilas contradiction. Furthermore, Eyal *et al* have been cited by much of the subsequent literature as evidence against New Class and 'neo-Marxist' explanations of transition outcomes, including in Vietnam (e.g. Kim 2008).

In their first cut at the data, in all three countries "only half" (roughly 50 percent) of the 1988 nomenklatura were in 1993 positions of authority (Eyal *et al* 1998, Table 4.1, p.117).[29] While it is not clear why this is considered 'a little' rather than 'a lot', they advance their analysis by disaggregating the nomenklatura into political, economic and cultural elites. This is an important contribution to the analysis of political capitalism, and is based on the work of Erzsebét Szalai, who argued that the socialist nomenklatura was not homogeneous and was in fact divided against itself.[30] For Szalai, the dynamics of social change resulted from the struggle between bureaucratic and technocratic factions. Eyal *et al* built upon this, adding cultural elites – the intelligentsia – into the mix.

[29] 'Positions of authority' comprise high political office, high manager – public, high manager – private, high cultural office, low-level manager, and entrepreneur.

[30] For references to Szalai's work, see the bibliography in Eyal *et al* (1998). Szalai wrote predominately in Hungarian and discussion here is based on the summary provided in Eyal *et al* (1998). Lewin (1995) provides a masterful description of factionalization in the Soviet bureaucracy, arguing that the growth of autonomous bureaucratic fiefdoms as part of the metastasizing Soviet bureaucracy contributed to the overall sclerosis which destroyed the Soviet system.

The expectation would be that the political capitalism story would hold for political elites (bureaucrats). The economic elite (technocrats and managers) may simply maintain ‘positions of authority’ due to human capital and experience. However, Eyal *et al* find that the political faction of the nomenklatura was the least successful (ibid, Table 4.2, p.120). In terms of who successfully remained in ‘authority’, the economic elite were the big winners. The same result applied to business ownership, with former members of the economic faction more likely to report business ownership than former members of the political faction (ibid, Table 4.3, p.121).

For Eyal *et al*, possession of different kinds of Bourdieu-ian ‘capital’ explains this result. Bureaucrats have ‘political capital’, a form of social capital meant to capture the connections possessed by members of the cadre network and the ability to leverage state privilege. Technocrats and managers have ‘cultural capital’, meaning skills and managerial expertise. Regarding business ownership, it is “more closely linked to technical-managerial know-how (cultural capital) than to the office held during the communist period (political capital)” (ibid, p.122). However, even though the economic faction fared much better in terms of business ownership, most of the reported ownership was in very small firms. Eyal *et al* conclude that “a great deal of business ownership among former cadres in Central Europe is really petty-bourgeois ownership. Such ownership does not indicate the formation of a propertied ruling class” (ibid, p.123). Personal enrichment through leveraging state privilege did occur, but was the exception rather than the rule and the number of successful ‘kleptocrats’ was small (ibid, p.123-124).

> [T]he technocratic-managerial elite does not base its authority on private property. They have not rushed to become the new propertied bourgeoisie of Central Europe. Rather, they exercise power on the basis of their ‘expert’ credentials – that is to say, their possession of cultural capital. … [T]his is a relatively weak foundation from which to exercise authority. The technocratic-managerial elite therefore needs the ideological support of the opinion-making intelligentsia (ibid, p.149).

It is here that King's (2002) alliances become relevant. Political capitalism was thwarted in Central Europe due to an alliance between the technocrats and intelligentsia (Eyal *et al* 1998, p.156).

An immediate issue of concern is the quality of the data, since a lot of the argument hinges on ownership in only small firms. The first problem, which they acknowledge, is very low response rates on questions related to ownership stakes in firms (ibid, p.244, footnote 11) and the size of the firms in which stakes are held (ibid, p.246, footnote 34). There are several potential reasons for this, an important one being that respondents are unlikely to declare that they stole state assets. If political capitalism is about leveraging state privilege for personal gain, which Eyal *et al* refer to at one point as 'kleptocracy', then low response rates are to be expected. If former nomenklatura members hold stakes in large corporations, then political capitalism may be at work, which they also acknowledge (ibid, p.122). They try to correct for this by asking about the size of housing, believing that respondents are less likely to lie about how many rooms are in their house or apartment. They find that former members of the political faction have smaller houses (ibid, Table 4.7, p.127), but they do not ask how many houses they have, nor compare their values.

Given the difficulties of conducting empirical research in transition and developing countries, especially on sensitive issues, data problems are normal. This would be less damaging if the theoretical structure erected on this problematic data was more coherent. Issues regarding the economic sociology usage of 'class' have already been discussed in Section 1.2 above. The problem of disembodied metaphysical categories applies equally well to 'bureaucrats' and 'technocrats' as to 'intellectuals'.

First, just as the categories employed are disembodied, so are the various 'capitals'. It is not clear why these are 'capital' in any meaningful sense. In the same way that equating capitalism with more markets reveals little of value about the distinctive features of capital-*ism*, use of political and cultural 'capital' in place of networks or skills simply switches one term for another without specifying their distinctive features.[31] Second, ignoring definitional problems, it is not at all clear why managers of state owned enterprises are considered technocrats with cultural capital rather than bureaucrats with political capital, especially since "Party officials, high-level cadres of the economic administration, and enterprise executives belong to the same nomenklatura, and shared the same material and political privileges" (Lavigne 1999, p.30).[32] If this distinction does not hold, then the attribution of different 'capitals' to different factions becomes untenable and the entire explanation falls apart.

Finally, the commitment to formal private property ownership obscures the complexity of political capitalism. According to Eyal *et al*, since the state remains the majority owner of large firms, and the economic elite only have stakes in small firms (apparently), then managers are just technical experts and Central Europe has 'capitalism without capitalists'.[33] For Eyal *et al*, without formal private ownership there can be no capitalists. However, they acknowledge Stark's (1996) recombinant property and the importance of institutional cross-ownership, particularly by banks and other financial institutions which remain connected to the state. "The web of institutional cross-ownership is so dense, and the back-and-forth between public and private realms so frequent, that it is often impossible to tell what distinguishes public from private ownership" (Eyal *et al* 1998, p.137). If this is true, then the emphasis placed on formal private property is misguided. Theoretical limitations and data problems allow for a high degree of skepticism towards their conclusions and the political capitalism story remains more compelling.

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[31] See Fine (2001) for a withering critique of Bourdieu's 'capitals', particularly social capital.

[32] This is not just a problem in the economic sociology of Eyal *et al* (1998) and King (2002). Hellman, Jones and Kaufmann (2003) make a similar move, for some reason separating state enterprise managers from the state.

[33] In 1993, state ownership remained the predominant form in Central Europe, with more than half of the 3000 largest firms at least partially state owned, and over 65 percent of firms with more than 300 employees at least 50 percent state owned (Eyal *et al* 1998, p.140). In 1993, over two-thirds of the new economic elite had previously been communist managers and the CEOs of the 3000 largest firms in the Czech Republic, Hungary and Poland were "very likely to have begun their careers in top economic positions under communism" (ibid, p.132). In Hungary, less than two percent of these CEOs in 1993 were private entrepreneurs in 1988 (ibid, p.132). No attempt is made to connect this result with Róna-Tas (1994), who is only mentioned once as having done some statistical work on cadres converting political power into economic privilege.

What is to be made of political capitalism? Even though many of the processes identified were in fact legal, much of the literature discusses political capitalism in terms of 'kleptocracy' and nefarious insider deal-making (e.g. Frydman *et al* 1998).[34] For example, Burawoy (2001) argues that Russia experienced transition without transformation. Reforms were only skin deep, "they only peeled off the outer layer of the Soviet order" (Burawoy 2001, p.13). The result was a mercantilist 'booty capitalism' based on monopoly rents rather than reinvesting surplus in production. However, it is not "a simple matter to distinguish between rent-seeking – taking advantage of control over a resource, such as land or a government-granted monopoly, to extract profit without productive reinvestment – from capitalism proper" (McVey 1993, p.8).[35] This will be explored further in the following sections.

The literature on political capitalism in Eastern Europe and the former Soviet Union provides a useful starting point for investigating the changes occurring in Vietnam. Resolution of the Djilas contradiction, how New Class power can be reproduced in transition, involved the continued ability to leverage access to the state in order to accumulate. The boundary between public and private property is deliberately blurred as part of this process. Many of these points are also raised in the China literature.

### 2.2.2 China

The most important difference between China and Eastern Europe is that economic reforms in China did not entail political collapse (Nolan 1995, Burawoy 1996). As a result of political continuity, the bureaucracy endured. Although reforms commenced in

[34] However, Lavigne (1999) believed that no other alternative existed because of a lack of qualified non-nomenklatura managers to fill privatized firm leadership posts. Staniszkis (1991) and Frydman *et al* (1998) both view political capitalism as a form of primitive accumulation, and believed that the elite, with its power now based in market assets, could become a force for political change. Seeking to consolidate their gains, this elite would agitate against the remaining bureaucracy in favour of rule of law and property rights security.

[35] McVey (1993) goes on to argue that "Max Weber employed the term 'political capitalism' to refer to systems in which office and connections were employed to ensure profits; he saw this as a common feature of pre-modern economies and illustrated it particularly with China. It would appear, then, that he did not see the line between capitalism and the rent-seeking of power-holders to be as absolute as many present analysts do" (McVey 1993, p.8, footnote 4).

the late 1970s, formal privatization of state firms did not become relevant until the 1990s. Nevertheless, similarities exist with the transition process in Eastern Europe. Since policies and reform outcomes have varied significantly over China's thirty years of reform, it is necessary to employ a rather crude distinction between the 1980s and 1990s to better understand these differences.[36]

This section begins by examining property rights in the 1980s, discussing at length the variety of forms which emerged in China, blurring the distinction between state and private and all connected in some way to the state. In then moves to discussion of similarities between the processes in China and Eastern Europe, particularly in the 1990s as formal privatization becomes more prevalent. However, a key difference between China and Eastern Europe is that accumulation through leveraging access to the state, for example through political connections, is viewed as growth-enhancing rather than the perceived thievery of Eastern Europe. Throughout the discussion the connections to the planning period are highlighted. The section then turns to a critique of the China literature, in particular its focus on decentralized decision-making and its view of state enterprises as moribund. Some state enterprises, for example, recorded impressive growth during the 1980s and 1990s due to increased competition. Furthermore, it is now difficult to separate many large state firms with interlocking interests in other state, private and foreign firms from large private firms which have grown through state connections. The section concludes by examining the changing relationship between the Chinese Communist Party and the 'new bourgeoisie'.

Following decollectivization of agriculture and implementation of the household responsibility system, rural output in the early 1980s grew rapidly. The central government also relaxed controls on state monopolies and allowed entry of non-state firms into previously protected areas, particularly in manufacturing (Naughton 1994).[37] As agricultural productivity improved, labour was released into rural light industry, employed in the rapidly expanding Township and Village Enterprises (TVEs). While

[36] The focus here is on the period between the 1980s and early 2000s. For discussion of Chinese reforms in the 2000s, see Nolan (2004), Naughton (2007) and Steinfeld (2010).
[37] For a full account of reforms and the sources of Chinese growth during this period, see Naughton (1995).

there is disagreement about the property rights status of TVEs, there is general agreement that TVEs were not state firms in the full sense, nor were they private firms, but rather some form of 'rural local government property' (Putterman 1995, p.1052) or 'local-government-sponsored firms' (Naughton 1994, p.477).[38]

Why did TVEs grow so rapidly? Ambiguous property rights are not supposed to be conducive to investment and growth. Two related answers have been provided. The first is that fiscal decentralization generated hard budget constraints for provinces and lower levels of government (Wong 1988, Oi 1992). The Chinese central government reduced fiscal support for sub-central administrative units while also fixing their tax sharing burden with the centre. Local governments could no longer rely on redistributions from the centre to cover administrative expenses, but if they managed to grow their local tax base they could keep revenues in excess of the fixed share amount. Local level economic development, supported by local level governments, became the solution to the fiscal bind.[39]

Walder (1994) argues that these changes form part of a continuum with the command economy period, in which enterprise autonomy increased and tacit official approval of second economy activity also increased. This opened up space for cadres and managers of state firms to pursue market-based activities rather than simply perform bureaucratic functions. Nevitt (1996) argues that these reforms created new career opportunities for officials beyond the traditional 'ladder-of-advancement' strategy within the bureaucracy. Economic reforms also created the 'big fish in a small pond' strategy, in which support of local business allowed local officials to "increase the wealth, power and independence of the territories and organizations over which they exercise authority" (Nevitt 1996, p.38).

Second, "much of the confusion about property rights in the huge rural industrial sector has simply been because property rights in the most rapidly growing regions have varied in fundamental ways" (Walder and Oi 1999, p.12). Walder and Oi (1999) categorize the

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[38] Huang (2008) is an exception, arguing that TVEs were private firms all along.
[39] See Thun (2004) for a critique of the flexibility provided by decentralization due to constraints resulting from institutional inertia.

variety of property forms in rural China into three types: corporatist, littoral, and hollowed out. In the first form, the fiscal bind created incentives for ‘local state corporatism’ (Oi 1992). China’s state sector is not homogenous and administrative decentralization resulted in clearer property rights at the lowest levels of government (Walder 1995). Local governments operated as market-oriented firms, with TVEs as production units of local governments. “Growth will result as long as there are secure property rights for *some* organized unit and sufficient incentives for that unit to pursue growth. The impressive growth of collective rural industrial output between 1978 and 1988 is in large measure a result of local government entrepreneurship” (Oi 1992, p.100).[40]

In the littoral form, local government officials are not directly involved in running rural industry. Their focus is on supporting the development of private enterprises to increase local government revenues. However, “private firms could not grow very large without attracting the negative attention of higher officials outside the locality. For these firms to grow, their true property arrangements had to be masked for political reasons” (Walder and Oi 1999, p.16). This led to the ‘red hat’ phenomenon, in which “private business worked together with local officials to shield the essentially private nature of local industry and commerce by designating private firms as ‘collective’ or publicly owned” (Walder and Oi 1999, p.14). It is worth departing briefly from Walder and Oi to explore this form in more detail because of ongoing confusion over the relative importance of state versus private property forms.

Liu (1992) discusses economic development in Wenzhou, the first place in China to become dominated by private sector economic activity. The ‘red hat’ phenomenon was prevalent, and private entrepreneurs in Wenzhou were even invited to join the Party (Liu 1992, p.296). Particularly in the early days, many private sector activities were semi-legal or outright illegal and “without the bold steps taken by local officials to shelter deviant

[40] This phenomenon is also referred to as ‘state entrepreneurship’ (Duckett 2001) and ‘bureaucratic entrepreneurship’ (Tobin and Sun 2005).

economic practices, it would have been very difficult for the private sector to come to dominate the local economy in Wenzhou" (ibid, p.298).

Local cadres did this because it dramatically increased local government revenues and "brought tremendous personal income for local cadres" (ibid, p.304). Personal income was generated through extortion, bribery and the 'power share', where private entrepreneurs gave local cadres free shares in their firms in exchange for protection (ibid, p.305). In addition, to improve cadre morale the Wenzhou municipal government allowed relatives of local cadres to engage in private business. These private firms were usually run by cadres themselves (ibid, p.305). Liu (1992) concludes that:

> [C]adres are willing to shelter private industry not because of altruism, but because this serves their own interests rather well. Either they themselves engage in private industry, or they gain illegal benefits from peasants' private businesses, or both. It seems that it is this coincidence of interest between the local cadres and peasants in the private sector which inclines the cadres to tolerate local deviant practices and bypass state policies, and to allow private industry in Wenzhou to take the lead in local development (ibid, p.306).[41]

Wank (1999a) examines the development of private traders in Xiamen, a port city in Fujian province that was designated a special economic zone in 1980.[42] Intending to discover the property rights underlying booming private trade, Wank instead found that "entrepreneurs running private trading companies … must cultivate patron-client networks with local state agents in order to maximize profit and security" (Wank 1999a, p.i). The obviously memorable interview with Boss Short Pants, operator of a business

[41] This localism is common in rural China. Wenzhou was the pioneer in protecting the local private sector and promoting growth of private industry because of its particular history. Wenzhou was liberated in 1949 by an independent local communist guerilla force which later became incorporated into the larger Chinese communist Party. Liu (1992) argues that this unique historical legacy provided Wenzhou cadres with a high degree of local solidarity, which translated into ongoing resistance to state-imposed collectivization in order to defend local interests. After reforms in 1978, it led Wenzhou cadres to protect local entrepreneurs and resulted in the private sector dominating local economic activity.

[42] Wank conducted fieldwork in Xiamen over an 18 month period between June 1988 and June 1990.

group including state and private companies, summed up the local attitude to property rights:

> Read the damn government policy if you want to know about property rights. … Property rights give you only a legal existence. But your market activities depend on the social environment. If your connections with officialdom are good, then your business can develop, but if they are bad then officialdom squeezes you and you can't get anywhere (ibid, p.4).

In other interviews, private firms declared themselves public enterprises, public firms claimed to be private, and others claimed to be a bit of both (ibid, p.3). Wank concluded that "concern with legal property rights was misplaced" (ibid, p.4). More important to commercial success were the character of an entrepreneur's connections to local cadres.

> Personal ties with state agents enhance access to profit opportunities located in the state's bureaucracy and protect subsequent wealth accumulations. Commercial rationality, therefore, also entails the social process of forging and cultivating the personal ties to local government through which business-enhancing resources flow. Business strategies and competition are patterned by the different accumulations of personal ties through social background and skill in the 'art of social relations' of specific firm operators (ibid, p.4-5).

Clientelism had its roots in the redistribution system of the command economy. Rather than destroying these relations, reforms resulted in their commodification. Public assets and privileges (such as trading licenses) administered by the bureaucracy became subject to price calculations. Entrepreneurs accessed these assets and privileges through existing relations and by forging new commercial connections with local government officials (ibid, p.30).

Patron-client relations reduce uncertainty during transition, since formal rules "specifying what is permissible are often vague, incomplete, or nonexistent, while those that do exist can suddenly be changed by the central state or particularistically enforced by local agencies" (ibid, p.36). This requires what Yang (2002) refers to as 'double entrepreneurship' in China, encompassing identification of profitable market opportunities while also manipulating ambiguous rules and navigating an uncertain institutional environment. As in Wenzhou, many trading activities in Xiamen were at best semi-legal and patron-client relations provided needed protection. These relations stabilize expectations and enable transactions that would not otherwise occur.

Returning to Walder and Oi (1999), the littoral form was not the textbook story of private property rights generating private sector growth. Property rights were often deliberately blurred for political reasons and the growth of firms was directly linked to the local state.

The third property form identified by Walder and Oi (1999) involves the process of hollowing out public property. It comes in two varieties. In the first, public village property is transformed by local elites into personal, often family, property (Walder and Oi 1999, p.17). In the second, state agencies and state firms use public funds to create private firms. In both, "the budgets of state agencies and enterprises, the income and living standards of their employees, and the personal wealth of officials have all become increasingly dependent upon this 'private economic backyard' of the public sector" (ibid, p.18). This form bears the most resemblance to practices which occurred in Eastern Europe.

Wank (1999b) explores the hollowing out process. Using his Xiamen interviews, he tells the other side of the story as the entrepreneurial 'strategy from above', in which cadres engage in shifting public assets into private property.[43] Two particular state property forms are used as vehicles to achieve this: branch firms and leased firms.

Branch firms were established by geographically distant state firms to take advantage of Xiamen's special economic zone. Branch firm operators had user rights to firm assets and

[43] The 'strategy from below' corresponds to his coverage of private traders in Wank (1999a). Private entrepreneurs establish links with government officials to obtain access to scarce information, resources, and political protection.

limited income rights. Since most operators were current or former government officials, they possessed strong government connections and used them in three different ways for private gain. The first method was profiteering, taking advantage of the two-price system in existence during the 1980s. "[G]oods procured at administrative prices could be resold at market prices for a profit" (Wank 1999b, p.256). The second method was 'pocket-swapping', facilitated by the weak monitoring of the distant parent firm. In this method, the branch operator would invest in "real estate and other fixed assets … which they then resell at low prices to affiliated private firms operated by family members" (ibid, p.256). The third method was 'pulling over connections', in which the branch operator would shift all of the firm's suppliers and customers to an affiliated private firm.

In the leasing method, profits accrued to the private lessee while debts and overhead remained with the state firm. Although government regulations stipulated that leasing had to be done by open bidding, bids were routinely rigged (ibid, p.257). Furthermore, the lease price was frequently undervalued, with the low cost of leasing resulting in increased profits (ibid, p.258). In both the branch firm and leased firm, these activities often bankrupted the parent state firm while profits for affiliated private firms soared.

Walder and Oi (1999) sought to understand how ambiguous property rights could generate growth in China in the 1980s. Their recognition of a variety of property forms, connected to the state in different ways, is an important contribution to the literature. For the 1980s, they stress the prevalence of the corporatist and littoral forms, arguing that while hollowing out was occurring, "the kind of legal maneuvers referred to in Eastern Europe as '*nomenklatura* privatization', where officials transfer legal ownership to themselves as part of a transition to a market economy, have not been common" (Walder and Oi 1999, p.23).[44] They imply that this process may be becoming more prevalent in the 1990s, but leave the question open.

[44] Furthermore, Walder and Oi (1999) argue that 'hidden privatization' (Nee 1992), similar to the red hat phenomenon of disguising private firms as public enterprises in the littoral regions, was not occurring in corporatist areas but was becoming more prevalent in the 1990s.

Wank (1999b) highlights the similarities between hollowing out in China and political capitalism in Eastern Europe. For Wank, political continuity is the primary reason patron-client networks generated positive growth outcomes in China. Political stability generated network stability, from the pre-reform period through the 1980s, stabilizing expectations for both cadres and entrepreneurs. Rectification and anti-private business campaigns might occasionally sweep through, but central government commitment to political continuity meant that system collapse was never imminent. This facilitated longer-term and more complex investments, rather than a narrower focus on only stealing public assets. In addition, the fiscal bind meant that local governments in China did have an interest in successful firms. Cadres had to strike a balance between extortion, bribery and other forms of bureaucratic harassment and firm growth. Finally, fiscal and administrative decentralization did not mean the central state withered away. In particular, the capacity to discipline remained, and local cadres engaged in excessive corruption could be dealt with quite swiftly and often very publicly. However, Wank notes that "the various entrepreneurial strategies adopted in the nonstate economy of the late 1980s mostly by smaller local firms are moving up the state hierarchy to encompass larger state-sector enterprises and higher-level officials at the city and provincial levels in the 1990s" (Wank 1999b, p.260).

Ding (2000a) confirms this, including the "striking similarities … between Communist Party-governed China and the ex-Soviet bloc countries" (Ding 2000a, p.24) in terms of asset stripping and nomenklatura privatization, the pace of which "accelerated since the late 1980s and continues to expand during the second half of the 1990s" (ibid, p.2).[45] Ding identifies three methods for diverting state assets and state enterprise profits into private firms run by managers and officials: organizational proliferation, consortium-building, and 'one manager, two businesses'. Organizational proliferation covers many of the processes identified by Staniszkis (1991), including spinning off the best equipped

[45] Ding (2000a) is based on fieldwork conducted between 1995 and 1997 in seven large and mid-sized Chinese cities in the eastern and southern regions, "where economic reform and development were generally ahead of the rest of the country, as was illicit asset stripping" (Ding 2000a, p.2). Ding (2000b) extends this analysis to include China's offshore businesses. Similar to Wank (1999b), Ding (2000a) argues that political continuity, lack of a large scale formal privatization programme (until recently), and the enduring ability to discipline cadres explain differences in growth outcomes between China and Eastern Europe, even though engaged in similar processes.

and most profitable segments into new companies and cost shifting, in which the parent firm pays the overheads of the affiliate firm (Ding 2000a, p.3). As in Wank (1999b), these processes frequently bankrupted the state parent firm while affiliates profited. As long as the state remained willing to cover public enterprise liabilities, organizational proliferation as hollowing out subsidized this process.[46] Consortium-building involves establishing affiliates, often in the same industry and in close geographic proximity. An important function of consortia is to shield revenues from the state through transfer pricing. In 'one manager, two businesses', a state enterprise manager establishes a private firm, often run by a relative or close friend. The manager can use state enterprise funds as short-term loans to the 'second business' and also divert lucrative state enterprise contracts to the affiliate. Finally:

> A rough chronological order can be found among the three broadly defined strategies. Organizational proliferation appeared first. It was already occasionally reported at the beginning of the 1980s and became widely observable after the mid-1980s. Consortium-building emerged in the second half of the 1980s, and the early 1990s saw a big surge in its growth. The phenomenon of 'one manager, two businesses' surfaced later, its spread largely starting in the first half of the 1990s (Ding 2000a, p.3)

Walder (2002) provides a nice summary of the different strategies of rural elites in the 1980s and 1990s.[47] Walder distinguishes between marketization and privatization, two distinct patterns of change which generate different outcomes. Marketization comprises increased competition and hardening enterprise budget constraints and is associated with

[46] This is similar to the process identified by Stark (1996) in Hungary.
[47] There is a separate and large literature on the career mobility of officials, beginning with Nee (1989) and the Market Transition Theory which asserted that reforms would reduce administrative privilege in favour of direct producers (entrepreneurs). This was refined by Nee (1991) and sparked wide debate. Róna-Tas (1994) was responding, in part, to Nee. Along with Bian and Logan (1996) and Bian, Shu and Logan (2001), the finding is that administrative power is not necessarily reduced in transition and reproduction of privilege occurs. Guthrie (2000) provides an excellent review of the literature. However, Walder (2002) summarizes it best by noting that "a mixed pattern of elite continuity and change has been found in most settings" and conceptual confusion has led to accumulation of empirical studies "without reconciling proponents of different views" (Walder 2002, p.8).

reforms in the 1980s. Privatization entails the transfer of government property to new owners and is associated with reforms in the 1990s (Walder 2002, p.7).

Walder (2002) distinguishes three periods of privatization in rural China: decollectivization, followed by the growth of private rural enterprise as creation of new private assets, and, by the early 1990s, formal transfer of public enterprises (ibid, p.11-13). The first two periods are characterized by marketization, while the most recent period is privatization proper. This matters because "to the extent that assets are small, require intensive work, and call for widely available skills to generate income, those with power and influence will have fewer advantages in working them, and will find them less attractive" (ibid, p.11). Walder finds that during the 1980s, as small assets acquired private owners in the process of marketization, village administrative elites and state enterprise managers both tended to remain in the state sector (ibid, p.21-22). They had higher incomes relative to the alternatives and could use their positions to assist family members into similar high salary state positions. Ordinary (non-cadre) households as private entrepreneurs benefited the most during this period (ibid, p.13).

In contrast, to "the extent that assets are large and concentrated, people in positions of power and influence will be more likely to have the access and influence necessary to seize them" (ibid, p.11). In the 1990s, local cadres began moving into private entrepreneurship. However, they did not do so directly, instead assisting 'cadre kin' (family members) into ownership of newly privatized assets. State enterprise managers also began shifting into the private sector (ibid, p.21-22). "This shift coincided with the early stages in the privatization of public enterprises" (ibid, p.22), indicating the emergence of 'insider privatization' common in Eastern Europe.

There is continuity and change at work here. Zhou (2009) finds that investment in 'political capital' by private entrepreneurs remains crucial to secure access to resources through the 1990s and into the 2000s, particularly bank financing. Wank's (1999a) patron-client networks endure through ongoing reforms, but the source of patronage transforms. Opportunities for arbitraging the two-price system or selling import quotas, for example, diminish over time. While direct monopolies over goods and services decline, new regulations provide state agencies new forms of control (Wank 1999a, p.34). These too become commodified rather than disappearing in the move ‘from plan to market’.[48]

These mechanisms can operate over long time periods. Goodman (2000) finds that in Shanxi province “cadres are almost universally able to use their political position for individual economic benefit” (Goodman 2000, p.164), what Goodman refers to as the “hint of a Djilas-described ‘new class’ emerging with the inter-generational transfer of privilege and power” (ibid, p.164).[49] It is inter-generational because to “a large extent, the local business elite are the children of the local political elite” (ibid, p.183), following a pattern of peasant to cadre to businessman in three generations.

However, this process obviously need not be inter-generational, nor limited to small firms. Now beyond ‘red hats’, Dickson (2003) examines ‘red capitalists’, “entrepreneurs with close personal and political ties to the CCP [Chinese Communist Party]. Many of the most wealthy entrepreneurs formerly held high-level Party and government posts, and some are even the offspring of China’s leaders. A far larger number of private entrepreneurs are former mid-level officials, or simply rank-and-file Party members who did not hold formal posts but left their previous jobs to go into business” (Dickson 2003, p.4). Dickson identifies two types of red capitalist. The first are *xiahai* entrepreneurs, former Party members ‘plunging into the sea’ of private business following Deng Xiaoping’s 1992 southern tour.[50] The second are private entrepreneurs co-opted by the Party, following Jiang Zemin’s 2001 call to allow them to join.[51] This two-way flow –

[48] For a theoretical formulation of this process, in which privatization does not entail state retreat, see Mitchell (1991) and Hibou (2004). Gainsborough (2009b) applies this framework to Vietnam.
[49] Goodman (2000) conducted interviews with local cadres (sub-provincial, county, and section levels) in 1996 and 1997 in Shanxi province to assess continuity and change in the social background of the local elite.
[50] It was on this tour to bolster support for his economic reforms that the officially retired Deng supposedly said “to get rich is glorious” (see Dickson 2003, p.107).
[51] As Liu (1992) noted, private entrepreneurs had previously been invited to the join the Party. This was officially disallowed as part of the anti-private sector crackdown following the 1989 Tiananmen demonstrations.

Party members into private business and private entrepreneurs into the Party – is an important difference with Eastern Europe.

The result in China is that "the private sector in China now encompasses individually owned and operated enterprises at one end and large scale industrial and commercial enterprises with hundreds of workers and scope of operations that cover the whole country and even the international market at the other" (ibid, p.5). While many of the smaller firms are run by private entrepreneurs, many of the large private enterprises are run by red capitalists.

China's strong and sustained growth record has led to a different perception of the 'nefarious' processes compared to Eastern Europe. Instead of 'kleptocrats', China has 'double entrepreneurs' (Yang 2002) and 'bureaucratic entrepreneurs' (Tobin and Sun 2005) who skillfully navigate and manipulate the uncertainties of transition. Private entrepreneurs mobilize patron-client networks to engage in business through the state (Wank 1999a). The boundary-blurring between state and private is treated as a growth-enhancing innovation. While there is general agreement that these processes generate significant corruption, productive outcomes resulted from the political continuity of the Chinese party-state (Nolan 1995, Burawoy 1996, Wank 1999b, Ding 2000a, Holstrom and Smith 2000).

The literature reviewed to this point highlights some important features of China's transformation. Formal private property rights have played a relatively insignificant role in China's growth. Deliberate blurring of the boundary between state and private through local state corporatism, 'red hatting', patron-client networks, asset stripping, and 'red capitalists' render the formal ownership categories of 'state' and 'private' rather irrelevant (Naughton 1994, Putterman 1995, Walder and Oi 1999, Wank 1999a, Ding 2000a, Dickson 2003). As Breslin (2004) notes:

> [D]espite the fact that the non-state sector is now bigger than the state sector, the state-economy relationship remains extremely strong in contemporary China.

> Much of what is considered non-state remains heavily connected to officialdom through various mechanisms. Much of the non-state sector in contemporary China has its origins in the party-state sector that spawned it (Breslin 2004, p.22).

In addition, legacies from central planning remain strong, for example in the enduring clientelist networks discussed by Wank (1999a). Finally, recognition of variation across the large geography of China and over the thirty years of reform provides insight into the multiple mechanisms and processes at work, moving beyond a linear story of movement from plan to market.

However, two issues with this literature need to be addressed. The first issue is the focus on local level governments and the central importance attributed to administrative and fiscal decentralization. The importance of political continuity has already been discussed, but the 'centre' is frequently relegated to the background, setting the parameters of activity through allowing increased competition, altering fiscal arrangements and providing more autonomy for managers and officials at lower decision making levels. This 'space' is then mobilized by local governments in different ways, often quasi-legal at the time, to drive change from below. Agents of the 'centre' occasionally sweep through localities to conduct anti-private sector campaigns or crack down on corrupt officials. But they leave, and business returns to normal (Liu 1992, Wank 1999a).

Cai and Treisman (2006) provide a challenge to this view. The argument will *not* be that local level initiative was irrelevant, or that the Chinese state is somehow unitary and had a clear blueprint for reform 'from above'. Naughton (1996) demonstrates the ad hoc and reactive process of Chinese reforms, with unintended consequences continually forcing adaptation in unanticipated ways. "Chinese leaders have not so much been systematically groping for stepping stones in order to cross the river as they have been slogging around in a swamp" (Naughton 1996, p.22). The central conclusion of Cai and Treisman (2006), a simple inversion of emphasis from decentralization to centralization, does not hold. Nevertheless, the evidence they provide allows the story to be complicated in important ways.

Cai and Treisman (2006) examine the story of Fengyang County in Anhui province. The poverty stricken peasants of Anhui province are often held up as an example of ‘reforms from below’. Risking imprisonment, in 1978 they divided commune land into individual household plots. After grain yields rose, the reforms were supported by the provincial First Party Secretary. At first the practice was banned by higher level officials, only to be rolled out nationwide by Deng Xiaoping as the household responsibility system (Cai and Treisman 2006, p.7).

However, at this time in China, local officials were still appointed by higher Party levels rather than selected locally. The production team leader in Fengyang who first went along with the scheme only did so after securing a pledge from the peasants to raise his children should he be imprisoned (ibid, p.8). More importantly, the Anhui First Party Secretary was “an old friend” of Deng Xiaoping and one year before the peasants’ bold move, he had published “liberal guidelines on rural economic policy” in a nationwide front-page article in the *People’s Daily* (ibid, p.10, footnote 14). Rather than a battle between local cadres and the ‘centre’, supporters and opponents of this particular reform spanned all levels of the state.

The second issue in the literature that needs to be addressed is the performance of state firms. In general, state enterprises are perceived as moribund. ‘Entrepreneurial’ cadres transform their assets into personal property. Private entrepreneurs engage the state bureaucracy and even join the Party. TVEs were not formal state companies but hybrids in various forms. While most of the literature avoids the *de facto* or ‘hidden’ privatization story of Nee (1992) to explain growth, differentiation is made between ‘proper’ state enterprises higher up the administrative hierarchy and the dynamic local level firms that were crucial to the rural growth story of the 1980s, for example through ‘local state corporatism’ (Walder 1995). Naughton (1994) refers to this as the dinosaur model of economic reform:

> In this model, the old, state-run enterprises are likened to the dinosaurs. Big, clumsy, and unable to adapt, they are fated to become extinct, and therefore changes that occur within the state-run economy are unworthy of serious attention. The corollary is that virtually all economic dynamism is attributed to the new private or entrepreneurial forms, which can be likened to emergent mammals. Small, plucky, and intelligent, they scurry about the forest floor preparing for their eventual hegemony (Naughton 1994, p.471).

However, "far from being dinosaurs, state-owned enterprises have played an important and positive transitional role in the economy. The changing role of SOEs only makes sense within the context of broader economic changes taking place, but, given those changes, SOEs were one of several elements that came together to form a virtuous cycle of reform" (ibid, p.472).

The context is what Naughton (1994, 1996) refers to as 'growing out of the plan'. The absolute size of the central plan was fixed and government monitoring of state firms turned increasingly towards profitability measures rather than plan fulfillment. This 'freezing of the plan' allowed state firms to reorient towards market prices on the margins, above the fixed plan quantities (Naughton 1994, p.475). In addition, entry barriers were reduced, allowing non-state firms to compete with state firms in a range of industries. Market pressure forced state firms to become more productive and diversify their output. The result was that state enterprise industrial output grew rapidly during the 1980s (ibid, p.476), even though other ownership forms grew faster (but starting from a smaller base). "Entry of nonstate firms has played a crucial role in China's reform process by creating markets and competition. Yet the state-owned sector has also performed adequately, improving incentives and productivity, and turning in a respectable growth performance" (ibid, p.470).

Increased entry competed away previous monopoly rents and resulted in declining profitability. However, this relative decline in the state sector was concentrated primarily in smaller state firms (ibid, p.480), with larger state enterprises maintaining their relative position (ibid, p.481).[52]

> The state sector, in other words, is increasingly constituted of large firms; a little over half of state output came from large firms in 1978, while over three-quarters did in 1991. There is a division of labour between state and nonstate industry … in which SOEs continue to dominate sectors characterized by increasing returns and technological barriers to entry, while relinquishing naturally competitive sectors to emerging collective and private firms (ibid, p.481).

Part of the problem is that analysis of state firms tends to rely on aggregate data for the whole state sector rather than distinguishing between state enterprises of different sizes and operating in different activities (Nolan and Wang 1999, p.170). The Chinese state "increasingly focused its planning efforts on a relatively small number of large firms" (Nolan and Wang 1999, p.183), resulting in the policy of 'grasp the large and let go of the small' (Nolan and Wang 1999, Breslin 2004). "State industry increasingly concentrated on large-scale 'upstream' activities, such as oil refining, ferrous metals, chemical fibres, coal mining, chemicals and machine building. The state allowed the share of non-state enterprises to grow rapidly in those sectors with low economies of scale" (Nolan 1996, p.18).

Two elements contributed to the relative success of the state heavy industrial sector: organizational capabilities and improved incentives. The Party and People's Liberation Army, both of whom engaged in running the 'commanding heights', "possessed a rich legacy of organizational and motivational skills. Even old Party cadres and army officers were able to make the transition to the market economy if given the correct incentive structure. Indeed, their lifetime experience of thinking strategically and mobilizing people in complex institutions was an invaluable weapon for the construction of an effective market-oriented business organization" (Nolan and Wang 1999, p.193).

[52] See also Nolan (1996) and Nolan and Wang (1999).

The correct incentive structure was ‘constrained autonomy’ (very similar to ‘growing out of the plan’), in which larger state firms were given more autonomy to make decisions, but still subject to profit and employment targets. Nolan and Yeung (2001) discuss the growth of two large army companies, Shougang (steel) and Sanjiu (pharmaceuticals), arguing that the main reason for their success was “not special help from the government or the army, but rather the fact that its leadership used their autonomy to construct a highly effective business organization” ( Nolan and Yeung 2001, p.443).

They did this because of ‘first-mover advantages’ which accrue to large firms able to reach minimum efficient scale in an increasingly competitive environment. Once at scale, the competitive position of these large firms stabilizes as they begin to reap the benefits of increasing returns. “When increased operational independence was granted to SOEs, some responded more quickly than others to construct a competitive institutional structure. Those that were able to do so rapidly improved their market position … Those large firms that are able to take the lead in the ‘Chinese big business race’ may well be able to maintain their position for a long time to come” (ibid, p.462).

Furthermore, constrained autonomy resulted in the source of state enterprise investment funds coming increasingly from ‘self raised funds’ under the control of enterprise managers.

> After the late 1970s there occurred a gradual process of expansion of use-rights over state property for economic agents other than central government officials and those who formerly answered directly to them at the local level. In this evolutionary process, a complex iteration occurred between changes in law and quasi law, and spontaneous actions of lower level agents seeking to push beyond regulations at each stage. In state industry there emerged a group of institutional, corporate entrepreneurs who began to operate capital in order to improve their own position through promoting the economic interests of the institution that employed them. Many of these, especially the most senior ones, were long-standing members of the communist Party (Nolan 1996, p.11).

The result was that by the 1990s, "a large number of companies had emerged which involved interlocking ownership between state enterprises, between state and non-state enterprises, and between domestic enterprises and foreign firms" (ibid, p.12). At this point, it becomes difficult to tell the difference between these large state firms and Dickson's (2003) red capitalists. While the development of large state enterprises is not an unmitigated success (Pei Sun 2007), and by global standards China's large state corporations remain small and inefficient (Naughton 1994, Nolan and Wang 1999, Nolan and Zhang 2002), from a New Class perspective this convergence is crucial.

Steinfeld (2009) argues that the lesson China seems to have drawn from the Asian Financial Crisis was that the East Asian developmental state model, which China believed it was the latest incarnation of, would not work in the long run. Rather than denouncing the crisis as an example of the failures of capitalism, China concluded that its ongoing attempt to save socialism through state-led growth was doomed to failure. This led to a shift in the terms of policy debates away from whether or not to implement reforms towards of focus on how to do them. And it occurred within an ongoing redefinition of the role of the Chinese Communist Party, in which China's 'quest for modernity' was increasingly defined in nationalist rather than socialist terms (Steinfeld 2010).

Breslin (2004) refers to this as "a process of reformulation of class alliances within China" (Breslin 2004, p.24). This reformulation became official policy at the Sixteenth Party Congress in 2002. The previous year, in a speech commemorating the 80th anniversary of the Chinese Communist Party, Jiang Zemin introduced the concept of the Three Represents to allow private entrepreneurs into the Party (Dickson 2003). "As a result, the CCP formally represents not just the Chinese proletariat, but also China's advanced productive forces, China's advanced culture, and 'the fundamental interest of the overwhelming majority of the Chinese people'. As a consequence, the CCP is no longer just the vanguard of the proletariat, but of 'Chinese people and the Chinese nation', and membership is open to any 'advanced element' including private entrepreneurs" (Breslin 2004, p.20).

The reformulation of the guiding principle of the Chinese Party occurred, in part, because "[t]here is a symbiotic relationship (at the very least) between state elites and new economic elites. They have effectively co-opted each other into an alliance that … mutually reinforces each other's power and influence, not to mention personal fortunes" (Breslin 2004, p.24). In China, resolution of the New Class contradiction has generated a system where the state facilitates accumulation and "regulates the market to ensure that the new bourgeoisie can appropriate surplus value thanks to the bourgeoisie's close relationship with the party state – capitalism with Chinese characteristics" (Breslin 2004, p.24).

### 2.2.3 Southeast Asia

The countries of Southeast Asia obviously do not fit the New Class story, since none of them are communist states in the process of system transformation.[53] Nevertheless, much of the literature describes the growth and development of Southeast Asia as a process of 'transition' in terms of the emergence of capitalism.[54] Resolution of the New Class contradiction is fundamentally about the emergence of a capitalist class, and important similarities exist between this process and the changes that occurred in post-colonial Southeast Asia. As in Eastern Europe and China, state-related accumulation is central to capitalist class formation. However, since the process does not involve dismantling the plan, the Southeast Asia literature is much less concerned with issues of property rights. It is instead more focused on understanding the relationship between bureaucrats and

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[53] Included under the label 'Southeast Asia' are Indonesia, Malaysia, the Philippines, and Thailand. Singapore and Hong Kong are also included, but since they are city states the focus will remain on the four countries just listed. The simple geographic relevance of Southeast Asia to Vietnam is obvious, although complicated given its historical ties with China. "'If you look at the Vietnamese from Bangkok, they look very Chinese', observes historian David Marr … 'But if you look at them from Quangzhou (China), they look very Southeast Asian'" (Hiebert 1996, p.34). For discussion of these contending influences on 19th century imperial Vietnam, see Woodside (1988) and Kelley (2006).

[54] Lavigne (1999) makes a similar argument for China. Rather than simply a move from plan to market, "it could also be a process leading from under-development to development" (Lavigne 1999, p.276) and "from stagnation to growth" (ibid, p.271).

entrepreneurs that drives accumulation and growth. Given this focus, the literature also discusses issues of rent-seeking and corruption versus productive reinvestment, along with the related problem of ersatz capitalism. This section will explore these issues and their relevance for Vietnam.

Rapid economic growth occurred in Southeast Asia in the 1970s and 1980s, including strong growth of manufacturing and industrial output, and a dramatic increase in exports (Donor 1991, Hawes and Liu 1993, McVey 1993). How can this 'transformation' be explained? One group of authors – Robison (1986) on Indonesia, Jomo (1988) on Malaysia, and Hewison (1989) on Thailand – whom Hawes and Liu (1993) classify as 'structuralists', explain this growth as a result of "a growing identification of interests between the politico-bureaucrats who control the state and the capitalist class that has been created by the state" (Hawes and Liu 1993, p.658).[55]

This process is different from China. Reforms were initially initiated in China to fix socialism, not foster the development of a domestic capitalist class (Naughton 1996). Growth in China did not start from a convergence of interests as in Southeast Asia, but rather came from relaxing certain controls on the economy and starting from a very low base. Nevertheless, as discussed in the previous chapter, once unleashed, the process did lead to capitalist class formation in China.

Southeast Asian economic growth, according to the structuralists, is due to the rising strength of domestic capitalist classes. These capitalist classes emerged as a direct byproduct of state intervention, particularly through import substitution policies.[56]

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[55] "[T]he structural approach stresses three different, yet closely connected, variables – the state, the domestic capitalist class, and the international economy – that are deemed to be central to any understanding of the Southeast Asian political economy" (Hawes and Liu 1993, p.634). It takes "a historical approach that traces the evolution of the role of the state and class relationships since the mid-nineteenth century" in order to "explain the rise of a capitalist class" (ibid, p.635). The focus here will be on the post-colonial state and the emergence of a domestic capitalist class.

[56] In Indonesia, this occurred during the 1970s import substitution policies of Suharto's New Order (Robison 1986). In Thailand it occurred earlier, following a state-led industrialization drive from 1932 to 1957, resulting in a strong domestic capitalist class in Thailand by the end of the 1950s (Hewison 1989). Woo (1991) makes a similar 'structural' argument for South Korea, including acknowledgement of the Japanese colonial legacy on the relationship between the post-colonial South Korean state and the domestic

According to Robison (1986), “the general pattern has been for the state to assume political leadership of the capitalist revolution given the relative weakness of the domestic capitalist class. The bourgeoisie has generally developed within the framework of state-led capitalism in which political ascendancy lies with the officials of the state itself” (Robison 1986, p.viii).

The definition of ‘domestic’ and the role of overseas Chinese in Southeast Asian growth is subject to some dispute. Studwell (2007) views them as ‘non-indigenous’, although he does discuss processes of acculturation and assimilation. Yoshihara (1988) sees important differences between Southeast Asian countries. In Singapore, there is no distinction between ‘indigenous’ and ‘Chinese’, in Thailand the Chinese have been effectively incorporated into Thai society, while in Indonesia, the Philippines and particularly in Malaysia the Chinese remain distinct from indigenous capitalists. McVey (1993) argues that “[e]nterprise itself has remained largely in the hands of the Chinese: indigenous participation increased, but this was largely because of political pressures and patronage” (McVey 1993, p.17). However, “the region’s Chinese are a settled minority and function as domestic capitalists. Hence, Southeast Asia’s capitalism is not affected systematically by the ethnicity of its business class” (ibid, p.18). Furthermore, “[d]irect pressures, acculturation to the model set by the ruling elite, and the business need for close relationships with the state all make for downplaying overt Chineseness, and the line between what is Chinese and what is indigenous is becoming increasingly uncertain” (ibid, p.20). This has been facilitated by increasing interaction between ‘locals’ and Chinese business leaders, for example on company boards of directors. “The need to act in an increasingly internationalized business world imposes forms and behaviour which erode Chinese exclusivity, and both business interests and cultural forces bring together overseas Chinese and indigenous elites into a common, cosmopolitan nouveau-riche

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capitalist class and the importance of the international context. The emergence of the Nixon Doctrine, resulting in reduced financial support for South Korea and reduced protection under the U.S. security umbrella, created the political conditions necessary for General Park to discipline both capital and labour during the crash industrialization drive of the 1970s. However, the South Korean experience, along with Taiwan and Japan, is not directly transferrable to Southeast Asia due to differences in history and the generally weaker disciplinary capacity of Southeast Asian states. For a critique of the so-called East Asian developmental state model, see Fine and Rustomjee (1996), and Yoshihara (1988) for discussion of the differences between East and Southeast Asia.

consumer style which offers itself as the high culture model for modern capitalist Southeast Asia" (ibid, p.26). Historical and political factors explain the rise of overseas Chinese to business prominence rather than innate cultural traits. The focus here will be on structural relations rather than ethnicity.

In Indonesia, Malaysia and Thailand, the state created the conditions necessary for accumulation and directly supported the development of the domestic capitalist class. Bureaucrats and entrepreneurs had a "promotional relationship" (Hewison 1989, p.16) and "forged a close alliance (Hawes and Liu 1993, p.636). As McVey (1993) notes, "[s]omething happened to cause political-bureaucratic power-holders to believe that their interests would be better served by promoting rather than squeezing business" (McVey 1993, p.30). Why did the state seek to develop the domestic capitalist class? Similar to China, "[t]he answer lies in the increasing integration of the state elite with the domestic capitalist class, as they act as joint venture partners or monopoly license holders or managers of state-owned enterprises. In this way, their political and economic interests rest largely upon their ability to control and dispense state resources for political patronage" (Hawes and Liu 1993, p.643).[57] Granting economic privileges facilitated accumulation and growth and provided a source of funds for political patrons to secure and reproduce the state.

The Philippines had a similar close relationship between state and capital but with less impressive growth performance. Hutchcroft (1998) seeks to explain this difference, arguing that "different types of states help to nurture different types of capitalism" and "deficiencies in the political sphere can obstruct capitalist development" (Hutchcroft 1998, p.4). Hutchcroft employs an 'alternative' structuralism. Rather than the Marxist class analysis of Robison (1986), Jomo (1988) and Hewison (1989), he relies on Weber's theory of capitalist development, which is "basically an *institutional* theory of capitalist development" (Hutchcroft 1998, p.33).

[57] Part of the answer is also due to the rise of nationalism. For discussion of nationalism and the emergence of capitalism in Indonesia, see Anderson (1991). For discussion of the relation between nationalism and the development of capitalism more generally, see Greenfeld (2001).

According to Hutchcroft, "[o]ne of Weber's primary achievements was to focus attention on the political preconditions of capitalist development" (ibid, p.33). The essential prerequisite for Weber was 'calculability', or in more modern jargon, stability of expectations. While a high degree of calculability in modern capitalism exists in both the realms of production and politics, "Weber generally seems to treat calculability in the latter as the *prerequisite* for calculability in the former. Legal and administrative predictability is not just another precondition for capitalist development; it is the most basic precondition of all" (ibid, p.33-34). Taming arbitrary political activity is therefore a key precondition for advanced capitalism. This is a process intimately bound up with the rise of a 'rational' bureaucracy, involving a clear separation between the public and personal, and operating according to rules and procedures rather than the whims of officials (ibid, p.5).[58]

"Where bureaucratic actions are often highly arbitrary, Weber argues, only certain types of 'politically determined capitalisms' are able to thrive" (ibid, p.18). These forms of capitalism can reach a high level of development, but cannot achieve the 'advanced' form. Instead, they remain patrimonial capitalisms lacking predictability, with a weak separation of public and personal authority, in which personal considerations and connections determine outcomes (ibid, p.14). However, since "all capitalism is in some sense 'politically determined'" (ibid, p.19), Hutchcroft prefers the term rent capitalism to describe these systems. "Rent capitalism can be distinguished from production-oriented-capitalism according to the relative dominance of rent-seeking and production-oriented behaviour" (ibid, p.19). In reviewing the literature, Hutchcroft equates his conception of rent capitalism with both 'political' and 'crony' capitalism (ibid, p.19, footnote 13).

[58] Like the structural Marxists, Hutchcroft pays particular attention to the legacies of colonialism and the influence of the external environment. However, Hutchcroft claims that Marx's analysis is insightful but confined to the workings of 'mature' capitalism. Marx and Weber are not necessarily mutually exclusive, since it is possible to tack on Marx's theory of capitalism 'proper' to Weber's theory of capitalist development (Hutchcroft 1998, p.33). However, "Weber employs many terms to describe capitalist systems that are hampered by the weak degree of calculability in the political sphere, and distinguishes among various forms of (not fully rational) capitalist activity according to [where] their 'sources of gain' originate" (ibid, p.45). Weber sees capitalism as very old and widespread, present in a proto-form in ancient China, India, Babylon, Egypt, Mediterranean antiquity and the European Middle Ages (Greenfeld 2001, p.12). This continuum of capitalism, culminating in modern rational bourgeois capitalism, allows for a proliferation of stunted capitalisms: commercial, political, booty, adventurers', traditional, patrimonial, etc. (Hutchcroft 1998, p.46, footnote 2). However, this is ultimately an ersatz formulation.

Nevertheless, Hutchcroft retains the use of ‘patrimonial’ designations in distinguishing the Philippines from Indonesia and Thailand. He argues that Indonesia and Thailand – and China – had ‘patrimonial administrative states’ whereas the Philippines has a ‘patrimonial oligarchic state’. In the former, “the dominant social force is a bureaucratic elite” (ibid, p.47). “Since the major beneficiaries of the process of rent extraction were based in the administrative apparatus of the state, this form of rent capitalism can be characterized as *bureaucratic capitalism*” (ibid, p.47-48).[59] This is the closest the Southeast Asian literature comes to a New Class type formulation.

However, in the oligarchic form, “the dominant social force has an economic base largely independent of the state apparatus, but the state nonetheless plays a central role in the process of wealth accumulation … In contrast to bureaucratic capitalism, where the major beneficiaries of rent extraction are based within the administrative apparatus, the principal direction of rent extraction is reversed: a powerful oligarchic business class extracts privilege from a largely incoherent bureaucracy” (ibid, p.52). This is booty capitalism.

For Hutchcroft, the “Philippines provides a clear-cut example of what kinds of obstacles to capitalist development can result when the power of an oligarchic private sector is never tamed, and there is no concerted effort to promote the development of the public sector” (ibid, p.5).

> Throughout modern Philippine history, one finds far more oligarchy building than state building: the oligarchic families have had ample opportunities, historically, to consolidate their power with the support of external forces, while the state has remained woefully underdeveloped. As a result, the state apparatus continues to be easy prey to a powerful oligarchic class that enjoys an independent economic

[59] The term ‘bureaucratic capitalist’ was coined in the China literature. See Yoshihara (1998), p.72-74, for discussion.

> base outside the state, yet depends upon particularistic access to the political machinery as the major avenue to private accumulation (ibid, p.11-12).

The argument is essentially that a state apparatus, although patrimonial, remained operational in Indonesia and Thailand, allowing for some growth enhancing outcomes. In the Philippines, however, the state remained weak and ineffective, captured by an oligarchic class and repeatedly plundered for private gain. There is a rough correspondence here with the communist transition literature, in which the Philippines is equivalent to Eastern Europe and Indonesia and Thailand are equivalent to China. State collapse and state capture did not produce much growth or development in either Eastern Europe or the Philippines, while an enduring, if problematic, state in China, Indonesia and Thailand facilitated accumulation and growth.

However, there is an important critique of this view of Southeast Asia. The growth experience of Southeast Asia, while impressive, will not last because Southeast Asia has developed ‘ersatz’ capitalism (Yoshihara 1988).

> Perhaps the most serious criticism [of Southeast Asian economic growth] concerns the shallowness and dependence of the region’s own economic structures … Local capitalists lack independent technological capacity in areas outside the tertiary sector and light manufacturing. Entrepreneurs favour opulence over excellence, rent seeking and speculation over long-term industrial investment. They are, in sum, paper capitalists, compradors of foreign firms. The region’s shortage of technical personnel reflects and reinforces this inattention to real industrial development (Doner 1991, p.823).

Yoshihara (1988) acknowledges that the “most dramatic post-war change in the economic structure of South-East Asia is the rise of the manufacturing industry” (Yoshihara 1988, p.102). Furthermore, government intervention and support facilitated expansion of industrial production beyond simple consumer goods, and these activities are predominately undertaken by domestic capital (ibid, p.103). Nevertheless, this ‘big push' has occurred at the expense of efficiency, measured primarily in terms of exports. While some industrialists have developed export capability, they are only "a few bright spots" and "the industrial capital that emerged has generally become a burden on the economy rather than a propelling force" (ibid, p.106).

A central problem in Southeast Asia is that industrialization has been 'technologyless' (ibid, p.111). Domestic technical competence remains low. "Industrial capitalists are able to run manufacturing plants that require technical competence far beyond what they can muster within their own countries because foreign companies can fill the gap" (ibid, p.113). Machinery, equipment and even entire manufacturing plants are imported. Foreign technicians are hired to set-up and repair them, and train local personnel how to operate them. Southeast Asia has almost no domestic technological base to drive their economies forward through production and export of increasingly sophisticated products. Southeast Asia remains dependent on foreign technology, it is a dependent capitalism (ibid, p.118).

For Yoshihara, industrialization has not been a dynamic force in Southeast Asia. Apart from the 'few bright spots', the majority of industrial exports are from foreign-owned firms. Small-scale domestic firms operating in activities with low capital requirements made significant contributions to the region's growth (ibid, p.2). In addition, natural resource exploitation (e.g. oil, logging) contributed to growth, but even here many of the concessions were granted to foreign firms. Royalties earned were pumped into industrial projects and contributed to growth. However, for natural resources in particular, activities tended to be predatory rather the motivated by long-term growth considerations (ibid, p.119).

Another issue is the low quality of government intervention, resulting in massive inefficiency and pervasive rent-seeking (ibid, p.130).

> In fact, there are strange breeds of capitalists such as crony capitalists and bureaucratic capitalists. In addition, there are political leaders, their sons and

> relatives, and royal families involved in business. What they seek is not only protection from foreign competition, but also concessions, licenses, monopoly rights, and government subsidies (usually in terms of low-interest loans from government financial institutions). As a result, all sorts of irregularities have flourished in the economy (ibid, p.3-4).[60]

In addition to rent-seeking, speculation is rife. Industrialists have diversified into real estate and property development, banking and insurance. Any sector with promising prospects due to restricted competition or monopoly concessions, such as cement or shipping, "attracts the speculative interest of rent-seekers" (Yoshihara 1988, p.92). There is no clear separation between rent-seeking and speculation. The common feature between rent-seekers and speculators is that "both seek quick returns" (ibid, p.92), "instead of concentrating on technological improvement and slowly building industrial empires" (ibid, p.4). It is far easier to secure profits from speculation and rent-seeking than through reducing production costs, improving product quality and increasing productivity.

Finally, this situation is unlikely to change. While rent-seeking is not unique to Southeast Asia, there is no assurance that the problem "will resolve itself automatically in the process of capitalist development" (ibid, p.88). For Yoshihara, in Southeast Asia "rent-seeking is far more pervasive" than other countries at comparable stages of development (e.g. Japan) "and there are no indications … that it will decline" (ibid, p.88). Furthermore, the history of industrialization in Southeast Asia in not 'recent'. The Philippines, for example, has been promoting the textile industry since the 1950s but

[60] Studwell (2007) argues that this process created a tycoon class of Asian godfathers who "exploit political inefficiency for gain" (Studwell 2007, p.xxi). Following Yoshihara (1988), Studwell argues that "there has been a heavy dependence on foreign providers of technology and project management because the godfathers are so concentrated on finessing deals … that they leave technical execution to outsiders" (Studwell 2007, p.xxiv). The tycoon class "generated enormous personal wealth, but did little to promote overall economic growth. Instead, growth came from a combination of small-scale entrepreneurs, many concentrated in and around manufacturing, and a policy of renting out the local labour force to efficient multinational exporters" (ibid, p.xiii). Productivity gains in godfather companies generally lag behind gains in the economies in which they operate (ibid, p.xxi). "The big domestic businesses run by the Asian godfathers grew up on a diet of protected markets, cartels and non-competitive tenders for public works. The result is that, almost without exception … south-east Asia lacks globally competitive companies" (ibid, p.xxiv).

remains moribund (ibid, p.108). Technological dependency is not a temporary problem, it is structural and semi-permanent (ibid, p.112). Southeast Asia "has all the trappings of a modern economy – high-tech factories, stunning high-rise buildings, contemporary transportation systems and utility providers – but no indigenous, large-scale companies producing world-class products and services" (Studwell 2007, p.xxiv). For these reasons, capitalism in Southeast Asia is ersatz capitalism.

The issue of rent-seeking needs to be addressed.[61] In discussing Indonesia, Crouch (1979) identifies a process similar to the 'red hat' phenomenon in China, arguing that "[i]n the early stages, a patrimonial political structure need not be an obstacle to capitalist economic development. By placing themselves as clients under the protection and patronage of powerful members of the ruler's court, industrialists can acquire the security and predictability they need" (Crouch 1979, p.579). Although corruption is endemic in patrimonial states, corruption itself is not the problem. Following Weber, Hutchcroft (1998) argues that unpredictability is the problem. Highly variable corruption, rather than corruption per se, is the issue. Corruption is much less damaging to economic outcomes if expectations are nevertheless stable (Hutchcroft 1998, p.41).

Doner (1991) argues that analysis "should avoid overly sharp dichotomies between rent-seekers or commercial capitalists on the one hand, and industrialists on the other. Some capitalists are clearly more oriented toward short-term profits and tertiary activities than others. Yet, throughout Asia, strong industrial firms have emerged from commercial capitalists, speculators, and rent-seekers benefiting from government-controlled import licenses" (Doner 1991, p.824).

[61] The rent-seeking and corruption literature is vast. For an excellent review and critique of the literature see Khan and Jomo (2000) and Khan (2002). Hutchcroft (1998) observes that "rent-seeking theorists … tend to make the mistake of presuming that the degree of rent seeking is dependent on one simple variable: the more government intervention, the more rent seeking" (Hutchcroft 1998, p.56). He rejects the "laissez-faire versus statist continuum" (ibid, p.19) since it cannot explain the Philippines, which lacks the capacity to implement some of the most rudimentary laissez-faire regulatory policies. However, the ultimate problem with the entire rent-seeking literature is that 'rents' only exist as departures from perfectively competitive prices, in which rents are defined in terms of opportunity costs. If equilibrium economics is not used, then 'rents' become much more difficult to define and identify. See Van Arkadie (1990a) and Mathews (2006) for discussion. Thanks to Daniela Tavasci for highlight this point. For a view of firms in which they actively seek rents as part of acquiring a competitive edge, see Mathews (2006).

> The fact that origins do not determine industrial strength is illustrated by a comparison of Philippine businessman Ricardo Silverio and South Korean businessman Pong-chol Yi. Both expanded from commercial origins to create major industrial groups with support from power political patrons. Silverio, however, became a notorious Marcos 'crony' who was forced to flee the country when his mismanaged and overextended conglomerate fell apart in the early 1990s. Yi, on the other hand, founded Samsung, South Korea's largest *chaebol* based on steady expansion from production of consumer goods to basic industries (ibid, p.824, footnote 9).

As already noted, it is not "a simple matter to distinguish between rent-seeking – taking advantage of control over a resource, such as land or a government-granted monopoly, to extract profit without productive reinvestment – from capitalism proper" (McVey 1993, p.8).

All of the commentators on post-colonial Southeast Asian growth acknowledge the development of the manufacturing industry. They are all using the same basic data on export growth, industrial output growth and GDP growth. According to the ersatz interpretation, Southeast Asia is locked into a 'technologyless' growth spurt, constrained by inadequate domestic technological capabilities, massive inefficiencies, and pervasive rent-seeking behaviour. Since this is an enduring structural feature and unlikely to change, the 'ersatz' designation reflects a judgment on the limited future growth prospects for the region. However, using the same data, McVey (1993) reaches the opposite conclusion, arguing that "the features of the bureaucratic polity – its inwardness, the indeterminacy of its institutions, its lack of direction – have less the aspect of a developmental bog than of a container for fundamental transformation" (McVey 1993, p.22).

This optimism emerges from "signs of the gradual crystallization of entrepreneurial attitudes, a shift in weight from bureaucratic and political to business values, and the emergence of more long-term commitment" (ibid, p.26). This results from the "convergence of interests between the political elite and capital", particularly "the dual roles of the politico-bureaucrats: as power holders, they exhibit their natural patrimonial tendency; and as owners of capital, their entrepreneurial impulse emerges" (Hawes and Liu 1993, p.642). As in China, entrepreneurs accumulate through connections to bureaucrats, and bureaucrats themselves increasingly become entrepreneurs.

According to McVey, Southeast Asian bureaucrats realized "the vexing vulnerability of riches based on office holding. The endless jockeying for office and advantage by members of the bureaucratic polity may have been disastrous for administrative effectiveness, but it was essential for staying in the game. Loss of a patron or a transfer of function from one ministry to another could spell economic misfortune; to belong to a clique that lost out meant disaster (McVey 1993, p.23). Furthermore, retirement usually meant loss of significant non-wage benefits, "and the cessation of access and protection made it hard to ensure the prosperity of one's heirs" (ibid, p.23).

In an example of Goodman's (2000) intergenerational transfer of power discussed in the China literature, one solution for Southeast Asian bureaucrats was to enter business. "Wisely made, this could provide a safe landing in case of political adversity and a guarantee of continuing family fortune" (McVey 1993, p.23). Furthermore, "the coming together of political-bureaucratic and entrepreneurial interests was greatly facilitated by the organizational characteristics of modern capitalism" (ibid, p.26). The corporation allowed political and economic leaders to operate together on company boards and facilitated initiation of "the politicians into the mysteries of business behaviour" (ibid, p.26). The result was that members of the bureaucratic elite began playing serious business roles (ibid, p.22).[62]

[62] In a comment as relevant today as it was for the 1980s, McVey (1993) goes on to observe that "[o]f course, speculative investment and short-term profit taking are rife; this, after all, was the age of the junk bond and leveraged buy-out, and Southeast Asian capitalists can hardly be required to be more virtuous than their peers. But speculative investment is necessarily short-term, and as we have seen a major motive for members of the political-bureaucratic elite turning to business is the continued safeguarding of their fortunes. Hence, speculation is likely to be only one aspect of their investment interest, and we can probably assume that as their businesses gain solidity and as family members acquire managerial expertise they will increasingly settle money in enterprises on a long-term basis" (McVey 1993, p.26-27).

> But this strategy required two things: first of all, the acquisition of sufficient business knowledge to enable the official to oversee the handling of his money; and secondly, effective legal guarantees for private property, so that political misfortune could not sweep it all away. Both of these conditions worked against the continuation of the division between political and economic power, for the first meant that members of the political elite (and in particular the offspring of powerholders) began taking a serious and active role in business, and the second meant ending the … dependency of businessmen on political protectors (ibid, p.23-24).

This process constitutes what Hutchcroft (1998) refers to as the 'optimistic scenario' in which "entrepreneurship based on rent-seeking behaviour becomes less important relative to entrepreneurship based on productive activity" (Hutchcroft 1998, p.51).[63] In "the process of economic growth, a more assertive business class emerges" and "elements of this business class may demand a certain regularization of relations between the government and business interests" (ibid, p.49).[64]

However, in the 'pessimistic scenario', a more assertive business class and weakened bureaucracy could simply result in capture of the state by an oligarchy (ibid, p.60, footnote 23). As McVey (1993) argues, "faced with serious setbacks, entrepreneurial optimism may very easily degenerate into asset-stripping defeatism. Southeast Asia's capitalist development is certainly still fragile enough for this to be a danger" (McVey 1993, p.31).

> It is still early days for most Southeast Asian politico-bureaucrats turned businessmen, and it is still difficult to see where the line between rent-seeking and real entrepreneurship has been crossed, and whether investment in new enterprise

[63] This potential source of positive change was also discussed by Staniszkis (1991) and Frydman *et al* (1998) for Eastern Europe.
[64] Hutchcroft argues that this occurred in European development.

> is spurred by speculation or prestige seeking rather than a serious aim at development (ibid, p.26).

Strong growth into the middle 1990s seemed to vindicate the optimistic scenario for Southeast Asia. Important changes had been occurring since the 1980s. Import substitution was being gradually scaled back. Financial liberalization was undertaken to various degrees and combined with a ready pool of international liquidity to ignite a lending boom in the region (Palma 1998). Then came the Asian Financial Crisis. Before the crisis, patrimonial relations were acknowledged to be corrupt and inefficient but also an important component of the growth story. In the wake of the crisis, ‘cronyism’ was fingered as a key factor contributing to the swift collapse of Thailand, Indonesia, Malaysia and South Korea (Wade 1998).[65] What had previously been perceived as growth enhancing relations became nefarious, and the fragility of Southeast Asia’s capitalist development had been revealed.

In Indonesia, financial liberalization became a vehicle for unsustainable borrowing and circumventing state regulations by shifting assets offshore (Winters 1996, Pincus and Ramli 1998). Matsumoto (2006) argues that prior to the crisis, the large state connected Indonesian conglomerates became deeply concerned about the inevitable and fast approaching post-Suharto world. Political uncertainty led to a process of hollowing out, in which the conglomerates mortgaged their Indonesian assets to access readily available foreign currency. These borrowed funds were then invested offshore to protect them from any unfavourable post-Suharto developments. Financial fragility increased as the leverage of the conglomerates skyrocketed, and any downward change in the exchange rate would cause devastation. This happened and Indonesia spiraled out of control. In 1998 the Suharto regime collapsed.

Beyond the crisis and its immediate causes, Indonesia is an example of the ‘pessimistic scenario’. Although Robison (1986) exhibited qualified optimism about Indonesia’s

[65] The crisis had different effects in different countries, and ‘cronyism’ is only one of several explanations. See Booth (2001) for a review of the various interpretations of the crisis.

prospects, Robison and Hadiz (2004) argue that "a complex politico-business oligarchy emerged from within a system of authoritarian rule, reorganizing its power through successive crises, colonizing and expropriating new political and market institutions" (Robison and Hadiz 2004, p.xiv). Indonesia transmogrified into the Philippines.

Indonesia under Suharto had a form of 'political capitalism', composed of a "political class of officials and their families, political and business associates, clients and agents who fused political power with bureaucratic authority, public office with private interest" (ibid, p.53-54). However, the 'triumph of the oligarchy' occurred between 1982 and 1997 as part of market reforms – deregulation and financial liberalization. "Such reforms in Indonesia … were to provide the very means by which powerful private interests emerged from within the apparatus of the state itself to construct their new private corporate empires" (ibid, p.13) as "public monopoly was now opened to expropriation by private interests" (ibid, p.15). For Robison and Hadiz, post-crisis, post-Suharto democracy does not represent a fundamentally new state of affairs. Power and privilege were reorganized but not dismantled because "old relations of power may survive, and even find new life, within a range of institutional frameworks very different from those in which they had originally emerged" (ibid, p.xiv).

Indonesia provides a warning about the dangers of state collapse and how the fragility of capitalist development can degenerate into state capture and oligarchy. Southeast Asia demonstrates that there are no guarantees in the development of capitalism.

## *2.3 Summary*

The literatures on Eastern Europe, China, and Southeast Asia all highlight a process identified as political capitalism. Whether emerging from the process of transition or the process of economic development, political capitalism involves the conversion of political power into economic gain. It follows a pattern of state-related accumulation. This runs in two directions: private entrepreneurs who accumulate through connections to state officials and state officials who engage in business. The line between them is not clear. Particularly in transition countries, the boundary between state and private is deliberately blurred as part of the accumulation process.

One implication of this process is that ownership type provides little information about firms. State and private firms shade into each other as red capitalists, cronies, tycoons – all benefiting from access to the state. It is time to move beyond the Animal Farm formula of state – bad, private – good.

This pattern of accumulation has important implications for class formation. The Southeast Asia literature is the most explicit in viewing this process as the emergence of a capitalist class. However, the fate of this class remains uncertain and appears to be unraveling in particular countries. The Eastern European literature errs on the side of kleptocracy, while continued growth in China has seen discussion of 'capitalism with Chinese characteristics'. The question is "whether the expropriation of former systems of state capitalism and the ending of public monopolies will produce … capitalism or just unconstrained predatory rent-seeking?" (Robison and Hadiz 2004, p.13).

The answer appears to depend on the state. In Eastern Europe and post-crisis Indonesia, state collapse produced asset grabbing. There are important variations between these countries, but the overall pattern holds. In China, state continuity stabilized expectations. Although inefficient and corrupt, growth occurred.

However, as should be evident from this chapter, there remain a bewildering array of 'capitalisms': political, bureaucratic, ersatz, rent, booty, nomenklatura, etc. As Chapter One demonstrated, it is hard enough to define 'capitalism' proper. Hutchcroft (1998) is right to highlight that all capitalisms are politically determined. The problem with the proliferation of capitalisms is one of essentialism, of static characterization. The development of capitalism is a *process*. To fix the process at a particular moment in time and label it as not-quite-capitalism misses the point. Capitalism develops in particular places which have particular histories and political economies. It changes in these places over time in response to internal and external pressures, and, as post-crisis Indonesia demonstrates, even occasionally derails.

This chapter began with discussion of Djilas (1957) and the contradiction of the New Class, based on the disjunction between national ownership and *de facto* control by state bureaucrats and managers. The New Class under the command economy generated a pattern of accumulation based on leveraging access to the state. This pattern influenced the ways in which the Djilas contradiction was resolved during transition, such that capitalist class formation in Eastern Europe and China continued to depend on state-related accumulation. However, different countries experienced different outcomes. How this contradiction is resolved in Vietnam will influence class formation and the development of Vietnamese capitalism.

# 3 The New Class in Vietnam

The processes at work in China and Eastern Europe are also operating in post-planning Vietnam. State-related accumulation is prevalent. Cadres are going into business, blurring the boundary between state and private.[66] Insider privatization, asset stripping and hollowing out are commonplace.[67] Some authors argue that a new business elite is emerging from within the state itself.[68] This is referred to as the rise of a 'state business interest' (Fforde 1993a) and 'market-Leninism' (London 2009), but with few exceptions there is very little mention of capitalism.[69] This is partly due to underlying assumptions along the lines of the commercialization model, in which capitalism is the default state of nature of human beings. However, it is also due to the Vietnamese language, in which describing the changes occurring in Vietnam as the development of capitalism is difficult.

The term 'capitalism' (*chủ nghĩa tư bản*) has a negative connotation in Vietnamese and is nearly impossible to use in a positive way.[70] Capitalism is associated with French

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[66] See, for example, Fforde (1993a, 2004, 2007, 2009); Van Arkadie (1993); Greenfield (1994); Fforde and de Vylder (1996); Hiebert (1996); Herno (1998); Riedel and Turley (1999); Abrami (2000); Beresford and Đặng Phong (2000); Gillespie (2001, 2002); Gainsborough (2002a, 2002b, 2003a, 2003b, 2003c, 2004b); Painter (2003a, 2003b); Nguyễn Đình Cung, Phạm Anh Tuấn, Bùi Văn and Dapice (2004); Taussig (2005); Hakkala and Kokko (2007); Evers and Benedikter (2009); Hayton (2010a, 2010b).

[67] See, for example, Greenfield (1994); Bùi Tín (1995); Kolko (1997); Templer (1998); Heberer and Kohl (1999); Riedel and Turley (1999); Vasavakul (1999a, 2001, 2006); Abrami (2000); Gillespie (2001); Gainsborough (2002a, 2002b, 2003a, 2003b, 2003c, 2004b); Evers and Benedikter (2009); Hayton (2010a, 2010b).

[68] See Fforde (1993a, 2004, 2007, 2008); Greenfield (1994); Bùi Tín (1995); Kolko (1997); Templer (1998); Heberer (1999); Riedel and Turley (1999); Vasavakul (1999a, 2001, 2006); Abrami (2000); Gainsborough (2002a, 2002b, 2003a, 2003b, 2003c, 2004b); London (2009); Hayton (2010a, 2010b).

[69] Greenfield (1994) is one of the few scholars to use the term 'capitalism' and not mean something based on the commercialization model and more markets. Kolko (1997), a Marxist like Greenfield, discusses the emergence of a new economic class from within the state. Gainsborough (2002b) discusses class, but in the Barrington Moore sense. Vasavakul (2006) mentions 'state capitalism' and briefly discusses class formation, but it is not developed. However, this was a conference paper presented to Vietnamese government officials and not the place to discuss it. Questions of class are discussed in Vasavakul (1999a) but more in terms of interest groups. Fforde (2007) discusses capitalism and class formation, but admits that the theoretical framework is still under construction. Fforde (2008) also discusses capitalism, but the usage collapses back into an institutionalist definition based on Doner and Ramsey's (1997) notion of 'competitive clientelism'. Kim (2008) discusses the process of 'learning to be capitalist', and explicitly rejects the commercialization model of capitalism as natural. While her attention to informal norms and values is useful, capitalism remains essentially defined in terms of markets.

[70] This discussion has benefited from conversations with several Vietnamese, including a professor of Marxism-Leninism and a former member of the Army. Their names have been withheld due to the sensitivity of the subject. It has also benefited from discussion with Jason Picard and Ben Wilkinson.

colonialism, American aggression and brutal exploitation (Rama 2008). Since the growth and development of the Vietnamese economy has been phenomenal, including significant improvements in living standards, the negative term capitalism is not appropriate. Furthermore, the Vietnamese Communist Party (VCP) is uncomfortable with the term since it remains formally committed to socialism. During discussions in 1979 on whether to increase formal scope for market activities, there was a "fear that reliance on market mechanisms would amount to abandoning socialism. It was noted, however, that the market predated capitalism, so that it could not be deemed a capitalist invention: it was rather an ingenious invention of mankind" (Rama 2008, p.21). And again in 1986, during discussions in the run up to the VI$^{th}$ Party Congress and launch of the *đổi mới* (renovation) policy, debate occurred over the difference between 'renovation' and the ideologically unacceptable 'peaceful evolution' (*diễn biến hòa bình*). "Moving from the subsidy system to market mechanisms was never presented as the rejection of socialist principles, but rather as a tool for their implementation. Agreement was reached that markets were not a capitalist invention" (Rama 2008, p.29).[71] In a rather pragmatic adoption of the commercialization model, the Vietnamese Party, as in China, proceeded with 'socialist oriented' reform.

The Vietnamese also have two words for 'class'. The first, *giai cấp*, is the Marxist term. This term only makes sense in the conceptual world of Marxist analysis in which class is a social relation. Since capitalism is negative and Vietnam is still officially socialist (*xã hội chủ nghĩa*), the development of a 'new business elite' is not perceived as the emergence of a capitalist class (*giai cấp chủ*). Instead, it is described using the older word for class, *tầng lớp*, which is rooted in Confucianism and is based on notions of social stratification.[72] One Vietnamese individual went so far as to say that 'owners' were performing a socially positive function by generating wealth and providing higher incomes for workers, invoking a quasi-Schumpeterian definition of owner as

[71] Rama (2008) is based on a series of interviews with Mr. Võ Văn Kiệt in the final years of his life. More will be said about Võ Văn Kiệt below. The problem, similar to McNamara (1995), is that the story is intended for posterity and is therefore a sanitized revision of events. Viewed in this light, many of the conclusions of the piece either do not hold or require qualification from additional sources. Nevertheless, the historical section of Rama (2008) is based on a background paper prepared by the Vietnamese economic historian Đặng Phong and remains very useful.

[72] This is similar to the income-based usage of 'class' in English: upper, middle, lower class.

entrepreneur to explicitly deny that a process of capitalist class formation as the emergence of *giai cấp chủ* was occurring in Vietnam.

However, Bùi Tín (1995) argues that in Vietnam "what we have now is a 'New Class' as described by Milovan Djilas" and "the 'New Class' Communists … [b]y running after their own advantage they and their families have become 'Red Capitalists'" (Bùi Tín 1995, p.185-186).[73] Mention is made of the perks of Party membership during the planning period, in which senior officials had access to top quality food products and consumer goods, even during times of severe shortage and famine.[74] Furthermore, these shops were run by relatives of top officials.

> [T]hese shops were managed by the younger sister of Le Duc Tho as part of his Party organizational network.[75] It also involved one of his brothers, Dinh Duc Thien, who having managed the steel manufacturing complex at Thai Nguyen north of Hanoi with no professional qualifications, was transferred to the army with the rank of general in charge of supplies during the Ho Chi Minh campaign. After that he was appointed to head the department responsible for the oil and gas industry, of which again he had no knowledge. Meanwhile Le Duc Tho's younger brother Mai Chi Tho had become Chairman of the Ho Chi Minh City People's Committee [1976-1985], also without any prior experience of administration (ibid, p.99).

[73] Bùi Tín was a colonel in the Vietnam People's Army who fought against the French and later became a reporter and deputy editor of *Nhân Dân*, the Vietnamese equivalent of *Pravda*. He 'left' Vietnam for France in 1990 (he denies he defected) amidst growing and increasingly outspoken concern over the direction taken by the Party. The memoir was written in France. Regarding Djilas, according to Jason Picard (personal communication), based on an interview with a Vietnamese writer in Ho Chi Minh City, *The New Class* was translated into Vietnamese by a Buddhist nun and was available in South Vietnam by the early 1960s. The translation of 'class' was *giai cấp*.

[74] Nguyễn Văn Huy (2007), in the official publication of the excellent Hanoi Museum of Ethnology exhibit *Hanoi Life under the Subsidy Economy, 1975-1986*, captures the structural privilege of the planning period. 'Ministers, experts level 9 and equivalent positions' were Level 1, Coupon A, and could purchase up to 4.2 kg of meat and 4 kg of fish. 'Vice ministers, General Directors, experts level 7-8 and equivalent positions' were Level 2, Coupon B, and could purchase 3 kg of meat and 3 kg of fish. 'Officers, clerks level 1-2' were Level 7, Coupon E, and could purchase 0.4 kg of meat and 0.5 kg of fish (Nguyễn Văn Huy 2007, p.49).

[75] Lê Đức Thọ was a Politburo member and head of the powerful Party Control Commission in charge of Party personnel appointments.

Bùi Tín comments, "[t]he higher the rank of the cadre, the more privileges, both conspicuous and discreet, he enjoys" and "these privileges extended to wives, children, grandchildren and in-laws of the *nomenklatura*" (ibid, p.109).[76] As market reforms were undertaken, cadres "used the opportunity to benefit themselves first and foremost" (ibid, p.147).

The privileges of cadres under planning were also highlighted in Vietnamese literature, following a brief relaxation of control in the late 1980s and a literary revival referred to as *đổi mới* literature.[77] For example, Dương Thu Hương (1995, 2000, 2002) captures the transmogrification of war-time cadres into fat cats and the increasing social stratification in the supposedly egalitarian post-war socialist society.[78] As part of the wider diaspora literature, Tưởng Năng Tiến (1986) tells the story of a man released from a re-education camp interested in seeing the classless society about which he had heard so much during captivity, only to find 'Guigoz-canism'. Guigoz cans were used to carry food. "All Guigoz cans were equal in capacity. But when it came to the quality of their contents, some were more equal than others" (Tưởng Năng Tiến 1986, p.236).

> One day, the man in charge of heating the Guigoz cans of food for the board of overseers at the construction site tripped and fell, dropping dozens of cans. Rice and meats scattered all over the ground. Those top comrades, the director, the political commissar, the engineer, the manager, … made wry faces, embarrassed by the flagrant display of their overabundant rations before the hungry eyes of the collective (ibid, p.236).

[76] From a mandarin family, Bùi Tín argues that the corruption of the Party occurred due to the misguided promotion of 'professional revolutionaries', a euphemism for uneducated peasants rising through the Party ranks due to their 'correct' class background. With an intellectual's disdain, the formal and informal abuse of privilege for personal gain is portrayed as the result of ignorance stemming from a kind of jungle mentality. He also sees it as a legacy of "Confucian custom whereby gifts are conveyed upwards in the hope that power and prestige will subsequently flow downwards" (Bùi Tín 1995, p.107-108).

[77] The literature cited here is not intended as evidence of historical fact. However, it does illuminate perceptions of events and processes at work. Furthermore, given censorship of all published work in Vietnam, it is easier to express provocative ideas as fiction rather than non-fiction. A story about cadres leveraging privilege may be published as fiction, but would not be approved in the form of historical analysis.

[78] See also Nguyễn Huy Thiệp (1992, 1994) and Phạm Thị Hoài (1997). The works cited here are the English translations. For further discussion of the *đổi mới* literature, see Bùi Tín (1995) and Templer (1998).

The narrator comments: “Tell me what you hide in your Guigoz can – I’ll tell you what class you belong to in the classless society” (ibid, p.237). In discussions prior to the VI$^{th}$ Congress in 1986, “increasingly bitter public criticisms of the socioeconomic privileges of the party-state bureaucracy were finding their way into the press. Some critics even argued that the party-state elite constituted a new ‘ruling class’” (Porter 1993, p.147; see also Kolko 1997).

While mention of Djilas-type issues is rare, those that do mention them portray them almost exclusively as negative. For Bùi Tín (1995), the New Class and its metamorphosis into ‘Red Capitalists’ represents a betrayal of the sacrifices made by ordinary Vietnamese during decades of war. Instead of red capitalists, Vietnam deserves democracy and equality.[79] For Greenfield (1994) and Kolko (1997), the betrayal is against the sacrifices made to achieve socialism. However, none of these accounts can explain the incredible economic growth that occurred in Vietnam. According to these portrayals, Vietnam, full of corrupt and self-serving behaviour, should resemble Zimbabwe.

In addition, two Vietnam scholars explicitly reject use of New Class explanations for understanding developments in Vietnam. Abrami (2002) argues against analyzing the changes in Vietnam through a New Class lens. However, her portrayal of New Class-type perspectives is over-simplified, presented as a kind of vulgar Marxism which reads political outcomes off the legacies of the redistributive base of planning. Her analytic preference is to privilege political sentiments, which then determine economic outcomes. Abrami’s attention to issues of political ideology and its influence on business attitudes and behaviour is important and illuminating. Her explanation of why the private sector in China grew rapidly after reforms while in Vietnam it did not remains very compelling and will be discussed in more detail in the following sections. Nevertheless, if privileging the economic base over the political and cultural superstructure represents a vulgarity, then so must its inversion.

[79] Hiebert (1996) contains a chapter entitled ‘Red Capitalists’, but the tone is exactly the opposite of Bùi Tín. Where Bùi Tín views the New Class as a betrayal, Hiebert, at that time a reporter for *Far Eastern Economic Review*, viewed ‘red capitalists’ as part of the dynamic growth story of 1990s Vietnam.

Kim (2008) also rejects a ‘structural neo-Marxist’ reading of Vietnam, citing Eyal *et al* (1998) as undermining this position. As discussed in Chapters One and Two, Eyal *et al* suffers from serious limitations and does not represent a refutation of New Class explanations. As with Abrami, Kim also argues for the importance of attitudes, beliefs and values, but remains interested in their interaction (rather than determination) with material conditions. The issue, however, is an old one from anthropology – namely, how to define and ascertain culture and beliefs. Hostetler (2009) also makes a compelling case for the importance of attitudes and beliefs in understanding outcomes in Vietnam, emphasizing, as Kim (2008) does, the importance of informal norms in determining how formal institutions function. However, Hostetler describes a ‘mental mode’ – the project-based mentality – which is the opposite of Kim’s ‘social cognition’ of the market. For Hostetler, the project-bias results in personal enrichment, siphoning and skimming off contracts within private firms to the detriment of product quality and attention to upgrading, while for Kim the market-based entrepreneurial mentality of private property developers in Ho Chi Minh City and certain fellow travelers in local government explains the dynamic growth of the property market. Like Abrami, Kim’s work provides useful insight into Vietnam. However, it does not negate the viability of the New Class concept as a lens to explore capitalist class formation.

This chapter provides the historical context in which to locate the New Class analysis. It also serves as a review of the literature on Vietnam, in particular the transition literature following the end of central planning. Three historical periods have been selected. The next section discusses the period between 1954 and 1974, beginning with the formalization of the Democratic Republic of Vietnam (DRV) in the north, moving through the establishment of the planning apparatus, and ending on the eve of victory in 1975. It will be argued that, as in Eastern Europe and China, planning in Vietnam never really worked properly and this created a pattern of accumulation based on leveraging access to the state. However, during this period, leveraging access to the state functioned primarily to overcome shortages and improve living standards. Nevertheless, it established a pattern that would influence subsequent activity.

The second period encompasses events between 1975 and 1989, beginning with national reunification, moving through attempts to establish and expand planning to the entire country, and ending with abolition of the command economy. It will be argued that the pattern of accumulation established between 1954 and 1974 transformed into a process of commercializing the state. The continued ability to arbitrage price differentials between plan and market by diverting inputs and assets from the state system, along with opportunities to engage in smuggling through travel abroad, increasingly became sources of capital accumulation. State firms and those connected to the state increasingly engaged in commercial activities outside the plan. The process accelerated through the 1980s and ultimately destroyed the basis for central planning, forcing the Vietnamese Communist Party to attempt resolution of the New Class contradiction.

The final period discusses events between 1990 and 2006. In the 1990s and 2000s, temporary resolution of the Djilas contradiction followed a relatively straightforward application of the Stalinist definition of socialism as state ownership. The state sector would play the 'leading role' in the economy and this led to a state enterprise focused development model. As in China, insider privatization, constrained autonomy, hollowing out and the rise of a new business elite turned state-related accumulation into a process of capitalist class formation. Although based on leveraging access to the state, the growing influence of the market imperative, manifested as increased competition, resulted in remarkable economic dynamism.

## *3.1 Creating the Limits of National Liberation, 1954-1974*

The 1954 Geneva Accords ended the First Indochina War and the era of French colonialism. Vietnam was partitioned along the 17$^{th}$ parallel, formalizing the Democratic Republic of Vietnam in the north and the Republic of Vietnam (RVN) in the south. Class warfare based land reform, which had been implemented in Viet Minh controlled territory since 1953, was stepped up and continued until 1956 in the north. A 300-day regroupment period was instituted, allowing free movement between north and south, with the intention of national elections in 1956. The domestic capitalist class in Vietnam had always been exceptionally weak, and the majority fled south before consolidation of DRV control.[80] Elections did not occur, generating an ongoing debate in the DRV about whether to prioritize building socialism or focus efforts on continuing the struggle for national reunification in the south.[81]

The DRV inherited an extremely under-developed economy. "The French had left behind very little modern industry and, while there were a few mines and some up-country plantations, in the main this was a region of poor peasants" (Fforde 2007, p.13). Furthermore, what little industry that had existed prior to 1954 had either been destroyed by the war or taken south by the French (Fforde 2007, p.14). By 1958 the Party had established control over the economy and began implementing the socialist economic model (Beresford and Đặng Phong 2000).[82] A three year plan (1958-1960) was implemented to nationalize the economy. By the start of the First Five Year Plan (1961-1965), the DRV had established its state monopoly in production and trade, and 90 percent of peasant families had been organized into producer cooperatives (Fforde and Paine 1987, p.4).

However, northern Vietnam had long been characterized by population saturation, small plot farming and small agricultural surpluses. This placed a fundamental constraint on the viability of 'neo-Stalinist' forced industrialization (Fforde and Paine 1987). Since domestic resources in the north were insufficient to fund industrialization – there was

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[80] See Fall (1963) and Abrami (2002) for discussion of economic developments in Viet Minh controlled territory in the north prior to 1954. See also Kahin (1986) for a review of this period, and in particular how the temporary division between north and south became a political division. Land reform ended with the 'rectification of errors' campaign and an admission of mistakes issued by Hồ Chí Minh. Trường Chinh was forced to step down as Party General Secretary. The reconciliation message was delivered in person at rectification meetings throughout the north by General Võ Nguyên Giáp and published in the Party daily, *Nhân Dân*. The fundamental problem was that the Viet Minh was a nationalist front organization. Land reform, particularly at its height, saw many non-communist supporters of the Viet Minh, especially landlords, denounced and shot. In addition, many 'first generation' Party members came from intellectual, 'petty bourgeois' and even landlord backgrounds, creating tensions between the 'second generation' members largely from poor peasant backgrounds (Abrami 2002). See Fforde and Paine (1987), Bùi Tín (1995), and Abrami (2002) for discussion. See Picard (forthcoming) for discussion of the regroupment period.

[81] For discussion of this tension, see Turley (2009).

[82] At this time the Party was the called the Vietnam Workers' Party (*Đảng Lao Động Việt Nam*). It became the Vietnam Communist Party (*Đảng Cộng Sản Việt Nam*) after reunification in 1976.

very little to 'squeeze' out of the agricultural sector – the planning system in the DRV quickly became heavily dependent on foreign aid from fraternal socialist allies, primarily the Soviet Union and China (Fforde and Paine 1987, Beresford and Đặng Phong 2000).[83] State monopoly control of foreign trade therefore became central to the planning effort.

Import of investment goods received priority and the productive potential of the DRV steadily improved. The problem, however, was supply of current inputs. The domestic industrial system did not produce nearly enough, nor were imported inputs sufficient to meet demand. The result was that much of the DRV industrial system operated well below potential, combined with systemic competition for inputs. This created what Fforde and Paine (1987) refer to as 'aggravated shortage', combining the well known features of shortage in centrally planned economies described by Kornai (1979, 1992) with extensive market activity outside the plan.[84]

Fforde and Paine (1987) identify several reasons why the 'outside economy' (*kinh tế ngoại*) continued to exist. First, the essential prerequisite for market based activity was the availability of cash (Fforde and Paine 1987, p.49). "Over the period 1958-1962 the volume of money in circulation rose rapidly, laying the foundations for the growth of 'outside' production" (ibid, p.66). Two main sources created pressure on the DRV state to increase cash expenditures: procurement of agricultural products and the state sector wage bill. Between 1956 and 1961, the average procurement price of rice increased 20 percent annually. However, this did not result in increased grain supplies and the price rises did not keep pace with inflation. In addition, between 1960 and 1965 the number of 'workers and functionaries' on the state wage bill nearly doubled. State employees were paid in cash, and this increase not only expanded the government wage bill but also

[83] A blockade of the DRV by most Western countries was in effect during this period, so socialist regimes were not only ideologically amenable to supporting the DRV project, but also the only available source of external assistance (Beresford and Đặng Phong 2000, p.21).
[84] It is unclear whether Fforde and Paine (1987) see 'aggravated shortage' as unique to Vietnam. That the planning system in Vietnam was always weaker and less pervasive than in other socialist economies is not in dispute, and in its operations it resembled 'reform socialism' more than 'classic' Stalinist planning (see Kornai 1990, 1992 for discussion). However, the relationship between shortages (and hoarding and misinformation) and markets (parallel, shadow, secondary) had been discussed with reference to the Soviet Union as early as 1960 by Gerschenkron (see Gerschenkron 1962, which is a compilation of his earlier essays).

increased the demand for food (ibid, p.66). From the very beginning, the state was pumping cash into the hands of the general public which “supported the growth of buoyant effective demand for non-plan activities” (ibid, p.71).

Second, Party control at the grass-roots level was weak, partly as result of the land reform campaign which left confusion, bitterness and disarray in its wake (ibid, p.36). This made enforcement of agricultural collectivization difficult. The terms of trade were turned against agriculture to support the industrialization effort, reducing the incentives to participate in collective production. Agricultural cooperative members were allowed to produce on their own account, the so-called ‘5 percent land’. They actively, and often successfully, sought to expand these plots beyond the statutory five percent limit to increase local autonomy and control. “Such strategies required protection against interference from higher levels and supervisory bodies, and the cooperatives themselves frequently played this role and acted as ‘protective intermediaries’; as such, their real social functions became quite different from those intended by official policy” (ibid, p.101). The result was widespread ‘nominalization’ of collectives, facilitated by inaccurate and misleading reports to higher levels (ibid, p.101). Furthermore:

> At low levels of real income where workers spend a high proportion of their incomes on food it is very difficult to restrain spontaneous expansion of the free market in food during and after price rises during the inevitable bad harvest years. At the same time the minimal levels of capital needed to finance trade, coupled with the persistence of direct off-farm marketing (via the private-plots in the case of neo-Stalinist collectivized agriculture) … encourage petty-trade. In the DRV large-scale commerce was nationalized early on, helped by its dependence upon imports and the state’s effective control over foreign trade. Small-scale trade was far more difficult to manage (ibid, p.47-48).

The normal response to this is usually the use of violence to enforce compliance, for example the ‘liquidation of the kulaks’ campaign in the Soviet Union (Fforde 2007). However, the systematic use of force to implement and enforce the plan in the DRV during this period did not occur. As war in the south intensified in the 1960s, the use of force on the domestic population to generate compliance became even more improbable, since the government needed popular support to mobilize the personnel required to continue the war effort. The enduring presence of rice markets throughout the period testifies to this (Fforde 1993a).

Abrami (2002) argues that the concept of 'class struggle' in Vietnam also precluded the use of force. Class struggle in Vietnam was defined in terms of nationalism and social unity against the Americans and the southern regime (Abrami 2002, p.330).[85] As such, it tended towards vertical administrative control mechanisms, a kind of rational-scientific 'managerial socialism', rather than the class warfare as 'continuous revolution' approach in China.[86] Therefore, "as a strategy of rule enforcement, class struggle assumed no regulatory role in the Vietnamese economy. Instead, 'pre-socialist' conventions of economic regulation, including occupation-based social ties and sentiments of religion, village and kinship remained an ever forceful means of governing economic exchange and entitlement in Vietnam – even at the height of state economic planning" (ibid, p.321). Not only did the DRV state fail to eradicate 'outside' activities, "the low cost of non-compliance in Vietnam meant that illegal business networks could serve as an integrative element of the Vietnamese planning system" (ibid, p.322). This led to what Abrami (2002) refers to as the emerging 'commercialization of the public economy'.[87]

Third, the DRV government lacked the administrative experience necessary to run the system. Plan enforcement was uneven and delineation of responsibilities and authority was unclear. "In practice the apparently clear legal distinctions of the DRV's various property-forms became extremely blurred. Basic administrative principles were also

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[85] There are long running debates about the relative importance of nationalism and socialism in Vietnam (see Marr 1981), often discussed in terms of the motivations of Hồ Chí Minh. See Duiker (2000) and Quinn-Judge (2003, 2004) for discussion.

[86] Abrami (2002) follows Fforde and Paine (1987) in arguing that opposition to Chinese-style class warfare campaigns was a legacy of the errors of land reform.

[87] This is different from China, where class warfare led to self-policing and a sharp division between state and illegal private activities. Cadres and criminals in this 'outside' sphere operated independently of the planning system, engaging it through bribery and other means. Abrami (2002) characterizes this relationship as 'commodification of the public economy'. In Vietnam, the state and 'outside' sectors were intertwined, thus 'commercializing' the state sector.

extremely under-developed, especially those associated with the Ministries' areas of authority. The use of foreign models tended to give an impression of surface order whilst day-to-day practice reflected quite different ways of getting things done" (Fforde and Paine 1987, p.43). The result was a widening gap between institutional form and function which made implementing the plan even more difficult. State enterprises actively resisted interference from supervising ministries and engaged in quasi and strictly illegal activities to secure inputs necessary for fulfilling plan targets and to accumulate cash balances needed for future 'outside' transactions.

> The overall pattern of events appears in hindsight to have been fundamentally chaotic and certainly not 'planned'. State enterprises were set up and equipped with aid-financed equipment and then expected to operate in an increasingly tense economic environment where domestic supplies of various current inputs through the state distribution system were becoming more and more unreliable. If such supplies could be imported, then some of the installed capacity could be utilized, but typically much of it could not be. 'Output maximization' was therefore deeply conditional on supply availability. Since this was unreliable, state enterprises actively 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 often involved the creation of illegal 'circuits' … relying upon free-market transactions. Such behaviour 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). … With the possibility of such behaviour always present, it is no wonder that there was no clear legal definition of enterprise rights with regard to 'their' fixed assets (Fforde and Paine 1987, p.91-92).

These activities and 'illegal circuits' were fundamentally based on leveraging access to the state.[88]

[88] See Picard (2004) for discussion of illegal Viet Minh activities, including opium smuggling and currency speculation, during the First Indochina War to fund weapons purchases.

> [T]he variety of economic activities outside the formal scope of the plan … are usually described somewhat misleadingly as ‘free market’ activities. This description is adequate if referring to activities such as petty-production for the market using minimal capital inputs and means of production also acquired on a market. But they also include a great variety of activities that are not so isolated from the administratively-supplied sectors. They shade off into such ‘semi-socialist’ activities as (illegal) horizontal links between state enterprises aimed frequently at securing resources for plan implementation, but which operate outside the formal control of the system of planned material supply. Crucial to such activities … is the possibility *at some stage* of relatively free exchange of goods or services for money. But elements of an interrelated set … of these activities may be based upon swops, favours and even manipulation of the pattern of resource allocation within the shortage economy (ibid, p.49).

These tendencies were exacerbated over the period, particularly after the beginning of the U.S. bombing campaign against the north and escalation to full-scale war with the arrival of official U.S. combat troops in 1965.[89] Industrial facilities (and large segments of the urban population) were relocated throughout the countryside to reduce the effects of bombing (Abrami 2002). Population growth was rapid during the period and “only around one half of the rising labour force was absorbed into some form of officially recognized employment over the period 1965-75. The remainder was available for ‘outside’ work” (Fforde and Paine 1987, p.78).

Staples output growth was slow and the DRV went from near self-sufficiency in food production in the early 1960s to import dependence, with 10-15 percent of staples received as imported aid by the mid-1970s (ibid, p.69). Rice prices increased nearly 100 percent between 1965 and 1974 and by the middle 1970s the free market rice price was ten times the state buying price (ibid, p.71). The continued rise in state employment

[89] The first bombing runs against the DRV occurred in 1964 as a response to the Tonkin Gulf ‘incident’. The full-scale bombing campaign, Operation Rolling Thunder, began in the first part of 1965 followed by the arrival of the U.S. Marines later in the year. See McNamara (1995) for discussion.

increased demand for food, and "dependence upon staples imports reflected this fundamental imbalance" (ibid, p.105). The DRV economy became increasingly aid dependent, both for food supply and complementary inputs. A dramatic increase in aid to support the war effort masked these structural imbalances but could not remove them (ibid, p.51).[90]

Given the importance of leveraging access to the state in order to engage in extra-legal 'outside' activities, whether through cooperatives acting as 'protective intermediaries' for private agricultural production or state enterprises diverting assets and 'securing' political toleration, a system of patron-client relations emerged to provide cover for these activities. This system was known as the 'umbrella' (*ô dù*) system. It "protected officials at every level of the bureaucracy who were taking advantage of subsidized prices to make money. The sponsorship of a higher-level Party official brought lower-level cadres quick promotions, salary increases, and special privileges and allowed them to escape punishment for blatant corruption and thievery by obtaining transfers to other, often higher, positions" (Porter 1993, p.137-138).

In addition to manipulation of resource allocation in the planned economy and increasing 'outside' activities, the period 1954-1975 saw the emergence of unofficial trade (smuggling) with the Soviet Union, China and Eastern Europe.[91] Following formation of the DRV government in 1955, Vietnamese students, technicians, cadres and diplomats began to travel in large numbers to socialist countries in order to study and work (Beresford and Đặng Phong 2000). At this time, unofficial trade was barely even trade at

[90] The bombing campaign and war effort did not halt economic growth in the DRV (Fforde and Paine 1987, Beresford and Đặng Phong 2000). "Rising import dependency was not primarily the result of the substitution of imports for war-hit domestic output, but arose inevitably as an integral part of a dynamic pattern of structural change in the domestic economy" (Fforde and Paine 1987, p.71). Industrial output nearly doubled, with gross industrial output in 1973-1975 almost 100 percent higher than the 1960-1965 average. However, the war did matter. Fforde and Paine (1987) acknowledge this, but stress that that imbalances in the DRV economy were a structural result of planning, not war. This point is accepted, but the impact of the war on the development of the DRV economy during the war years between 1965 and 1975 cannot be dismissed. The lack of a five year plan after 1965 demonstrates this, along with the all out import drive to sustain the war effort (Beresford and Đặng Phong 2000). A simple example is that Fforde and Paine (1987) discuss the rapid rise in 'state employment' in the 1965-1975 period and its impact on the economy, with no mention of the war effort or increase in army personnel.

[91] Smuggling has a long history in Vietnam (Van Arkadie and Mallon 2003). However, it took on a novel form through interaction with socialist bloc countries.

all. "[T]he Vietnamese market before 1975 was characterized by circulation, on an extremely limited scale, of goods brought home from the socialist countries in the baggage of individuals. Nor did the individuals concerned have the capacity to accumulate capital. They certainly became wealthier than those living on domestic salaries, but they could not acquire enough capital to become business persons" (ibid, p.75). Consumer goods were brought back to Vietnam for personal use or to be sold, but funds were mainly used to cover living expenses and provide modest improvements in standards of living. A consumer market existed due to the 'outside' economy, and "people would seek out recent returnees to see if they could buy highly valued items like bicycles, motor cycles, radios and so forth" (ibid, p.75). While small scale during this period, a pattern became established and 'going west' (*đi Tây*) increasingly became associated with profitable opportunities.

On the eve of victory in 1975, the DRV economy was heavily dependent on external aid. From the very beginning, central planning had never worked to the degree intended. The "spontaneous behaviour of the DRV economy had prevented implementation of Party policy" (Fforde and Paine 1987, p.60). Given the structural imbalances in the economy, particularly regarding lack of inputs, 'outside' activities facilitated plan fulfillment. However, inflation of free market prices over the period increased the tendency to divert assets and output away from plan fulfillment to arbitrage differences between artificially low state prices and market prices (Porter 1993).[92] This was predicated on access to state resources and political protection through the patronage-based umbrella system, creating a pattern of accumulation that would influence how planning worked following national reunification, what Fforde and Paine (1987) refer to as 'the limits of national liberation'.

## *3.2 Commercializing the State, 1975-1989*

In April 1975 the Second Indochina War ended and the long struggle for national reunification was over. Prior to victory a mass exodus of southern officials, businessmen,

[92] This is of course a tendency present in all centrally planned economies. But the unwillingness to use systematic violence to enforce the plan during this period meant that these activities were not only difficult to eradicate, but tended to increase over time.

intellectuals and high ranking military personnel occurred. In June the first re-education camps appeared for those who remained behind. In 1976 the Socialist Republic of Vietnam (SRV) was created and the decision was taken to implement the socialist system of the DRV in the newly liberated south with the launch of the Second Five Year Plan (1976-1980). However, the south was given a three year transition period to implement nationalization and agricultural collectivization.[93] Northern managers and cadres streamed south to begin the process and assume control of the southern government apparatus.[94]

The year 1978 was pivotal. The campaign to implement socialist transformation in the south began in earnest. In the previous year border clashes with the Khmer Rouge intensified and diplomatic relations with Cambodia were severed. In December 1978 Vietnam invaded Cambodia and by January 1979 had deposed Pol Pot and taken Phnom Penh. The Vietnamese would remain in Cambodia for nine years, withdrawing in 1989. The Chinese were strong supporters of the Khmer Rouge regime and Chinese aid to Vietnam was terminated in 1978.[95] As part of rapidly increasing tensions between China and Vietnam, the boat people exodus began. As economic conditions worsened, this exodus expanded over the next decade to include former businessmen, officials, intellectuals, and anyone who wanted to escape the new regime in the hopes of a better life elsewhere. As in the DRV after 1954, Vietnam lost a large segment of its capitalist class. In response to these events, China invaded northern Vietnam in early 1979. Attempts to normalize relations with the United States failed and Vietnam became a full member of the socialist bloc Council for Mutual Economic Assistance (CMEA) trading regime in 1978.

[93] For a chronology of events, see Bùi Tín (1995).
[94] Northerners in the south are referred to as *bắc kỳ*, which literally translates to 'northern' but has a pejorative connotation roughly equivalent to the American Reconstruction era term 'carpetbagger'. The term has its roots in the French colonial divisions of Vietnam: the protectorate of Tonkin in the northern region (*Bắc Kỳ*), the protectorate of Annam in the central region (*Trung Kỳ*) and the colony of Cochinchina in the south (*Nam Kỳ*).
[95] For a journalist's account of the these events from the Khmer Rouge perspective, including the relations between Cambodia, China and Vietnam, see Short (2004).

The euphoria of victory led to the overly ambitious Second Five Year Plan, with its heavy emphasis on construction projects. However, the promise of victory – rapid reconstruction and growth – quickly evaporated. Immediate post-war growth was based primarily on southern industrial capacity. By 1977 growth had begun to stagnate and by 1979 Vietnam was in economic crisis. Resistance to collectivization in the south saw agricultural output plummet. By 1981, growth rates were negative, due in part to the inability to obtain necessary inputs and spare parts (Beresford and Đặng Phong 2000, Fforde 2007). The legacies of the DRV planning system and the limits of national liberation were at hand.

At the same time that ethnic Chinese Vietnamese were fleeing the country, the leadership of Ho Chi Minh City's (HCMC) District Five, Chợ Lớn, the historic centre of ethnic Chinese in Vietnam, authorized remaining Chinese traders to activate their overseas networks in order to resolve bottlenecks in the new system.[96] They purchased agricultural and fishery products in Vietnam to pay for imports of tobacco, fabric and gasoline. "To evade control by the centrally managed customs authority, goods were traded at 'sea mark number zero', with no transaction recorded. After a few successful deals of this sort, the People's Committee of the City authorized lower levels of government to establish companies with names beginning or ending in 'imex', to directly handle foreign trade. Soon, some of them were booming" (Rama 2008, p.17, see also Stern 1985).

Activities which came to be known as 'fence-breaking' (*phá rào*) - bending the rules and operating outside the plan – proliferated. This undermined attempts to impose central planning, for reasons similar to those in the DRV before the end of the war.[97] For example, in 1979 HCMC Party Secretary Võ Văn Kiệt sat down for breakfast with a small group, including a representative from the local branch of the state bank, to create the 'rice smuggling committee' in order to secure sufficient rice supplies for the city (Rama 2008, p.17). "In Ho Chi Minh City, Mrs. Ba Thi, a decorated heroine of the war in South Vietnam who was then deputy director of the city food department, formed a food-

[96] After reunification, Saigon was renamed Ho Chi Minh City.
[97] See Porter (1993), p.118-127 for discussion of several fence-breaking 'models'.

purchasing company that violated fundamental economic policy as well as the prerogatives of the state trade sector. It hired rice merchants to buy rice from farmers at market prices instead of the lower state purchase prices and distributed it through the local women's association" (Porter 1993, p.125). During the breakfast, it was agreed that the bank would finance these activities, administrative 'formalities' would be covered and Mrs. Ba Thi would lead the unit purchasing rice from farmers in the Mekong Delta (Rama 2008).[98]

In the late 1970s, members of Doan Xa commune in northern Hai Phong province voted to implement a 'sneak contract', distributing land to individual households and implementing production contracts. The result was a six-fold increase in output. District-level authorities learned of the scheme, came to investigate, and decided not to renew the Party membership of the local cadres. However, the model spread and eventually was implemented throughout the district. By 1980 word of these activities had reached provincial Party Secretary Bùi Quang Tạo, who not only extended the model throughout the province but also began to lobby the central government on its merits (Rama 2008, p.16).[99] "What had been treated as a dangerous deviation in the late 1960s started to be seen as innovative" (Rama 2008, p.16).

In 1979 these issues forced a decision in the context of economic crisis, occupation of Cambodia, 'emigration' of ethnic Chinese, loss of Chinese aid and a border war with China. Furthermore, a large increase in official import prices would occur in 1981 due to a change in CMEA policy. During the war, the DRV's trading partners agreed not to raise prices, in what was known as the 'stop price' system. "Within CMEA, trading prices were normally established for each five-year plan based on average world market prices

[98] Võ Văn Kiệt also promised to assist Mrs. Ba Thi should she be arrested (Rama 2008, p.17).
[99] Rama (2008) argues that these experiments were conducted within the authority relations of the Party apparatus as a means to improve the economic feasibility of the planning system. Almost all of the champions of fence-breaking activities were politically 'bullet proof'. For example, Võ Văn Kiệt was from a poor farming family and thus had the correct class background, had distinguished himself during the war as a top aide in Lê Duẩn's southern Party apparatus, became a member of the Central Committee in 1976 and was promoted to full membership in the Politburo at the V$^{th}$ Party Congress in 1982 (Porter 1993). However, the senior leadership still had to be convinced. For discussion of how this was achieved, see Rama (2008). For discussion of the decision making process in communist Vietnam more generally, see Đặng Phong and Beresford (1998).

in the previous five years. … Thus, during Vietnam's First FYP [Five Year Plan], prices were based on world market prices for 1956-60. These prices remained fixed, however, not only during the First FYP, but until the war ended (hence the name 'stop price')" (Beresford and Đặng Phong 2000, p.25-26). Vietnam had negotiated an extension of this system through 1980 to facilitate recovery. Given the rise in prices over the period, the system was equivalent to a subsidy by Vietnam's trading partners. Not only was the state trading monopoly being eroded by the 'imexes', but the planning system, so dependent on imports, was about to receive a massive shock.[100] In August 1979, the 6th Plenum of the Central Committee "implicitly endorsed fence-breaking actions by issuing a policy of 'untying production'" (Rama 2008, p.27), including recognition of production contracts in agriculture and horizontal (non-plan) linkages between state firms (Porter 1993, Fforde 2007, Rama 2008). Although intended to restore growth within the socialist economy, the decision "effectively sanctioned a variety of spontaneous and illegal processes which were destroying the central-planning system" (Fforde 2007, p.22).

This was followed by several important decrees over the next two years. In February 1980, decree 40-CP was issued to stimulate exports by breaking the central state monopoly on foreign trade and allowing lower levels to trade directly. This effectively legitimized the 'imexes' and created "quite a large hole in the fence" (Beresford and Đặng Phong 2000, p.40). In January 1981, 100-CT legalized production contracts in agriculture and 25-CP legalized the ongoing commercialization of state enterprises through what came to be known as the 'three-plan system', allowing state firms to expand non-plan and above-plan output (Beresford and Đặng Phong 2000, p.43).[101] By 1981, only nine percent of families in the south were organized in collectives (Porter 1993, p.119) and 40 percent of reported state enterprise output came from market-based activities (Fforde 2007, p.20). "[T]he overall impact of these reform measures was to increase the legal scope of non-plan production and investment activities, to expand the area of exchange carried out at market prices and to reduce the extent of distribution of

[100] When "the new CMEA prices were applied in January 1981, the average unit price of all imports rose by 210 per cent, while that of Vietnam's exports rose by only 18 per cent" (Beresford and Đặng Phong 2000, p.26).
[101] For discussion of 25-CP, see Fforde (2007), p.135-140.

goods via the rationing system" (Beresford and Đặng Phong 2000, p.39). The entire edifice of central planning was undermined because of the "increased need to use market prices as basis for domestic exchanges" (ibid, p.41).

These decisions created what Fforde (2007) refers to as a 'trap', "from which traditional Vietnamese socialism was not to recover. …[T]he legalization of SOE participation in markets, just like the legalization of farming-family-based production in agriculture, has to be seen as creating the conditions for the emergence of capitalism, which must also be seen as hostile to the socialist regime" since it "threatened the economic aspect of the institutional basis of the Party – central planning" (Fforde 2007, p.22).

These conditions were shaped by coexistence of plan and market in the Vietnamese economy, what Fforde (2007) refers to as the 'transitional model'. Arbitraging differences between low state prices and higher market prices led to the increasing commercialization of state enterprises (Porter 1993, Fforde 2007). While these conditions existed prior to 1975, after reunification, and in particular after the decisions taken between 1979 and 1981, their scope (and legality) increased dramatically. This led to "a more general problem facing the Vietnamese state in the transition from a planned to a market economy, that is, the effective 'privatization' of parts of the state apparatus" (Beresford and Đặng Phong 2000, p.17). This was determined by the nature of the transition. "Given that under the planning system, capital accumulation took place within the state sector … the transition to the market inevitably meant a decentralization of control over state assets. This happened initially in the SOE sector and among local authorities through the accumulation of rents based on the supply of state goods at subsidized prices which could be used either for direct resale in the free market or to produce low cost outputs for sale in the market" (ibid, p.17-18).

This process was facilitated by an increase in unofficial trade (smuggling). After 1975, awareness of trading opportunities by Vietnamese going abroad increased and it began to take the form of two-way trade. "After the liberation of the south, the southern market was flooded with Western goods, particularly those left behind by the Americans and

Japanese. Later, following the outflow of 'boat people' and the establishment of the Vietnamese-backed regime in Cambodia, the goods left behind by Americans would be supplemented by new inflows of goods sent by overseas Vietnamese to family members and by goods smuggled through Cambodia from Thailand" (ibid, p.76). These goods were of higher quality and cheaper than those produced in socialist countries. "People wanting to obtain motor cycle, bicycles or fans need no longer go to the Soviet Union or Germany. They could go to the south" (ibid, p.76). These goods not only spread into northern Vietnam but became the basis for new unofficial trade relations. "Cadres and students going abroad at this time began to calculate on taking with them some goods purchased from the south for resale in Eastern Europe" (ibid, p.76). As a result, the goods brought back to Vietnam changed. Since higher quality and cheaper consumer goods were available in the south, returnees began to focus on importing needed raw materials and production inputs such as brewer's yeast, dyestuffs, spare parts, and machine tools (ibid, p.77).

> The period 1975-1980 thus saw the beginnings of capital turnover. However, the rate of turnover was still slow because the links in the chain were not yet stable. One person going abroad to work could complete only one circuit: taking goods out – returning to sell – conversion into Vietnamese currency. The capacity for continuous circulation was as yet absent because the sufficient conditions for regularizing connections on both sides were lacking (ibid, p.77).

Additional developments furthered the increase in unofficial trade. In 1980, following the crisis with China, the Brezhnev – Lê Duẩn declaration resulted in rapid growth of the numbers of cadres and students going to the Soviet Union (ibid, p.78). Following criticisms of favouritism to Party members aired in the Vietnamese press, the selection process became more equitable, in particular expanding opportunities for those in rural areas to travel abroad (ibid, p.79). Furthermore, in order to repay external debt, in 1980 Vietnam began exporting labour to the Soviet Union and Eastern Europe. At roughly the same time that Vietnam legalized the direct foreign trade activities of the 'imexes', tens of thousands of guest workers started going abroad. "The number of guest workers was ten times as great as that of cadres and students and this was the most important factor in the sudden growth in the volume of trade” (ibid, p.79). The opportunity to go abroad “led to a big mobilization of capital among family, relatives and friends to facilitate two-way trade” (ibid, p.79).

As with arbitraging price differentials between plan and market, the ability to benefit from unofficial trade depended on leveraging access to the state. It required the “extraction of goods and wealth from power” (ibid, p.82).

> [I]n the traditional economic model, circulation and distribution were linked to social power and a certain social function. A person selling goods or tickets, an institute director, a district president or a customs officer all had a social function which was closely connected to their power to allocate in the name of society. Under normal conditions it was only social power, but once ‘infected’ by the market economy and private profit, this power had 101 ways of turning itself to private advantage (ibid, p.82).

Most people “going abroad as guest workers did not normally come from very wealthy families. The task of getting one’s name on to the list was difficult and costly, but people saw the expense as part of the ‘capital investment’. For the most part, when people met the criteria set by the enterprise, army unit or office, then there was no need to pay bribes” (ibid, p.84). Those that did not meet the criteria could bribe their way onto the list. Wealthier individuals often went as cadres and students. In all of these forms, access to the state list mattered. Furthermore, “[o]ver time, development of trading relations by the private sector became more and more important. These activities also originated in initiatives taken by elements of the state. The export of labour to pay debts to Iraq, the Soviet Union and other countries, for example, enabled guest workers living in foreign countries to begin trading on their own behalf. What began as a state export nourished private imports and exports, both supplying the domestic market with needed goods and gradually promoting the accumulation of capital in the private sector” (ibid, p.151).

Loosening of controls in the Soviet Union and Eastern Europe in the early 1980s created more space for market-based activity, into which stepped increasing numbers of Vietnamese cadres, students and guest workers turned ‘traders’ (ibid, p.80). However, in the early 1980s Vietnam still forbid “individuals to export on a commercial basis, so all goods had to be carried as personal luggage” (ibid, p.84). Even though the rules were very restrictive, very clever ways were found to get around them, including wearing several pairs of Thai jeans onto the airplane or several Seiko wristwatches under the sleeves of several sweaters and jackets. The individual returns remained low in this period but the number of people going abroad rose significantly and the volume of unofficial trade increased dramatically.

A recentralizing reaction quickly followed, associated with the V^th^ Party Congress in 1982.[102] In July, 113-HDBT was issued, demanding that all foreign trade activities have permits from the Ministry of Foreign Trade. “This formed a legal basis for the effective termination of Ho Chi Minh City’s own foreign trade corporations” (Fforde 2007, p.35), and led to the creation of state import export companies (‘imexes’). Following this, all foreign trade had to go through a state ‘imex’. In addition, in August 146-HDBT sought to control state enterprise non-plan relationships with suppliers and customers. In September, 160-HDBT renewed the demand to implement collectivization in the Mekong Delta (Fforde 2007).[103]

Nevertheless, Pandora’s box had been opened. Inflationary pressures continued in the domestic economy, and rising market prices “and a rapid appreciation in the free market value of hard currency were creating strong disincentives to supply resources to state trading organs” (Fforde 2007, p.33). Once again the planning system was disintegrating and by 1985 Vietnam had lurched back into crisis. This led to the famous VI^th^ Party

[102] Fforde (2007) argues that the 1981 reforms were actually the beginning of the reaction. While authorizing many of the market-based activities, they also contained language (and sufficient ambiguity) permitting future recentralization. See also, Abrami (2002). The process of reforms relaxing control, followed by clampdowns, followed by further reforms during this period is documented in great detail in Fforde (2007). Only the broad picture is covered here.
[103] In 1982, security forces surrounded the office of Mrs. Ba Thi of HCMC Food Products Company fame in an effort at intimidation, although she remained protected by high level officials (Porter 1993).

Congress and launch of the *đổi mới* (renovation) policy and shift to what would eventually become the socialist-oriented market economy.

Fforde (2007) argues that the ongoing commercialization of state enterprises created a 'state business interest' that became politically powerful during the 1980s.[104] "[T]he defeat of the reaction was to do with the creation of a constituency *within* the Party … that favoured commercialization and a market-oriented solution rather than the traditional central-planning programme. This constituency was a combination of local state interests with elements centred upon SOEs that had benefited from economic liberalization" (Fforde 2007, p.39).

> From 1986 onwards the VCP [Vietnamese Communist Party] thus returned for a while to supporting (as it had in 1979 and early 1980) rather than trying to inhibit the strong commercializing trends within the economy. A series of decrees in 1987-1988 improved the operation of internal markets, conferred greater freedoms upon SOEs and gave back much economic power to farmer families in cooperatives. Policy towards the non-state sectors was liberalized, though in practice very little had changed. Foreign trade was decentralized, and since it was now SOEs that benefited real change was far more substantial. Levels of subsidies were reduced to clean up the full-scale shift to a market-oriented order" (ibid, p.41).

Decree 217-HDBT of November 1987 was an important pillar of the *đổi mới* programme. It increased state enterprise autonomy and independence by granting full rights over capital, including retained profits (ibid, p.199). This was a major step, since it recognized that state enterprise 'own capital'(*vốn tự có*) belonged to SOEs.[105] It also introduced

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[104] This builds on Fforde (1993). Fforde (2007) is a compilation and update of previous work, and is therefore most frequently cited here.

[105] The legal definition of 'own capital' has changed over time. In essence, it refers to profits made by SOEs from funds not provided by the state – i.e. profits which SOEs have earned on their 'own' investments. For example, loans – and profits made on investments with these loans – even if from state owned commercial banks, are considered own rather than state capital. The category of 'own capital' was officially abolished in 2003 with the state claiming that all SOE capital was state capital, even though enterprises continue to consider it very important.

profit-based accounting and abolished direct budgetary support (Fforde and de Vylder 1996; Vũ Quốc Ngữ 2002; Van Arkadie and Mallon 2003; Cheshier, Penrose, and Nguyễn Thị Thanh Nga 2006). In 1987, checkpoints on internal trade were removed and the first Foreign Investment Law was promulgated. In 1988, Resolution 10 legalized household farming, including distribution of land use rights to farmers for a minimum of fifteen years, and a two-tier banking system was created by establishing four state-owned commercial banks (SOCBs) separate from the State Bank of Vietnam (SBV) (Riedel and Turley 1999).

The nature of unofficial trade with the Soviet Union and Eastern Europe also changed during the middle and late 1980s, becoming increasingly organized and centralized. The scale of accumulation correspondingly increased. “[P]eople going abroad and trading informally changed gradually into a continuous chain increasingly well-organized at both ends. Goods no longer needed to accompany people as there were now many ways to transport goods from Vietnam to other countries” (Beresford and Đặng Phong 2000, p.87). By 1983, intermediaries had appeared in most large Soviet and Eastern European cities to broker deals, receiving a percentage for their services (ibid, p.86). Throughout the 1980s the Vietnamese established control over many of the underground markets in the Soviet Union (ibid, p.83).[106] By this time, “connections had formed which tore holes in the legal apparatus, opening doors in the customs departments, for example, on both sides” (ibid, p.87) and “goods could go by container from Saigon or Haiphong to Vladivostok, then by train across Siberia to Moscow. From Moscow a network was ready to distribute goods very quickly to the far provinces of Russia, to Minsk, Kiev, Leningrad, Baku and to Eastern Europe” (ibid, p.88).

This trade became a force for “concentrating domestic capital funds which for many years had lain idle in the form of hoards. On an individual basis, it was a small capital source scattered among families in the shape of a few *chỉ* of gold, a little saved money, a few household things. The demands of the trade, however, caused this capital to step out

[106] Although very little is known about the Vietnamese mafia, this must have played a part in its development and its ongoing links with Russia.

of its grave and join the current of economic life" and unofficial trade "was one of the primary forms of capital mobilization and accumulation in Vietnam's market [outside] economy" (ibid, p.94).[107] It also stimulated domestic production as SOEs diverted capacity and small private workshops appeared to supply Soviet and Eastern European demand. While unofficial trade served to alleviate shortages in the Vietnamese economy throughout the 1980s (ibid, p.95), it also "contributed to the cracking up of the old centralized planning mechanism. It was one of the agents adding life to the free markets, pushing the economy more strongly towards the market mechanism" (ibid, p.96).[108] Unofficial trade with the Soviet Union and Eastern Europe peaked at the end of the 1980s (ibid, p.88).[109]

Official decentralization after 1986 formalized much of the existing *de facto* autonomy in the economy (Van Arkadie 1993, Fforde 2007). But the planning apparatus still existed and the old habits of arbitraging the two-price system continued, along with asset stripping, speculation, smuggling and similar activities.

> After 1986 it [accumulation] also occurred through a legal process of 'corporatization' in which SOEs have gained increasing autonomy in economic decision-making. But, since 1986, the private sector has also gained legal status in Vietnam and there have been strong incentives for actors within the state sector to

[107] A *chỉ* weighs about 3.75 grams (Beresford and Đặng Phong 2000, p.92).

[108] Beresford and Đặng Phong (2000) argue that Vietnamese smuggling undermined central planning in both Vietnam and the Soviet Union and Eastern Europe, since "it promoted disorder and anti-social activities such as bribery, theft, smuggling, sabotage of public property, disintegration of the administrative apparatus" (Beresford and Đặng Phong 2000, p.95). In order to facilitate conversion of roubles into a form that could be repatriated to Vietnam, Russians began stripping gold from equipment and the Order of Lenin, which was 100 percent gold and weighed about five *chỉ*, was sold to Vietnamese. Kilns were established to separate and purify gold, including in the student accommodations in Moscow that had been taken over by Vietnamese traders (ibid, p.92).

[109] Unofficial trade with Russia and Eastern Europe died out in the early 1990s. With Russian markets now open, the Thais could export jeans directly without the need for Vietnamese smugglers. "[B]y the mid-1990s only the few powerful smugglers who were able to find alternative trade routes in Russia via Hong Kong, Singapore or Bangkok remained" (Beresford and Đặng Phong 2000, p.89). "In place of the former large population of students and cadres, the number of Vietnamese traders remaining in each city could be counted on ten fingers. They were important fingers, however, since they represented people who had by then accumulated millions of US dollars in capital" (ibid, p.90). Unofficial trade continued with other countries, notably China after 1989. Beresford and Đặng Phong (2000) estimate that for the period 1992-1994 unofficial trade was as much as 37 percent of officially recorded trade (Beresford and Đặng Phong 2000, p.14).

> continue to divert resources away from economic activities in which they cannot operate effectively to higher profit areas. … Technically such investments remain within the state, but the reality is that central government attempts to influence the direction of economic development through its plan are largely ignored in the short-term profit-oriented decisions of SOEs (Beresford and Đặng Phong 2000, p.18).

In addition, Decree 217 permitted lower levels of government to establish SOEs. The result was an explosion of small, often district-level state firms. It is impossible to determine the degree to which these firms engaged in arbitrage opportunities, but many of them did report losses and constituted a significant drain on the state budget (Van Arkadie and Mallon 2003). By the late 1980s inflation was turning into hyperinflation and near famine conditions existed in some areas.[110] Once again, an economic crisis was developing.

The year 1989 was also pivotal. Not only were communist regimes in Eastern Europe collapsing and the Chinese shooting pro-democracy demonstrators to maintain power, Vietnam withdrew from Cambodia and began the processing of re-establishing its international relations with the West. Exports to convertible currency countries increased 118 percent and for the first time Vietnam was a net rice exporter (Riedel and Turley 1999). The border with China was opened to 'small volume trade' and unofficial trade between the two countries exploded, with Chinese imports flooding Vietnamese markets (Beresford and Đặng Phong 2000). Furthermore, Soviet aid was drastically reduced. Combined with increasing internal economic problems, hyperinflation in particular, the planning system in Vietnam could no longer pretend to function. An orthodox macroeconomic stabilization package was implemented and Decree 195-HDBT abolished the two-price system (Van Arkadie and Mallon 2003). The 'transitional model' of 1980-

[110] The consumer price index rose 774 percent in 1986, 232 percent in 1987 and 394 percent in 1988 (Riedel and Turley 1999, p.19). Poor weather and a bad harvest in 1987, combined with continuing problems in collective agricultural production, created near famine conditions that lasted into 1988 (Ngô Vĩnh Long 1993, Riedel and Turley 1999).

1989 was over and central planning was effectively dead (Fforde 1993a, Beresford and Đặng Phong 2000, Fforde 2007).

The pattern of accumulation that began after 1954 in the north as leveraging access to the state in order to overcome shortage and improve living standards became, after national reunification in 1975, a process of commercializing the state. The ability to arbitrage prices and divert inputs and assets from the state system or engage in smuggling through travel abroad increasingly became sources of capital accumulation. State firms and those connected to the state increasingly engaged in commercial activities. The process accelerated through the 1980s and ultimately destroyed the basis for central planning. The fundamental issue after 1989 therefore became resolving the Djilas contradiction. As Fforde (2007) succinctly puts it: "Upon what would the state rest once it had lost its power, through central planning, over the economy in general and over SOEs in particular? How could there be a 'Party without the plan'?" (Fforde 2007, p.200).

## *3.3 Resolving the New Class Contradiction, 1990-2006*

The pace of change in the Vietnamese economy after 1989 was extraordinary. Expansion and diversification of agriculture and aquaculture products lead to a strong and sustained increase in exports. Light manufacturing output increased, garments and footwear in particular, contributing to the export boom. Crude oil exports expanded, rising from USD 79 million in 1988 to USD 756 million in 1992 and reaching USD one billion by 1995, accounting for 20 percent of total exports (Van Arkadie and Mallon 2003, p.181-182). Foreign direct investment rose steadily. Inflation stabilized in 1992 and Vietnam experienced strong economic growth combined with macroeconomic stability into the late 1990s (Riedel and Turley 1999, Van Arkadie and Mallon 2003).

In 1990 a Company Law was promulgated, providing a legal framework for private firms. In 1991 the National Assembly approved a pilot programme to begin equitization (*cổ phần hóa*) of state enterprises by transforming them into joint stock companies.[111] The Law on Foreign Investment, originally issued in 1987, was amended in 1990 and 1992. In 1992 the Constitution was amended, recognizing a role for the private sector in the Vietnamese economy. In 1993 a Land Law and Bankruptcy Law were promulgated. That year also saw the return of the World Bank and International Monetary Fund (IMF) to Vietnam. In 1994 the U.S. trade embargo was lifted and relations with the United States were normalized in 1995. In 1995 Vietnam joined the Association of Southeast Asian Nations (ASEAN) and the Asia Pacific Economic Cooperation (APEC). The turnaround from international isolation and looming macroeconomic collapse in 1989 was remarkable.

The early 1990s are characterized as the birth of Vietnamese capitalism (Greenfield 1994, Fforde 2007, Fforde 2008). However, the tone of analysis changes. With the end of central planning, the main economic problems are now seen as those of a market economy (Fforde 2007, p.4). What were dynamic and innovative quasi-legal activities that undermined the viability of central planning now become barriers to growth and development. The much heralded commercialization of the state becomes 'economic parasitism' (Riedel and Turley 1999). "Party members and relatives, state agencies, ministries, people's committees at district and province levels, and the army, own, control, or manage a very large slice of the economy" (ibid, p.50), creating "an emerging class of notables with stakes in privilege" (ibid, p.49). The pattern of accumulation that emerged is now a distortion, and discussion focuses on reforms needed to correct this.

This attitude is best captured in Fforde (2007), who argues that the early 1990s represents a missed opportunity. Since the 'state business interest' consisted of decentralized and autonomous state firms, the end of central planning provided an opportunity to privatize nominally state enterprises and undertake political reform (Fforde 2007, p.45). However, as regime continuity and survival is the top priority of the Party, events in Eastern Europe indicated the dangers of such an approach. Furthermore, "[i]t is unimaginable that putting

[111] Although equitization is often perceived as a Vietnamese euphemism for privatization, this is not always the case. See Cheshier, Penrose and Nguyễn Thị Thanh Nga (2006) for discussion.

political liberalization first would have been preferable for Vietnam, considering its recent national division, weak middle strata, and feeble civil society” (Riedel and Turley 1999, p.9). Instead of wholesale economic and political change, the 1990s saw a continuation of the pattern of accumulation established under planning in a new setting.

Two empirical ‘irregularities’ require mention. During the early 1990s, Vietnam experienced a ‘paradox’ (Fforde 2007). Low inflation and high growth combined with an *increase* in state sector output (Van Arkadie and Mallon 2003, Fforde 2007). This is contrary to standard expectations, since state firms are presumed inefficient and therefore require subsidies to maintain operations. Subsidies represent a drain on the state budget, fuelling inflation and macroeconomic instability. However, the opposite occurred. Second, throughout the 1990s the private sector grew very slowly. Between 1990 and 1995, the recorded non-state share of manufacturing output actually declined. While the ‘non-state’ sector accounted for 60 percent of GDP, this was predominately household production. The private *corporate* sector only accounted for one percent of GDP (Riedel and Trần 1997). By 1998, the private corporate sector only accounted for one percent of employment and seven percent of GDP (Webster and Taussig 1999).

In the 1990s, temporary resolution of the Djilas contradiction following the end of central planning followed a relatively straightforward application of the Stalinist definition of socialism as state ownership. The state sector would play the ‘leading role’ in the economy (Van Arkadie and Mallon 2003, Cheshier *et al* 2006). This led to a state enterprise focused development model (Riedel and Turley 1999, Fforde 2007). In addition, while central planning did end with abolition of the two-price system in 1989, the ‘market’ economy of the 1990s was still highly regulated. Licenses, quotas, official approval of business activities, and access to land and credit provided significant scope for leveraging connections to the state. Foreign investment increased significantly in the 1990s and was directed into partnerships with state firms. While arbitraging differentials between plan and market prices was no longer feasible, a wide array of opportunities remained available for preferential treatment.

London (2009) views post-1989 Vietnam as engaged in a transition to 'market-Leninism'. "In market-Leninist regimes, communist parties pursue their political imperatives through market institutions and market-based strategies of accumulation while maintaining Leninist principles and strategies of political organization" (London 2009, p.376). Furthermore, "[r]apid economic growth, increasing state investments, and a growing domestic market broadly benefited state-owned businesses, while state policies – and especially practices – effectively stunted the development of a truly autonomous private sector. Instead what occurred was the development of a business class *within* the state. The classic market-transition scenario developed through which political capital transformed into economic capital" (ibid, p.387). Citing Gainsborough (2002b), London (2009) notes that "[b]y 1995, Hồ Chí Minh City's top 100 companies were nearly all state owned enterprises, many of which had commercialized their operations during the early period of đổi mới, and were now active across a range of fields, from real estate to trade, and from retail to banking" (London 2009, p.387).

For Abrami (2002), the 'commercialization of the public economy' under planning resulted in a private sector made up of insiders – state workers and relatives of cadres. The private sector was not autonomous, but was instead dependent on access to the state.[112] This continued after the end of central planning and stunted the growth of a 'real' private sector. Beresford and Đặng Phong (2000) emphasize a similar legacy of planning:

> [A]s the markets became open and established … personal relations [forged under planning] developed into more or less organized and institutionalized networks, albeit still often based on connections between family members, neighbours and colleagues. … [T]he development of institutions through these mechanisms has had a profound effect on the way they continue to operate today. While attempts at legal regulation and sanction have had relatively little impact, market institutions continue to be characterized by highly personalized relations and networks of trust established over a relatively long period (Beresford and Đặng Phong 2000, p.152-153; see also Herno 1998).

[112] For a similar argument, see Hy Văn Lương and Jonathan Unger (1998).

Fforde (2007) attempts to explain both empirical irregularities through the failure to capitalize on the 'commercial renaissance from the inside' (Fforde 2007, p.42). At the beginning of the 1990s, Vietnam's state enterprises were "largely treated by their effective owners as private in nature, and so capable of performing under competitive conditions *without* economically destabilizing state support" (ibid, p.214). However, the supposed 'missed opportunity' of wholesale privatization occurred because state firms were perceived as the support base for the regime. As with Abrami (2002), the dependence of the private sector on state firms, a legacy of planning, therefore continued in the 1990s (Fforde 2007, p.204). The state enterprise focus of the 1990s blocked the emergence of a 'true' private sector (ibid, p.194).

One puzzling aspect of this account is what happened to the 'state business interest'. It was this interest within the Party that apparently forced *đổi mới* and ended central planning. However, in the story of the 1990s this interest is overwhelmed. Fforde (2007) argues that the emphasis on state firms in the 1990s was accompanied by a process of recentralization in which "the centre of gravity … moved 'upwards' and away from interests close to and within SOEs. This was experienced as a *reduction* in SOE autonomy" (Fforde 2007, p.214).[113] This is portrayed as against the will of the *de facto* private and competitive commercialized state sector. Fforde argues that this process of recentralization was fiercely resisted, but nevertheless occurred. It is a story of imposition from outside, with the state clawing back control over autonomous nominally state firms who for unknown reasons want simply to compete in markets.

A more compelling explanation is provided by what Riedel and Turley (1999) refer to as the 'power of satisfied interests':

> Interests and power converged in the late 1970s and continued throughout the 1980s around proposals for partial reform, and as demands were met some supporters of reform in earlier periods drifted into indifference or opposition. This

[113] This is referred to as 're-statization' in Fforde (2004).

> explains why many of the same province-level Party organizations and state enterprises that supported reform in the 1980s defected to the *status quo* collation in the 1990s (Riedel and Turley 1999, p.10).

Nevertheless, Fforde (2007) is right to highlight the recentralizing tendency of the 1990s. Gainsborough (2003a) makes similar observations regarding recentralization, but without the implicit assumption that this necessarily represents a move away from a potentially efficient (albeit *de facto*) 'private' sector towards inefficient state control.

An early and important signal of the recentralization process was Decree 388-HDBT issued in November of 1991 following the VII$^{th}$ Party Congress. This decree was directed at correcting the excesses of Decree 217 in 1987, which had resulted in a rapid expansion of small, local and predominately loss-making state firms.

> Most of the loss making SOEs that drained state resources and contributed little to state budget revenues were smaller SOEs attached to departments of line ministries or lower levels of government over which the central government had little control. Transforming smaller SOEs was an attempt to improve economic performance and also a means through which the central government could break the power of lower levels of government that had used smaller SOEs as tools for asset stripping and rent distribution (Cheshier *et al* 2006, p.6; see also Porter 1993; Painter 2003a, 2003b; Van Arkadie and Mallon 2003).

Decree 388 forced existing state firms to apply for new operating licenses, with re-registration approval predicated on business viability.[114] The result was that "[b]etween 1991 and 1994, nearly half the recorded SOEs were transformed, with the total number falling from around 12,000 in 1991 to around 6,000 in 1994. Roughly 3,000 SOEs were liquidated and 2,000 merged into other state firms" (Cheshier *et al* 2006, p.7). The majority of these were small state firms. The total assets of liquidated state enterprises

[114] For the full text of government decrees, decisions, circulars and laws discussed in this chapter, see the Official Gazette (*Công Báo*). See also, Cheshier *et al* (2006) for summary and further discussion.

has been estimated at less than four percent of total state assets (CIEM and World Bank 2002, Van Arkadie and Mallon 2003). The period 1991 to 1994 saw the single largest reduction in the number of state enterprises to date.[115]

Another component of the recentralization process was the creation of General Corporations (GCs) (*tổng công ty*). Inspiration for the General Corporations most likely came from the Korean *chaebol* and the creation of state business groups in China in the early 1990s. The legislation creating the General Corporations was promulgated in 1994, and over the next several years GCs were established in a variety of sectors. These corporations were predominately created from existing state firms and enterprise unions (Fforde 1995b, Marukawa 1999, Van Arkadie and Mallon 2003, Hahn and Lee 2006).

Two types of General Corporation were created. Decision 90-TTg established the so-called GCs 90 under the authority of ministries and provincial People's Committees. Decision 91-TTg established the larger GCs 91 under the authority of the Prime Minister.

[115] For discussion of data problems regarding the number of state enterprises, particularly with regard to equitization, see Cheshier *et al* (2006), Box 1, p.7-8.

**Table 1: Original 18 Decision 91 General Corporations**

| Corporation | Acronym |
|---|---|
| Electricity of Vietnam | EVN |
| Northern Food Corporation | Vinafood 1 |
| Southern Food Corporation | Vinafood 2 |
| Vietnam Paper Corporation | Vinapimex |
| Vietnam Airlines Corporation | Vietnam Airlines |
| Vietnam Coffee Corporation | Vinacafe |
| Vietnam National Cement Corporation | VNCC |
| Vietnam National Chemical Corporation | Vinachem |
| Vietnam National Coal Corporation | Vinacoal |
| Vietnam National Gem and Gold Corporation | Vigego |
| Vietnam National Shipping Lines | Vinalines |
| Vietnam National Textile and Garment Corporation | Vinatex |
| Vietnam National Tobacco Corporation | Vinataba |
| Vietnam Oil and Gas Corporation | Petrovietnam |
| Vietnam Post and Telecommunications Corporation | VNPT |
| Vietnam Rubber Corporation | Geruco |
| Vietnam Shipbuilding Corporation | Vinashin |
| Vietnam Steel Corporation | VSC |

Source: adapted from Van Arkadie and Mallon (2003), Table 10.1, p.134

The intention was to pool investments and create production synergies between member firms. General Corporations 91 in particular were meant to play the ‘leading role’ in their sectors. However, in this early form, the General Corporation head offices functioned primarily as administrative units above member companies rather than facilitating improved performance (Van Arkadie and Mallon 2003, Cheshier *et al* 2006). In addition to the 1994 decisions on state corporations, the 1995 Law on State Enterprises created a State Capital Management Department under the Ministry of Finance to oversee state capital (*vốn nhà nước*) invested in state enterprises (Gainsborough 2003a, Fforde 2007). Taken together, Decree 388 and the creation of General Corporations represent an effort during the 1990s to shift control over state enterprises upwards in the hierarchy, particularly with regard to ‘local’ state firms under the authority of districts and departments.[116] However, given the intensely political nature of this process and the degree to which it was resisted, outcomes varied significantly (Gainsborough 2003a).[117]

Nevertheless, the pattern of accumulation based on leveraging access to the state continued unabated. Gainsborough (2003a) identifies two related processes operating in Ho Chi Minh City: local elite privatization and siphoning of public funds and assets into private firms. Taken together, they represent a process of 'hollowing out of public ownership' (Gainsborough 2003a, p.28). In addition, companies established by city departments, districts and Party organizations began to engage in rampant diversification away from their core business, in particular moving into real estate and banking (ibid, p.24).[118]

Firms also engaged in "profiteering, speculation (often involving foreign exchange and land) and smuggling" (Gainsborough 2002a, p.231). Mrs. Ba Thi, celebrated fence-breaker of HCMC Food Corporation fame, was forced into retirement in 1993 "when it was revealed that the company had accumulated hundreds of millions of dollars in overseas debts and had misallocated millions more … In total USD 60 million has been stolen from the enterprise, including USD 4 million worth of machinery which was

[116] The emphasis on recentralizing tendencies in this literature was meant to counter the dominant view of the 1990s as a story of *de*-centralization. Vietnam has a long history of provincial autonomy and decentralized decision making. This was exacerbated by constraints on communication and control during the wars, leading to lower levels taking decisions on their own and often ignoring directives from the centre (Kolko 1997, Đặng Phong and Beresford 1998). The story of the 1990s is therefore not only one of recentralization, and the reforms of the 1990s formalized elements of this long standing *de facto* provincial autonomy. For example, Beresford and Đặng Phong (2000) describe the emergence of a decentralized trade monopoly in the 1990s. As Riedel and Turley (1999) note, "[f]rom just 80 in 1987, the number of firms and organizations authorized to engage in foreign trade swelled by 1990 to 212, of which central ministries controlled 60 and people's committees of provinces, municipalities, and districts controlled 152. Authorization in 1991 for private as well as state enterprises to establish direct links with foreign markets vastly increased the number of companies with licenses to trade and further decentralized the trade structure. Regional direct trade grew faster than that of the large centrally-managed state companies until it drew even with the latter in 1994" (Riedel and Turley 1999, p.30). By 1997, "1,900 state-owned companies and 6,000 private ones had license to trade" (ibid, p.53, footnote 15). For discussion of the rising formal power of provinces in the Party Central Committee, see Abuza (2002) and Abrami, Malesky and Zheng (2007, 2008). The 1996 State Budget Law also granted more authority to provinces with regard to expenditure decisions.

[117] For detailed discussion of this process in Ho Chi Minh City, see Gainsborough (2003a).

[118] There was a land market boom in the early 1990s, making moves into real estate very profitable. Gainsborough (2003a) notes that "43 per cent of all housing built in Ho Chi Minh City during 1975-99 occurred in 1991-95" (Gainsborough 2003a, p.21). This boom occurred before the 1993 Land Law. For discussion, see Kim (2008).

moved to private factories" (Greenfield 1994, p.214).[119] "[T]he term 'primitive accumulation' comes to mind as capturing something of the 1990s in Ho Chi Minh City. Certainly, there seemed to be a fair number of members of the elite – and others – getting rich on the back of such things as the emergence of the land market, the craze to establish banks, or generally exploiting their public positions in state enterprises and the bureaucracy for private gain" (Gainsborough 2003a, p.ix).

For example, a post-planning version of Lê Đức Thọ's family running specialty Party shops is provided by the son of former Party General Secretary Lê Duẩn, who studied aviation in the Soviet Union. Upon his return to Vietnam he worked for state owned firm Cotec, which did business with the USSR and after 1991, with Russia. He then founded a private company, also called Cotec. This firm invested in the Technological and Commercial Joint Stock Bank (Techcombank) and Lê Duẩn's son became chairman of the bank. State owned Cotec and Vietnamese in Russia were also shareholders in Techcombank.[120]

In another example, Gainsborough (2003b) traces the rise and fall of Tan Binh Production Service Trading and Export Company (Tamexco). Tamexco was established in 1989 as a general trading company under Ho Chi Minh City's Tan Binh District Party Committee. It imported fertilizer, construction materials and automobiles, exported seafood, and operated real estate and tourism ventures. In 1992 Tamexco established and became the leading shareholder in Tan Viet Joint Stock Commercial Bank (Tacombank).

In 1996 the director of Tamexco was arrested on charges of corruption in connection with Tamexco losses estimated at USD 25 million.[121] This prompted a run on Tacombank. Following this the director of private company Dolphin, which had conducted business with Tamexco, was charged with bribery and corruption. Specifically, the director of

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[119] Whether or not this was an attack against Võ Văn Kiệt is not known. For discussion of the use of corruption cases as political weapons, see Gainsborough (2003b).

[120] Information on Techcombank and the role of Lê Duẩn's son was graciously provided by Dr. Martin Gainsborough. The information was obtained during interviews conducted by Dr. Gainsborough in 1999, along with relevant data from several Vietnamese newspapers by Dr. Gainsborough.

[121] Vasavakul (1997) puts the figure at USD 40 million (Vasavakul 1997, p.116, footnote 74).

Dolphin was charged with bribing the head of Notary Office No. 1 in Ba Ria – Vung Tau to certify artificially inflated land values. This allowed Tamexco to increase its bank borrowing. In October 1996 the deputy director of state owned Bank for Foreign Trade of Vietnam (Vietcombank) in HCMC, who was also chairman of the joint venture bank First Vinabank, along with the head of Vietcombank's Vung Tau branch, who was deputy director of First Vinabank, were also charged for continuing to lend to Tamexco despite its high and rising debts. Vietcombank was the primary Vietnamese investor in First Vinabank. Twenty individuals ended up facing charges in connection with the case. Several Tan Binh district officials implicated in the case were censured but not charged.[122]

However, there is a tendency to view these processes as happening under the nose and against the wishes of the state. This is implicit in Fforde's decentralized and autonomous 'state business interest' and Gainsborough's '*local* elite privatization'. One of the important contributions of Gainsborough's work on Ho Chi Minh City was to show how top city officials were connected into the central apparatus. Arguing against the dominant centre versus province perspective, Gainsborough (2003a, 2004a) moves the division *lower* in the hierarchy, with department and district level firms engaging in myriad 'unsanctioned' activities.[123] The meticulous tracing of connections between local officials and local businesses, and the difficulty in identifying clear connections between top city officials and business interests, led Gainsborough (2003a) to conclude that lower level officials were engaged in the bulk of the dirty work.[124] While acknowledging that "a central umbrella generally provides more protection than a local one" (2002b, p.5; 2003a) and that Party Congresses are best viewed "as occasions when access to patronage and

[122] For a fascinating account of the legal arguments used in the case, and how the inherent ambiguity of Vietnamese socialist law was wielded to make the government's case, see Gillespie (2001).
[123] Ho Chi Minh City is rank equivalent to a province in Vietnam's administrative hierarchy.
[124] This follows Nevitt (1996) on China, in which market reforms opened up new career opportunities for local officials. Gainsborough argues that top city officials continue to follow the traditional 'ladder-of-advancement' strategy. For connections between HCMC officials and businesses, see Gainsborough (2003a), Table A3.1 'Biographical data on HCMC politicians', p.124 and Table 3.2 'HCMC politicians with identifiable business interests', p.128.

political protection are circulated" (Gainsborough 2007a, p.6), the story remains primarily one of a tug of war between various levels of the party-state.[125]

Greenfield (1994) is more explicit in viewing this process as a broad pattern of "primitive accumulation leading to capitalism" (Greenfield 1994, p.215), the general "exercise of state power against the working class in the interests of the new bourgeoisie emerging from within the ranks of … state enterprise managers and the most powerful segments of the party-state bureaucracy" (ibid, p.203). This includes the upper reaches of the state, with "[n]early all ministries, government departments and research institutes … involved in various types of profit-making activities" (ibid, p.210-211). Greenfield is one of the few scholars to highlight the dark side of this process, including the rise of prostitution, widespread bribery in education and healthcare, and the emergence of sweatshops in appalling conditions to exploit predominately rural workers.[126] For Greenfield, the story of the 1990s is one of increasing alignment of state officials with the interests of capital, predicated on exploitation of the working class. In classic Leninist fashion, The Vietnam General Confederation of Labour (VGCL), the only authorized union, is oriented towards the state rather than workers. One of its primary functions is to suppress labour in the interests of capital, particularly foreign investors.

> [T]rade union cadres, managers and state officials have 'degenerated into thieves'. Thriving on corruption and shifting state assets into the private sector, 'they have betrayed their class', turning against the working class which brought them to power. But the roots of this betrayal lay in the formation of the post-revolutionary state which established a structure of power that – through crisis and reform – gives rise to the embourgeoisement of the staff of the state (ibid, p.225-226).

[125] There is widespread disagreement over how to characterize patron-client networks, blocs, factions, interest groups, etc. in Vietnam. For conflicting formulations, see Porter (1993), Vasavakul (1997, 1999a); Đặng Phong and Beresford (1998); Riedel and Turley (1999); Beresford and Đặng Phong (2000); Appold and Dinh The Phong (2001); Gillespie (2001); Gainsborough (2003a, 2003b, 2007a); Abrami, Malesky and Zheng (2007, 2008); Fforde (2007); Rama (2008); and London (2009).

[126] For an alternative view, in which some young women prefer sweatshops to the drudgery of life in the rice fields, see Kabeer, Trần Thị Vân Anh and Vư Mạnh Lợi (2005). For further discussion of these issues in Vietnam, migration and wage employment in particular, see Pincus and Sender (2007).

Although the ‘working class’ proper in Vietnam has always been small relative to the total – still largely agricultural – population, part of Vietnam’s growth story is about ‘freeing’ labour and shifting the massive rural labour force into waged employment (Riedel, Bui Tat Thang, and Nguyen Van Phuc 2000; Pincus and Sender 2007). In addition, Vietnam’s young and growing population pumps nearly one million new entrants to the labour force each year (World Bank 2005). Greenfield (1994) is right to emphasize the growing exploitation of the working class, and insider privatization, corruption, and exploitation of labour as part of the process creating a “nascent bourgeoisie whose power remains symbiotic with the structures of state power” (Greenfield 1994, p.223). However, Greenfield’s story is one of betrayal, with an almost exclusive focus on the nefarious side of the development of capitalism. This account is missing an explanation of the dynamism of the 1990s.

Gainsborough (2003a) provides the best account of the complicated interaction between leveraging privilege and economic dynamism. “In the 1990s being successful in business owed a great deal to a company’s bureaucratic and political background. Some of this had to do with the superior initial endowment enjoyed by these companies (e.g. possession of property or land). However, it is also the case that a company’s bureaucratic background carried with it certain additional benefits, such as political protection and easier access to licenses, contracts and capital” (Gainsborough 2003a, p.29). Without these connections, “a company’s prospects for expansion were undoubtedly limited” (ibid, p.29).[127] Nevertheless, a high degree of competition existed and increased throughout the 1990s. Firms became very responsive to the market and increasingly perceived profit opportunities from doing business rather than simply rent-

[127] There is widespread recognition that connections between officials and firms exist, but disagreement on their effects. Nguyễn Đình Cung, Phạm Anh Tuấn, Bùi Văn and Dapice (2004) differentiate between connections needed to get started in business and connections needed to maintain business operations. The former are seen as acceptable and to be expected, while the latter are detrimental to firm growth and dynamism. Malesky and Taussig (2009b) argue that political connections influence lending decisions by bank loan officers and although rational given the incentive structure, it is inefficient and a drag on growth. Fforde (2008) argues against this interpretation of their data, viewing connections as necessary for acquiring a rent, but this rent is then dissipated in Vietnam’s highly competitive economy. Both Webster and Taussig (1999) and Kim (2008) see connections as a kind of necessary but insufficient condition. While they might get one into business, they are not the key determinant of firm performance. Firm dynamism results from the entrepreneurial attitude and drive of senior managers and owners.

seeking.[128] Gainsborough stresses that it is very difficult to separate productive business activity from rent-seeking and corruption in Vietnam (ibid, p.11), and "[w]hile anti-competitive practices remained an everyday feature of the business environment in Ho Chi Minh City in the 1990s" (ibid, p.28), competition produced dynamism and contributed to economic growth.

For example, in a chapter entitled 'Red Capitalists' Hiebert (1996) discusses Saigon Jewelry Company. The company was established in 1988 under the HCMC Department of Trade and run by Mr. Nguyễn Hữu Định, a man who would come to be known as 'Mr. Gold'.[129] One of the few companies authorized to import gold through quotas issued by the State Bank of Vietnam, Mr. Định quickly moved to establish shops around the country. Saigon Jewelry's gold bars, which have a distinctive dragon emblem, became the standard not only in HCMC but throughout the country, used for large purchases such as houses, cars and motorbikes (Hiebert 1996, Gainsborough 2003a).

Saigon Jewelry, like Tamexco, rapidly diversified. In 1991 its subsidiary International Trade Centre purchased an Intershop in downtown HCMC from a bankrupt state firm.[130] The store was quickly turned into a success, selling everything from groceries to electrical goods (Gainsborough 2003a, p.23). Saigon Jewelry also linked up with foreign property developers, becoming the primary Vietnamese investor in the Diamond Plaza shopping mall in HCMC. It acquired shares in Exim Bank, Asia Commercial Bank and Danang Bank and established Saigon Finance Company. In 1994 it invested in International Beverage Company, the firm which bottled and distributed Pepsi following

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[128] Gainsborough's argument is similar in some respects to Fforde (2007), who explains the dynamism of the 1990s through commercialized state enterprises. However, the implication of Fforde's recentralization story is that as the state re-takes control over enterprises, this dynamism will be reduced. Commercialized state enterprises are dynamic because they are *de facto* private, and as they become progressively 'more state' their performance will presumably suffer. Gainsborough (2003a) does not view recentralization and the contest over property rights as necessarily detrimental to firm performance.

[129] For discussion of the contest over control of Saigon Jewelry, in which the role of Mr. Định is subordinated to political maneuvering in the HCMC Party hierarchy, see Gainsborough (2003a).

[130] Intershops were special government stores selling imported luxury goods at fixed exchange rates. They were also key links in smuggling operations. For discussion of Intershops, see Beresford and Đặng Phong (2000).

the end of the U.S. trade embargo. Saigon Jewelry was also the distributor for Canon products, operated hotels, and produced decorative stone for construction projects.

By 1995, only seven years after it was established, Saigon Jewelry ranked 11th in Ho Chi Minh City in terms of turnover and was the largest local state business enterprise in HCMC. Its annual turnover increased an average of 43 percent between 1989 and 1996 (ibid, p.24). In 1996 the State Bank stopped issuing quotes in order to halt commercial import of gold. Following this decision, no company had the right to legally import gold. However, there was no corresponding decrease in supply of gold to commercial markets, implying that Saigon Jewelry and other gold companies were accessing smuggling networks to circumvent SBV regulations (ibid, p.38).

The dynamism of Saigon Jewelry is not in question. However, as Gainsborough (2003a) notes, it is difficult to imaging Saigon Jewelry's success without its links to the HCMC Party and state apparatus (Gainsborough 2003a, p.31). Hiebert (1996) concludes from his review of Saigon Jewelry that "[s]tate companies are evolving in a variety of configurations, and the once clear line between private and state capital is becoming fuzzy" (Hiebert 1996, p.74). Hiebert observes that:

> Even the keepers of Communist orthodoxy have joined in the national preoccupation with making money. The central committee … operates the An Phu trading company to fund its activities. The army runs factories and construction companies, while the security police – an organization charged with stifling any dissent – owns the Pacific Company, which operates a chain of hotels, some of which have the country's liveliest discotheques (ibid, p.10).

Another example of the state-related growth comes from the Party itself. In 1989 the Communist Party's Commission of Administration and Finance established An Phu Services and Production Company.[131] The firm upgraded luxury villas belonging to the

[131] The information presented here is from the questionnaire completed by An Phu and from an interview with the firm's senior management in April 2007as part of the Top 200 firms research project. See Chapter

former southern regime and leased them to foreigners. The An Phu Compound is now one of the premier foreigner enclaves, located in Ho Chi Minh City's District Two. An Phu also exported agricultural products like rice and coffee and imported iron and steel. In 1995 the An Phu Corporation was created, with An Phu Services and Production as a subsidiary. The corporation imported steel, medical equipment and chemicals and become one of the largest exports of rice and coffee in Vietnam. It used the profits from trading to establish the Pomina Steel Joint Venture, holding a 24 percent stake. The joint venture included Dong A Bank and a private steel firm. An Phu also established the Tay Do Steel Joint Venture and went on to joint venture with a Taiwanese towel producer.

In 2004 An Phu Services and Production equitized, becoming An Phu Joint Stock Company. An Phu Corporation held 50 percent, with most of the remaining shares held by two real estate firms, Hiep Phuc and Tan Hiep. An Phu began to shift focus, reducing its trading activities and moving into real estate development, although it continues to import steel for its steel joint ventures and to sell in the domestic market. An Phu is now engaged in building industrial zones (IZs) and apartment and office buildings. It is in the process of building three 19-storey high-class apartment buildings in HCMC, and an 18-storey office building in HCMC's District Three. An Phu plans to joint venture with Kuok Group of Singapore to build luxury apartments in District Two, and Keppel Land, a Temasek company, to build yet more apartments in HCMC. An Phu will contribute 40 percent in land and capital to each joint venture, with each project estimated at USD 80 million. It also has plans to move into finance and securities. The Party in business, and more particularly An Phu's shift into real estate and finance, is a common feature of Vietnam's large firms and will be discussed further in Chapter Five.

As Hiebert (1996) points out, the military is also a key player in the socialist-oriented market economy. Indeed, the military has been engaged in business since its inception in 1944 (Vasavakul 1999, Thayer 2000).[132] The role of the VPA in business changed

Four for discussion of methodology. See Appendix Three for the interview schedule and Appendix Four for an example of the questionnaire used.

[132] Following its creation, the Vietnam People's Army (VPA) produced food and equipment primarily for its own use. After 1954 is became involved in managing state farms producing industrial crops. Following

dramatically in the late 1980s following the launch of *đổi mới*, the end of central planning, and the loss of Soviet aid. By 1989 the military was heavily engaged in commercial operations. "During the two-year period ending in August 1989 so many military enterprises had become involved in economic production activities that the table of organization of the Economic General Department [of the VPA] had to be changed four times" (Thayer 2000, p.13). In 1989 military firms were put under the same legal framework as state enterprises and nearly 20 percent of the military budget came internal sources, primarily the more than 300 military companies engaged in commercial activity (Thayer 2000, p.13). However, most military enterprises can only sell up to 20 percent of their output to the military and were therefore forced to compete in order to survive (Vasavakul 1999, Thayer 2000).

By 1993 military firms were engaged in "building houses, hotels, roads, bridges and ports; mining coal, tin and precious stones; catching and processing seafood; transporting oil workers to offshore rigs by helicopter; producing cement and asphalt; manufacturing garments and vehicles; real estate development; running hotels and nightclubs; and joint ventures with foreign companies" (Thayer 2000, p.17). Army companies employed 70,000 troops, accounting for over 12 percent of active duty soldiers, exported USD 90 million in coal, rubber and manufactured goods, and the military was one of the biggest landowners in the country (Hiebert 1996, p.18).

In 1993 the Military Bank was established, and it has since created its own insurance company. Military Bank, like most banks, now includes subsidiaries in real estate, asset management and securities. Investors in Military Bank include the army firms Military Telecom Corporation (Viettel), Military Petrol Company (Mipec) and Saigon Newport,

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reunification in 1975 the VPA was tasked with participating in national reconstruction and development, including involvement in building roads, railways, pipelines, industrial plants, airports, ports, land cultivation, livestock breeding, reforestation and forest exploitation, and production of consumer goods. The People's Navy helped expand Vietnam's fishing fleets, repaired freighters, contributed to the oil and gas exploration programme and transported goods between north and south (Thayer 2000, p.7). The VPA also engaged in production during this period to overcome the shortages prevailing in the planned economy and participated in smuggling operations via Cambodia after 1978 (Beresford and Đặng Phong 2000).

along with state corporations Vietnam Coal and Mineral Industries Group (Vinacomin) and Vietnam National Petroleum Corporation (Petrolimex) (Military Bank 2008).[133]

In 1994 “the VPA was tasked with developing a national defence industry and producing dual-use technology. The VPA therefore became heavily engaged in electronics, computing and telecommunications” (Thayer 2000, p.6). In 1995, following Decree 388, the VPA launched a reform drive to consolidate small military enterprises and close loss-making units. It also began construction of economic-defence zones, emphasizing border protection and rural development (Vasavakul 1999, Thayer 2000). By 1997, as part of the restructuring process, the number of military enterprises had dropped to 193, was further reduced to 164 companies, and has since fallen to around 100 firms (Thayer 2000, BBC News 2007). Even with the drastic reduction in the number of firms, the total revenues of military companies consistently increased, rising from USD 27 million in 1991 to USD 600 million in 1998 (Thayer 2000, Table 1, p.21).

However, in 1997 the army newspaper criticized military companies for waste and corruption. Army firms were spending profits on luxury items rather than reinvestment. These luxury expenditures included new cars, expensive imported appliances, renovating guest houses, building new conference halls, and throwing lavish parties (Thayer 2000, p.23). Nevertheless, military firms’ growth has indeed been impressive and army firms stand as examples of what Vasavakul (1999) refers to as ‘red entrepreneurs’.

These examples highlight dynamic state-related accumulation, along with the difficulty of separating rent-seeking activities from more productive endeavors. They demonstrate the Party in business, the army engaging in commercial operations, and individuals running firms connected to the state. This has been a key element of the post-planning period in Vietnam.

Economic growth, inflows of foreign direct investment and increased trade continued into the middle 1990s. However, the Asian Financial Crisis hit in 1997 and Vietnam

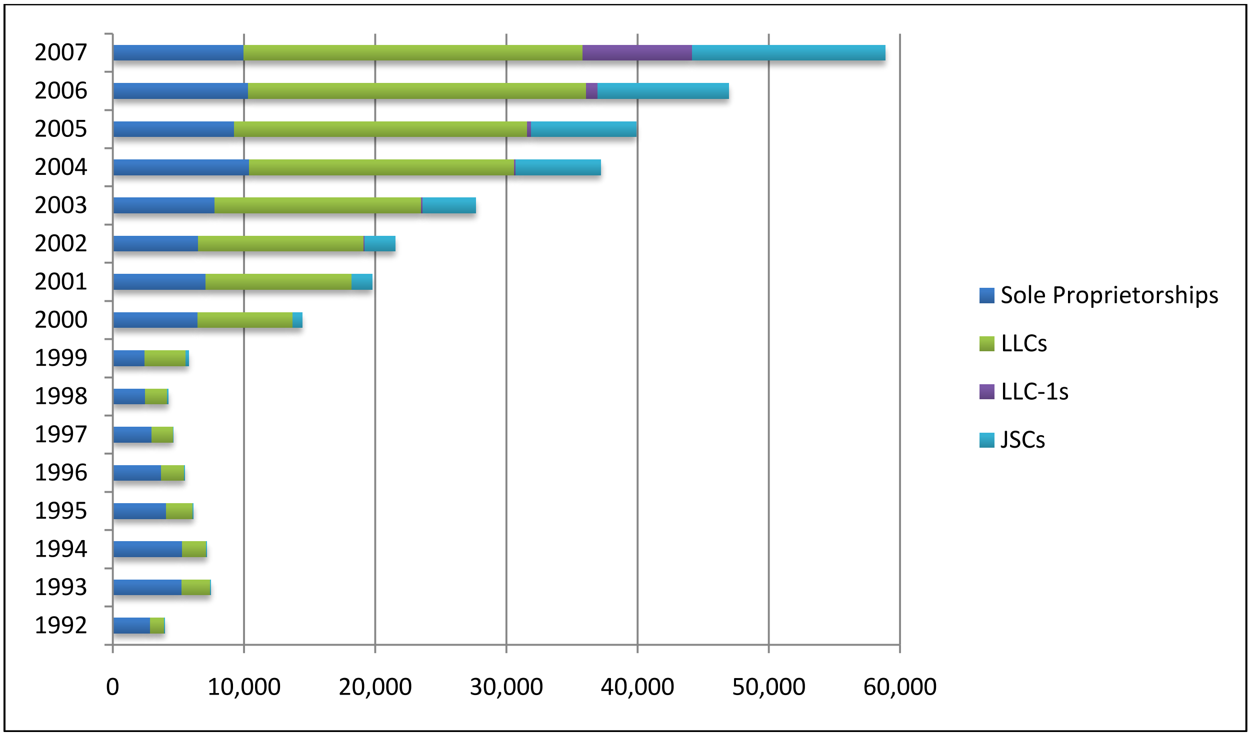
[133] Military firms are discussed in more detail in Chapter Five.

experienced a significant slowdown in 1998. Growth of GDP slowed to 3.8 percent, exports actually fell 12 percent even though Vietnam devalued its currency 17 percent, and FDI inflows dropped dramatically, with 1998 disbursements half of those in 1997 (Webster and Taussig 1999, p.7). This represented something of a crisis for the state led growth model of the 1990s.

The year 1998 was the beginning of another turning point. First, Lê Đăng Doanh (2009) argues that the impact of the Asian crisis on Vietnam forced a rethink about the state led, FDI dependent development strategy of the 1990s. The state recognized that the private corporate sector would have to begin contributing seriously to economic growth. The result was the 1999 Enterprise Law, which came into force in January 2000. The law streamlined company registration procedures and reduced bureaucratic red tape, resulting in an explosion of formal private sector company registrations.[134]

[134] For further discussion, see Carlier and Trần (2004) and Malesky and Taussig (2009a).

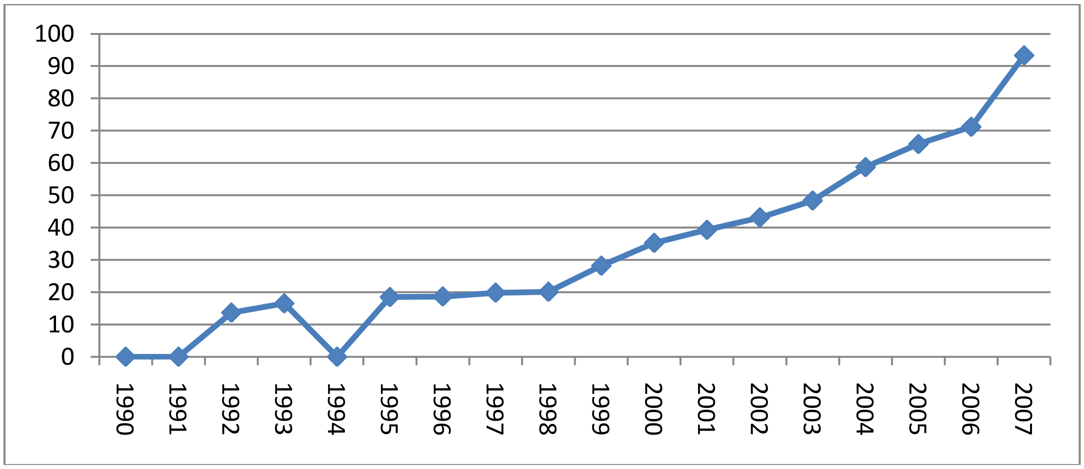
**Figure 1: Private Company Registrations, 1992-2007**




Source: Taussig (2009), Figure 3.1, p.9[135]

In addition, after 1998 bank lending to the domestic private sector increased significantly.

**Figure 2: Domestic Credit to the Private Sector, Percent of GDP**




Source: World Development Indicators, World Bank (2008b)

*Note*: no values reported for 1990, 1991, and 1994

135 'Partnerships' are excluded because of their small numbers. 'LLC' refers to limited liability companies, 'LLC-1' to Limited Liability Companies with One Member, and 'JSC' to Joint Stock Company.

Equitization of state firms also picked up dramatically. In late 1991 the National Assembly approved a pilot equitization programme and Decision 202-CT in 1992 initiated the process. However, as Table 2 shows, early results were not encouraging, with only 15 firms equitized by 1997. In 1996, Decree 28-CP ended the voluntarism of the pilot programme and tasked ministries and relevant authorities in all localities to begin equitizing state firms under their jurisdiction. This was updated and reissued with more detailed instructions in Decree 44/ND-CP in 1998, and the number of equitizations began to increase (Cheshier *et al* 2006, p.9). In 1998 alone, over 100 firms equitized, in 1999 around 250 equitized and in 2000 around 210 state firms equitized (Cheshier *et al* 2006, Table 3, p.8).[136] Over time, inducements were offered to equitize, including tax holidays on Corporate Income Tax (CIT), debt-rescheduling and write-offs, permission to implement worker redundancies with access to a state-funded compensation programme, and continuing investment preferences and low interest rates. In addition, insider privatization was also formal policy, with preferential access and discounts offered to state managers and workers based on position and seniority.[137] The overall momentum therefore continued throughout the 2000s.

**Table 2: Estimate of State Enterprise Transformation**

| | **1991-1997** | **2001-2005** |
|---|---|---|
| **SOEs, beginning** | 12,000 | 5,655 |
| **SOEs, end** | 5,500 | 3,200 |
| **Restructured** | 6,500 | 3,349 |
| **Equitized** | 15 | 2,188 |

Source: Cheshier *et al* 2006, Table 2, p.6

[136] The imprecise figures are due to inconsistencies in counting equitized firms. For discussion, see Cheshier *et al* (2006), Box 1, p.7-8.

[137] For a summary of the changes in the legal framework governing equitization, see Cheshier *et al* 2006, especially Appendix 2, p.27-32. Hiebert (1996) recounts the story of The General Forwarding and Agency Company, one of the first state firms to equitize in the early 1990s. "Some 42 percent of the company's shares were purchased by the firm's employees, 18 percent were retained by the ministry [of transportation], and the rest were sold to ministry staff. No shares were left for sale to the general public" (Hiebert 1996, p.71). While public participation has increased dramatically, the basic pattern of official insider privatization remains.

However, it would be misleading to attribute the turnaround solely to improved legislation and administrative guidance. Gainsborough (2003c) asks the question why equitization proceeded so slowly until 1998, arguing that a “key reason was an unwillingness on the part of political-business interests associated with state enterprises to do anything which would remove them from what they regarded as the ‘best space’ for doing business, which until the late 1990s was seen as the state sector” (Gainsborough 2003c, p.1). However, during the 1990s state control over enterprises did tighten and “fiscal pressures associated with the Asian financial crisis of 1997-98 saw a tightening of access to budget subsidies or cheap bank credit for state enterprises, with the result that subsidies were only available for a much smaller core of firms. This tightening appears to have been sustained even after the immediate effects of the crisis subsided” (ibid, p.9). Gainsborough argues that “it is no coincidence that the acceleration of equitization has coincided with the shift to more rapid private sector growth since 1999. Enterprise managers, their controlling institutions and labour forces all recognize that in the absence of budget subsidies and cheap bank credit and amid dwindling levels of protection, there are now fewer advantages to be had from remaining in the state sector” (ibid, p.12). Equitization sped up after 1998 in part due to “a changed calculation on the part of largely autonomous state business interests as to where the best place to do business was. By the end of the 1990s, many of the reasons for remaining in the state sector had disappeared while life in the private sector was no longer regarded with the trepidation it once was” (ibid, p.24).

The environment continued to improve in the 2000s. In 2000 the first stock market opened in Ho Chi Minh City.[138] Vietnam also signed the United States Bilateral Trade Agreement (USBTA) and the U.S. quickly became one of Vietnam’s top trading partners. In 2003 a revised Land Law was promulgated, along with a revised Law on State Enterprises. In 2005 a new Enterprise Law and a new Investment Law were issued, unifying the legal framework for domestic private and foreign enterprises, and governing the operations of transformed state enterprises. These laws took effect in July 2006. In

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[138] Equitized state firms are still numerically dominant on the Ho Chi Minh City and more recently opened Hanoi stock markets (World Bank 2008, p.86).

2006 the formal domestic private share of industrial output for the first time equaled that of the state sector (Mallon 2007). By 2007, riding a wave of deposit growth, private joint stock banks (JSBs) accounted for 60 percent of the inter-bank lending market (Robertson 2009). In January 2007, Vietnam joined the World Trade Organization (WTO).

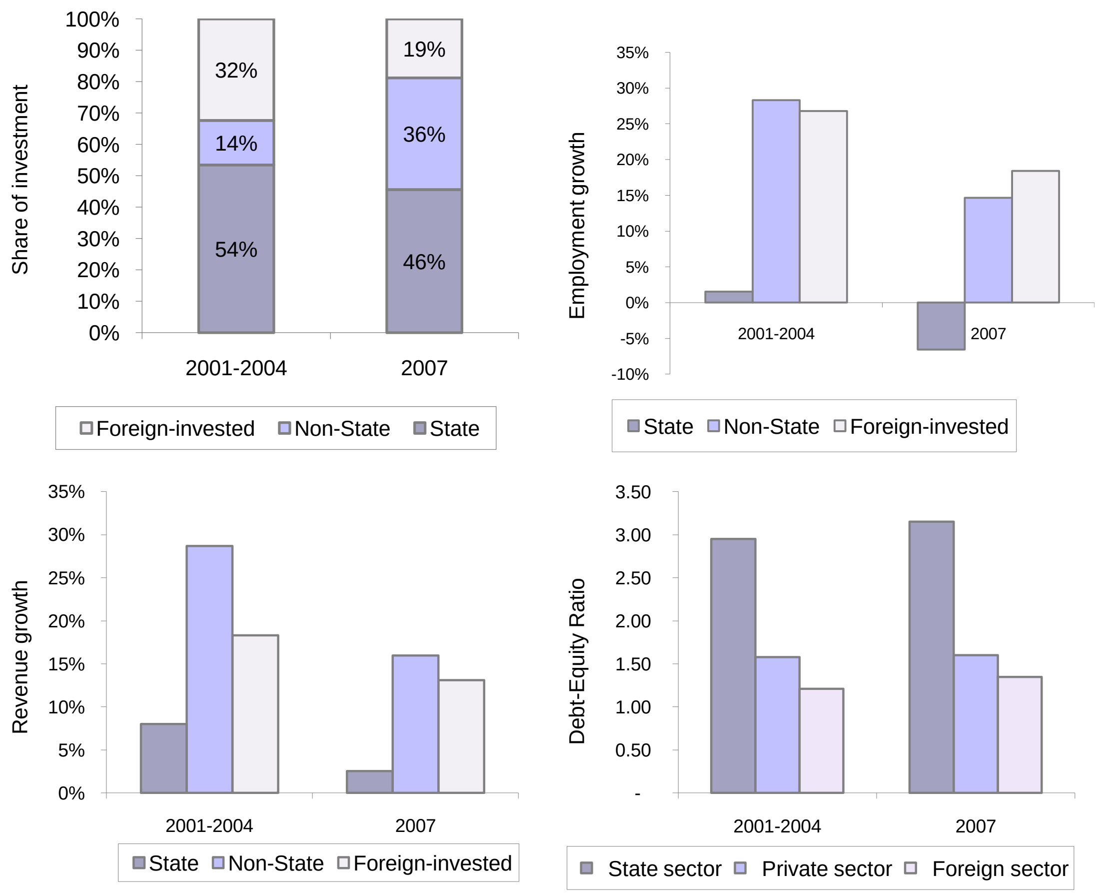
By 2006, the equitized share of state capital was only around 12 percent of total state capital invested in state enterprises (Cheshier *et al* 2006). This has since increased due to ongoing equitization of larger state companies and members of General Corporations, but the overall share remains low. Nevertheless, the 2000s saw the emergence of some ex-post coherency to state enterprise reform, what Cheshier *et al* (2006) refer to as 'keeping the big, releasing the small'.[139]

The basic thrust of this approach is to transform all state enterprises, including General Corporations, into firms operating under the Enterprise Law by 2010. Strategic sectors have been designated as part of a 'commanding heights' strategy, in which the state will retain full (100 percent) or majority (over 50 percent) ownership in large state firms operating in these sectors. State firms not operating in these sectors are to be 'released': equitized, transformed into limited liability companies or closed down. In 2005 the State Capital Investment Corporation (SCIC) was established to take over responsibility for management of state capital in equitized state enterprises. However, it currently does not have a remit to assume control over transformed member companies of General Corporations, control of which remains with the GC. In addition to selecting strategic sectors, new corporate structures have been created for the General Corporations. In 2004 the Parent-Child Corporation (*công ty mẹ* - *công ty con*) structure was established with Decree 153/ND-CP. And since 2005, several GCs 91 have begun transforming into diversified economic groups (*tập đoàn*).[140]

[139] The phrase is borrowed from the description of state enterprise reform in China. While the reform process is similar in Vietnam, it is not clear what relationship, if any, there is between the two programmes.
[140] For further discussion of the evolution of strategic sectors and General Corporations, see Cheshier *et al* (2006).

However, significant criticism has been leveled against state enterprises, and the General Corporations in particular. As shown in Figure 3, the state sector accounts for around half of total investment, while its low contribution to employment and revenue growth and high debt-to-equity ratio leaves much to be desired.

**Figure 3: Performance Comparison: State, Private, Foreign**




Source: Harvard Vietnam Program (2008c), Figure 1, p.3

Dapice (2003) and Harvard Vietnam Program (2008a) stress the extreme inefficiency of state investment, leading to Incremental Capital-Output Ratios (ICOR) above regional comparator countries at similar stages of development.

**Table 3: Regional ICOR Comparison**

| | Period | GDP Growth (%/yr) | Gross Investment/GDP (%/yr) | ICOR |
|---|---|---|---|---|
| **South Korea** | 1961-80 | 7.9 | 23.3 | 3.0 |
| **Taiwan** | 1961-80 | 9.7 | 26.2 | 2.7 |
| **Indonesia** | 1981-95 | 6.9 | 25.7 | 3.7 |
| **Malaysia** | 1981-95 | 7.2 | 32.9 | 4.6 |
| **Thailand** | 1981-95 | 8.1 | 33.3 | 4.1 |
| **China** | 2001-06 | 9.7 | 38.8 | 4.0 |
| **Vietnam** | 2001-06 | 7.6 | 33.5 | 4.4 |

Source: Harvard Vietnam Program (2008a), Table 3, p.38

Drawing attention to the inefficiency of state investment is necessary and important, particularly given the high levels of corruption in public infrastructure investment and the proclivity for white elephant projects like the Dung Quat oil refinery and the recently proposed multi-billion dollar high speed rail line between Hanoi and Ho Chi Minh City. However, this line of argument tends to obscure as much as it reveals.[141]

Given that "[i]n Vietnam, the public is never entirely public, and the private is never entirely private" (Đào Xuân Sâm, quoted in Fforde 2007, p.1), the ownership categories 'state' and 'private', while useful up to a point, need to be treated with caution. Equally as important, there are significant differences between state enterprises. Most of the literature on state enterprises in Vietnam portrays them as awash in state subsidies and inefficient due to soft budget constraints. Beresford (2008) argues against this, noting that almost all state firms have faced hard budget constraints from the very beginning, given the lack of state financial resources. However, both of these views fail to differentiate between types of state enterprises.[142] Petrovietnam, the state conglomerate controlling

[141] For a critique of using ICORs to assess state sector performance in Vietnam, see World Bank (2008a) and Van Arkadie (2010).

[142] This lack of differentiation is a nearly universal feature of the literature on Vietnam. Much of the problem stems from a misunderstanding of 'soft budget constraints'. As Kornai (1979) first pointed out, the presence of a soft budget constraint does not mean that financial resources are unlimited, and that investment hunger will enable all state companies to implement their plan and off-plan activities. Kornai's key insight is that the infinite investment demand of firms runs up against a finite pool of financial resources. Investment hunger and the expansion drive are constant but constrained by the availability of

upstream oil and gas production with annual revenues in the billions of U.S. dollars is simply not comparable to a small local state enterprise operating in the highly competitive footwear industry. Important differences also exist between General Corporations.[143] For example, Petrovietnam with its mineral rent base is in a much better position than the Vietnam Textile and Garment Group (Vinatex), which operates in the thin margin garment sector facing intense competition from domestic private and foreign firms. As Nolan and Wang (1999) argue for China, it is necessary to get below the aggregate statistics in Vietnam to assess the wide variation in state enterprise privilege and performance.[144]

Another omission in the literature is lack of attention to large firms. In addition to Harvard Vietnam Program (2008a), Webster and Taussig (1999) examined 95 large private manufacturing firms in the late 1990s.[145] Gainsborough (2002, 2003a) examined the top 100 firms by turnover in Ho Chi Minh City in 1995. Packard (2004) examined several General Corporations and their limitations in the early 2000s as part of a World Bank project on GC restructuring. However, these are exceptions and no systematic study of Vietnam's large firms has been conducted. In general, the literature also tends to remain within a state versus private framework, and since most large firms are state firms, the emphasis is on privatizing them while facilitating the growth of a private corporate sector (e.g. World Bank 2005). This dissertation will present research findings on Vietnam's Top 200 firms to address these limitations.

In terms of resolving the Djilas contradiction in the 2000s, for London (2009) the market-Leninism of the 1990s and 2000s is generating fundamental tensions.

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finance. How these constraints are managed is a political issue, with results differing from place to place reflecting the balance of power among firms, planners and politicians.

[143] Van Arkadie and Mallon (2003) are one of the few to highlight differences in the monopoly powers of the General Corporations.

[144] Gainsborough (2003a) is attentive to these differences, for example noting that state firms can have the same controlling institution but different controlling interests. Fforde (2009) also argues for the need to get below the 'state enterprise' category and investigate the actual interests which influence particular state firms.

[145] Taussig (2009) is based on revisiting these initial 95 firms.

> Economic and other policies are decided haphazardly; actors within different parts of the state apparatus routinely privilege self-maximization over soundness in decision making and principles of transparency and equity; and through soft loans and other means, state agencies continue to seek and secure large monopoly rents. Indeed, it appears that [the] Party remains intent on limiting the development of an autonomous bourgeoisie, and is succeeding rather effectively in nurturing the development of a corporate national bourgeoisie within and on the borders of the Party state. There is, of course, a logic to it all: the broad (however disorganized) distribution of resources, rents and opportunities across different parts of the state apparatus bolsters the political legitimacy of the state within the sphere of bureaucratic politics. It also creates new problems (London 2009, p.390).

These problems are captured in what Fforde (2007) refers to as the second, as yet unresolved, 'trap' resulting from the state led growth model. The trap is "that a globalizing market-oriented economy based upon commercialized SOEs would require effective government through changed 'techniques of rule'. Centrally, what could remain of Leninism in a VCP ruling over a market economy where capital and business would inevitably demand that their operations not be penetrated and controlled by Leninist structures?" (Fforde 2007, p.43). The temporary resolution of the Djilas contradiction after end of central planning led to Greenfield's (1994) 'embourgeoisement of the state'. However, "how would the VCP respond to a world with powerful commercial forces operating? And how could it, when it was so closely bound up with state capital?" (Fforde 2007, p.44-45).

This enduring contradiction is revealed in changes to the Party statutes following the X$^{th}$ Party Congress in 2006, in which cadres were allowed to own private businesses but private entrepreneurs were not allowed into the Party. In contrast to China, the Vietnamese Communist Party has still not resolved its central problem: defining what it means to be a communist, an issue that has bedeviled it through much of its history (Quinn-Judge 2004). The Djilas contradiction remains unresolved.

## 3.4 Summary

The pattern of accumulation that began after 1954 in the north as leveraging access to the state in order to overcome shortage and improve living standards became, after national reunification in 1975, a process of commercializing the state. The continued ability to arbitrage price differentials between plan and market by diverting inputs and assets from the state system, along with opportunities to engage in smuggling through travel abroad, increasingly became sources of capital accumulation. State firms and those connected to the state increasingly engaged in commercial activities outside the plan. The process accelerated through the 1980s and ultimately destroyed the basis for central planning, forcing the Vietnamese Communist Party to attempt resolution of the New Class contradiction.

In the 1990s and 2000s, temporary resolution of the Djilas contradiction followed a relatively straightforward application of the Stalinist definition of socialism as state ownership. The state sector would play the ‘leading role’ in the economy and this led to a state enterprise focused development model. As in China, insider privatization, constrained autonomy, hollowing out and the rise of a new business elite turned state-related accumulation into a process of capitalist class formation, Greenfield’s (1994) ‘nascent bourgeoisie’. Although based on leveraging access to the state, the growing influence of the market imperative, manifested as increased competition, resulted in remarkable economic dynamism. Nevertheless, the temporary solution failed to resolve the fundamental underlying contradiction.

Much work has been done on these issues, but has tended to focus on processes occurring at lower levels in the state hierarchy or is based on aggregate comparisons between state and private. None have systematically investigated Vietnam’s largest firms. The remainder of this dissertation will build on the work of Gainsborough (2003a) and Fforde (2007) by incorporating new research on Vietnam’s largest firms in order to address these limitations and contribute to the assessment of how the ongoing attempt to resolve the Djilas contradiction is influencing the emergence of a capitalist class from within the state and the development of Vietnamese capitalism.

# 4 Methodology

This chapter explains the methodology used to identify and gather data on the largest firms in Vietnam. The first section provides the rationale for using the firm as the unit of analysis and the focus on large firms in Vietnam. Section Two describes how the largest firms in Vietnam were selected and discusses limitations of the data. Section Three describes the process of data collection.

## *4.1 Why Large Firms?*

Mandel (1976), in his introduction to volume one of Marx's *Capital*, views the firm as the key unit of analysis of capitalism (Mandel 1976, p.58). Firms are where capital and labour meet. However, this orientation needs to be qualified and put in context:

> The business world represents the outward-facing reality of capitalism and is an inextricable part of whatever capitalism is … Yet there is another aspect to this familiar world, equally essential to its existence but not itself tangible or concrete. This is a kind of netherworld in whose grip the activities of business are caught. That netherworld may be called the Invisible Hand, or the laws of motion of the system, or the market mechanism; and its influence on the business world may be seen as propelling it in the direction of growth, involving it in internal contradictions, or guiding it toward a position of overall balance and stability. In every case, however, the business world itself is seen as a mere vehicle by which larger and more encompassing principles of order and movement are carried out (Heilbroner 1985, p.16-17).

The firm will be used as the unit of analysis because firms are the location, Heilbroner's 'vehicles', of capitalism.[146]

[146] In the original debates on the transition from feudalism to capitalism, the story centred on agrarian transformation as the location of changes in social property relations (Brenner 1985, Wood 2002). In the more recent debates about the transition from central planning to the market, the focus has been on firms. The argument is that command economies were already 'developed' and therefore emphasis was placed on privatizing existing state enterprises. However, this is not always the case. Both China and Vietnam are

This immediately raises the question of which firms. The general preference for private firms has already been critiqued in previous chapters. Another general preference in much of the academic literature and in policy debates is a focus on small and medium sized enterprises (SMEs). These firms are perceived to be more labour intensive, and thus the growth of SMEs results in growth of both employment and output. They are also, for ideological reasons, seen as more ‘genuine’ representatives of domestic capitalism in contrast to foreign invested and state owned enterprises, and assumed to be the pool from which the national champions of tomorrow will emerge. The policy recommendation is to ‘level the playing field’ so that the dynamic small private sector can grow and flourish.

However, this is little evidence to support the assumption that small firms are systematically more labour intensive or capital efficient than large firms, or that their development is somehow more organic and therefore more vital to the development of national capitalism than state or foreign firms (Nolan 1996; Snodgrass and Biggs 1996; Taussig 2005). For example, Little, Mazumdar and Page (1987) find that firm size is not a reliable indicator of labour intensity and SMEs are often more capital intensive than larger firms. Type of industry is more important in explaining labour intensity and firm size. This makes a simple pro-SME perspective unviable.

An alternative literature stresses the importance of big business as the driver of economic growth and development (Schumpeter 1942; Kitching 1982; Amsden 1989; Chandler 1990; Teece 1993; Nolan 1996; Chandler, Amatori and Hikino 1997, Nolan and Wang 1999). Large firms are better able to achieve economies of scale and scope that contribute to international competitiveness. They also invest in the acquisition and development of technologies and products and therefore pioneer entry into higher value-added activities. In addition, large firms’ requirements for infrastructure, capital and skilled labour have significant and often positive spillover effects for the rest of the economy. Finally, large

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somewhere in between, with a legacy of state companies *and* a substantial agricultural sector. A full account of the development of capitalism in Vietnam would require investigation of the ongoing agrarian transformation, along with changes in land tenure, developments in trade, and the legacies of colonialism and two wars of national liberation. This dissertation aims to tell only part of the story of the development of capitalism in Vietnam.

firms and business groups have played a leading role in the growth of both early developers and newly industrialized countries (NICs), notably Japan, South Korea, Taiwan and Thailand. With reference to the development of capitalism in Southeast Asia, McVey (1993) argues that the focus should be on big business since “it is at the level of major industries that we find most clearly displayed the nexus of business, politics, and the state, which … has been central to the Southeast Asian capitalist upsurge” (McVey 1993, p.9).

However, Doner (1991) stresses that “[s]tudies of Southeast Asian capital should avoid paying exclusive attention to large firms. There is considerable evidence, from studies of Japan, the East Asian NICs, and Southeast Asia, that small and medium-sized firms are an active and important component of recent economic growth” (Doner 1991, p.823). These opposing views, one emphasizing the importance of nimble SMEs and the other emphasizing the importance of large firms able to achieve economies of scale and scope, tend to be seen as mutually exclusive. One is either pro-SME or pro-large firm.

The importance of a dynamic SME sector *and* a competitive big business sector is highlighted by Baumol, Litan and Schramm (2007). The dynamic SME sector is often a driver of the experimentation and innovation necessary to keep economies from ossifying. However, large firms are needed to scale up innovations, turn them into competitive products, and get them to market. For Baumol *et al*, the key process is one of ‘churn’, in which a Schumpeterian infusion of new ideas, products and processes interacts with and rejuvenates big business, resulting in some new firms entering the ranks of the largest companies.

As indicated in the previous chapter, most of the literature on firms in Vietnam focuses on the importance of private small and medium enterprises. Many of the processes identified as part of attempting to resolve the New Class contradiction – insider privatization, asset stripping, hollowing out – have been observed in smaller Vietnamese enterprises. However, very little work has been done on large firms. This dissertation attempts to correct this limitation through investigation of Vietnam’s Top 200 companies.

## 4.2 Selecting the Top 200

The sample frame used to determine Vietnam's largest firms was the annual General Statistics Office (GSO) Enterprise Survey.[147] The firm list for each year is based on the results of the previous year's survey plus a list of new enterprises provided by the Ministry of Finance (MoF) tax office.[148] Coverage is complete for enterprises with more than 10 employees.[149]

The 2005 Enterprise Survey, covering the year 2004, was used to select firms for written questionnaires and interviews. The research project began in June 2006 and the 2005 survey was the most recent at that time. However, in December 2006 a newer Enterprise Survey was released and this survey, covering the year 2005, was used to generate the largest firms list presented in Cheshier and Penrose (2007a) and used here. The result is that some firms which responded to questionnaires and participated in interviews are not in the 2006 largest firms list.[150] Differences between the lists will be discussed below.

Two lists of firms were generated. The first includes firms of all ownership types. The second excludes 100 percent foreign owned firms in order to focus on Vietnamese enterprises. The two hundred largest firms were identified. This figure, rather than one hundred, or fifty, was selected in order to include a wider variety of firms, particularly private firms and manufacturing companies. The two resulting lists will be referred to as the Top 200 All and the Top 200 Vietnamese (VN).[151] Comparison between the two lists will be made in Chapter Five.

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[147] This section borrows from Cheshier and Penrose (2007b). The research was conducted by the Country Economist Unit of the United Nations Development Programme (UNDP) in Hanoi, under the direction of Jonathan Pincus. Findings were published as Cheshier and Penrose (2007a). The research data are held by UNDP in Hanoi and are available upon request. The Department for International Development (DFID) of the United Kingdom supported the research financially through the DFID-UNDP Strategic Partnership Initiative. The author is solely responsible for errors of fact or omission. While the project was conducted by UNDP, the views expressed here are the author's alone and do not necessarily reflect the views of the United Nations or the countries it represents.

[148] The MoF tax registry is the only other known sample frame for all firms in Vietnam. At the beginning of the project, both GSO and MoF were contacted to obtain their lists, but MoF proved unresponsive.

[149] For firms with less than 10 employees, a 20 percent sample are given the full Enterprise Survey questionnaire and the remaining 80 percent receive a shorter version.

[150] See Appendix Three. Firms not in the 2006 Top 200 are identified by notes 1 and 2.

[151] These lists are presented in Appendices One and Two.

The total number of firms in the 2006 survey is 112,947, of which 2,852 are 100 percent foreign owned. Three duplicate entries were removed – Viettel, Saigon Newport and Dong Bac Coal Co.[152] Duplicates were only removed from the Top 200 lists and the extent of duplication in the entire survey is unknown.

Firms were ranked separately by number of employees, assets and turnover. Asset data were for end of year 2003. These individual ranks were then averaged to give an overall rank for each firm. The three categories were combined to try and capture a more complete picture of the economy. A ranking based only on number of employees, for example, is likely to over-emphasize labour intensive industries.

The Top 200 VN list includes 69 of the top 100 firms ranked by number of employees. Twenty of the 31 firms in the top 100 by labour but not in the Top 200 VN are garments and footwear companies. While these firms have a large number of workers, they have lower asset values and often very low turnover. The Top 200 VN list includes 60 of the top 100 firms ranked by assets. Twenty of the 40 firms in the top 100 by assets but not in the Top 200 VN are financial companies with low rankings in labour and turnover. The Top 200 VN list includes 63 of the top 100 firms ranked by turnover. Twelve of the 37 firms in the top 100 by turnover but not in the Top 200 VN are in petroleum related industries, most in petrol trading. These firms have very high turnover but very few employees. For example, the Vietnam National Petroleum Corporation (Petrolimex) headquarters is ranked second in terms of turnover and sixteenth in terms of assets but 3,261st in terms of labour. The combined rankings used to generate the Top 200 VN provide coverage of nearly two-thirds of the top 100 firms by labour, assets and turnover.

A potential problem with this method concerns the reliability of reported figures. This applies in particular to the assets category. Valuation of land, equipment and intangible

[152] The original total number of firms in the 2006 survey is 112,950. However, GSO (2007) reports 113,352 total firms in 2005. Three of these additional firms are duplicates that have been deleted here. The remaining 402 firms are private, with a combined 2,945 employees. It is not clear why this discrepancy exists. Figures presented here do not include these 402 firms.

assets is known to be problematic in Vietnam. This is even more applicable for firms in the process of equitization. The asset figures therefore need to be treated with caution. Similar objections can be made to the use of turnover and taxes paid figures, given known issues of multiple accounting books (one for the state and one for real), ghost value-added tax (VAT) invoices, negotiation of taxes with tax collectors and related schemes.[153]

Although these issues are very real, the danger is that these shortcomings, run to their full conclusion, prevent the use of any data. Vietnam is still a developing country and the data are messy. The GSO Enterprise Survey is one of the few tools available. That the figures are not precise is taken as given, and caution in interpretation is very much warranted. Nevertheless, a coherent picture can, and does, emerge.

An encouraging sign is that the 2006 data show marked improvement over 2005. The level of non-response, or zero figures, for employees, assets and turnover has been reduced.[154] Reporting on sector of activity is more specific, with more firms reporting to the four digit Vietnam Standard Industrial Classification (VSIC) level.[155] Sector of activity is defined as the activity contributing the largest share to enterprise output.[156] This allows for more detailed differentiation between sub-activities within the same sector. Table 4 provides a summary of the major VSIC sector.

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[153] Only the taxes paid category is used here. This category includes the major taxes. In the Enterprise Survey there are additional variables for contributions to the state recording ‘fees’, ‘other fees’ and ‘other additional’. See GSO (2007), p.19-21 for definitions of the additional categories.

[154] For the 2005 list, a firm had to report figures for at least two of the three categories to be included. This was not an issue in the 2006 list. Improved reporting allowing for more precise rankings accounts for some of the differences in the largest firms lists between the 2005 and 2006 surveys.

[155] VSIC sectors and sub-sectors are based on the International Standard Industrial Classification (ISIC) revision 3. All VSIC codes are four digits, with zeroes as place holders. For example, the ISIC sector 14 is 1400 in VSIC. Increased detail in the 2006 survey is through reporting to further levels of detail, for example 1421.

[156] An enterprise with multiple activities will have all activities attributed to the largest. For example, if a firm operates in manufacturing and trading, with manufacturing the largest, then the contribution of trading is counted as manufacturing. While not ideal, this is international practice. If the primary sector of activity (contributing the largest share to enterprise output) cannot be determined, then largest share of employment is used (Jammal, Doung Tri Thang and Pham Dinh Thuy 2006).

**Table 4: VSIC Sectors**

| VSIC Sector | Description |
|---|---|
| A | Agriculture, forestry and related service activities |
| B | Fishing |
| C | Mining and quarrying |
| D | Manufacturing |
| E | Electricity, gas and water supply |
| F | Construction |
| G | Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods |
| H | Hotels and restaurants |
| I | Transport, storage and communications |
| J | Finance, credit |
| K | Science and technology activities |
| L | Real estate, renting and business activities |
| M | Public administration and defence; compulsory social security |
| N | Education and training |
| O | Health and social work |
| P | Recreational, cultural and sporting activities |
| Q | Activities of party, social unions and associations |
| T* | Services for individuals and community |
| U | Private households with employed persons |
| V | Extra-territorial organizations and bodies |

* not clear why jumps from Q to T

The ownership categories are also more precise, for example allowing for differentiation between types of state one member limited liability companies (central and local) and allowing for the possibility of multi-member limited liability companies with majority state ownership. The ownership categories in the 2006 Enterprise Survey are presented in Table 5.

**Table 5: Ownership Type Categories**

| **Ownership Type** |
|---|
| ***state*** |
| central SOE[1] |
| local SOE |
| central state LLC[2] |
| local state LLC |
| JSC, LLC > 50% state capital[3] |
| ***private*** |
| cooperative |
| private |
| partnership |
| private LLC, LLC $\leq$ 50% state capital |
| JSC no state capital |
| JSC $\leq$ 50% state capital |
| ***foreign*** |
| 100% foreign |
| JV state and foreign[4] |
| JV non-state and foreign |

*Note:*

[1] SOE: state owned enterprise

[2] LLC: limited liability company

[3] JSC: joint stock company

[4] JV: joint venture

A comment on ownership classification is required. The ‘foreign’ category includes joint ventures (JVs), but does not include joint stock companies (JSCs) with foreign investment. Beyond firms classified explicitly as state owned enterprises, any firm with more than 50 percent state capital, with the exception of JVs, is considered a state company (GSO 2007).[157]

However, the classification of certain companies has already changed. For example, in January 2007 the Vietnam Dairy Products Co (Vinamilk) dropped below the 50 percent state capital threshold and is therefore now considered a private firm. This

[157] The 2005 Enterprise Law, which came into effect in July 2006, redefines majority control as 65 percent or higher. However, the same law also stipulates that any firm with more than 50 percent state capital is considered an SOE. It remains to be seen if, and how, the classifications will change in future Enterprise Surveys.

reclassification process will continue as more and more state firms equitize and state capital shares fall below majority. In addition, some firms in the 2006 Top 200 have ceased to exist as independent units all together, for example Bai Bang Paper Co which has been merged into the head office of the Vietnam Paper Corporation (Vinapaco).[158]

Unfortunately, the improvements in 2006 limit comparison with the 2005 data at a high level of aggregation. From the 2005 survey, 157 of the Top 200 companies in the Vietnamese firm list remain in the 2006 Top 200 VN. Tables 6 and7 summarize the changes in sector and ownership for the 43 firms that dropped out of the Top 200 VN from 2005 and the 43 firms added to the Top 200 VN in 2006.

**Table 6: Change in VSIC Sector of the 43 firms between 2005 and 2006 Top 200 VN**

| **VSIC sector** | **2005 (-)** | **2006 (+)** | **net change** |
|---|---|---|---|
| Mining and quarrying | 1 | 1 | 0 |
| Manufacturing | 23 | 14 | -9 |
| Construction | 10 | 7 | -3 |
| Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 5 | 8 | 3 |
| Transport, storage and communications | 3 | 4 | 1 |
| Finance, credit | 1 | 7 | 6 |
| Real estate, renting and business activities | 0 | 1 | 1 |
| Services for individuals and communities | 0 | 1 | 1 |

**Table 7: Change in Ownership of the 43 firms 2005 and 2006 Top 200 VN**

| **Ownership** | **2005 (-)** | **2006 (+)** | **net change** |
|---|---|---|---|
| state | 36 | 31 | -5 |
| private | 4 | 11 | 7 |
| foreign | 3 | 1 | -2 |

Table 6 shows a reduction in manufacturing and construction companies, with a rise in service related firms, in particular financial enterprises such as banks. Table 7 shows a reduction in state companies and an increase in private firms. This is partly a result of an increase in joint stock companies with no state capital and JSCs with less than 50 percent

[158] As part of this change, Vietnam Paper Corporation, formerly Vinapimex, became Vinapaco.

state capital. Five of the new private firms in 2006 are banks (with one more trading in gold and jewelry), which have displaced firms from the 2005 Top 200 VN. Several of these 2005 firms are now ranked just outside of the 2006 Top 200 VN.

The unit of analysis in the Enterprise Survey is the independent accounting enterprise with its own legal status. This creates a problem counting General Corporations and therefore influences the definition of ‘large’. If asked to name the largest firms in Vietnam, many would respond with the names of prominent GCs such as the Vietnam Oil and Gas Group (Petrovietnam), Vietnam Shipbuilding Industry Group (Vinashin) and Vietnam National Textile and Garment Group (Vinatex). However, General Corporations are not treated as single units, as corporations, in the Enterprise Survey. There are important exceptions to this, discussed below. Independent accounting member units report as separate firms, while the GC head office and dependent accounting units report together under the head office. Although this does not preclude the appearance of the head office in the Top 200, the figures do not include all the member companies of the corporation.

The use of independent accounting enterprises as the unit of analysis can be defended for several reasons. First, this is how the Enterprise Survey is (for the most part, see below) organized. To maintain comparison with non-GC firms, the survey unit has been retained. In addition, adding up all the independent GC member companies and combining them with the GC head office to obtain corporation-wide figures assumes that the GCs operate as cohesive organizations. While true for some GCs, this assumption can be contested.

Second, GCs have many members, big and small. Using the independent accounting enterprise as the unit of analysis allows for identification of the GC member companies that are largest elements of the corporation. Some GCs have many members in the Top 200, while others only have one or two that account for the bulk of their parent company’s size. Third, this method allows for identification of the geographic dispersion of independent member companies, particularly north and south, rather than simply treating the GC as one unit headquartered in Hanoi or, less frequently, Ho Chi Minh City.

However, a fundamental problem remains. Four GCs and four state owned commercial banks reported as corporations in the 2006 survey, providing figures which included their independent accounting member companies. These eight firms are:

- Electricity of Vietnam (EVN)
- Vietnam Post and Telecommunications (VNPT)
- Vietnam Airlines
- Vietnam Railways (VNR)
- Industrial and Commercial Bank of Vietnam (Incombank)
- Bank for Agriculture and Rural Development (Agribank)
- Bank for Foreign Trade of Vietnam (Vietcombank)
- Bank for Investment and Development of Vietnam (BIDV)

This discrepancy between unit of analysis prevents comparison among firms within the Enterprise Survey. There is first of all the issue of double counting. The figures of an independent accounting member company of one of these eight corporations are included in the survey as the independent enterprise and also as part of the figures for the parent corporation. Simple totals of number of employees, assets, turnover and tax paid based on the existing survey are therefore not valid. This calls into question GSO reports based on the Enterprise Survey which do not correct for this. Second, these eight corporations appear larger than they actually are according to the standard unit of analysis in the Enterprise Survey, which skews any attempt at ranking firms. It is also possible that other GCs, if they reported as corporations, would be larger than some of these eight.

It was necessary to disaggregate the independent accounting member firms from these eight corporations to make the firms comparable. This was done by contacting the GCs directly and requesting figures for number of employees, assets, turnover and taxes paid for 2005 for the head office and dependent accounting units only. These figures have been entered into the 2006 survey data. Vietnam Airlines refused to provide the requested figures so an ad hoc fix was undertaken. Independent member companies were located in the Enterprise Survey and their labour, assets, turnover and tax figures subtracted from the GC totals. Nine Vietnam Airlines members were identified, including firms in the Top 200. This method is imperfect and represents a stop-gap solution but does allow for a usable approximation of head office and dependent unit only figures. Ranks were then calculated based on these new figures, and new survey totals for employees, assets, turnover and taxes paid were computed.

**Table 8: Combined Results of GC Corrections**

| Labour | Assets | Turnover | Tax |
|---|---|---|---|
| -70,361 | -78,937,553 | -49,821,512 | 1,073,327 |

*Note*: Assets, Turnover and Tax figures are in million VND

Table 8 indicates the changes that result from adjusting the GCs that reported as corporations. There are 70,361 less employees in the Enterprise Survey. The same applies for the other categories. The tax category increased because VNPT reported zero tax in the Enterprise Survey.

To ensure that other GCs did not report in a similar way, a simple check was used. If any member company ranked higher than its parent company, then the GC did not report as a corporation. When GCs did rank higher, the figures for independent accounting member firms were subtracted from the parent company figures. If the results were negative, then the GC did not report as a corporation. These checks and corrections allow for comparison of firms in the Enterprise Survey.

The magnitude of the problem of reporting as corporations depends on the GC. For example, in 2005 EVN only had a few independent member companies. Its remaining members were dependent accounting units and therefore correctly included in the EVN figures following the definition of the unit of analysis. The same applies for VNPT and the state banks. They are large in 2005 in part because they have a high proportion of dependent rather than independent accounting members. However, this situation is changing as EVN and VNPT equitize member units, transforming dependent units into independent members and selling their (state) share. In future surveys, these changes will result in EVN and VNPT appearing smaller than at present.

Related to complications ranking the General Corporations are problems with 'horizontal conglomerates', particularly private business groups. It is well known that firms in Vietnam intentionally under-report their size in order to avoid unwanted attention from government officials (Gainsborough 2003a), what Webster and Taussig (1999) refer to as the 'tall poppy syndrome'. The independent accounting enterprise as the unit of analysis misses both state and private conglomerates, but the problem is greater for private groups which deliberately appear smaller than they actually are. These firms and groups obviously do not appear in the Top 200. While some attention has been given to this issue recently, for example in Taussig (2009), the size and extent of these private horizontal conglomerates remains an important area for future research.[159]

Within the Enterprise Survey, another area requiring manual correction relates to non-response for taxes paid figures. Two GCs, one GC member company and four 100 percent foreign firms reported zero taxes paid in 2006. These companies are:

- Vietnam Post and Telecommunications
- Vietnam Airlines
- Ba Ria – Vung Tau Post and Telecommunications
- Tainan Spinning Co Ltd
- Pouchen Vietnam

[159] At present, most of the information about these private groups is based on rumour and speculation. For example, when discussing my dissertation topic with friends and other researchers, many people responded that they knew Vietnam's richest person or asked if a particular firm, which they claimed was the largest in Vietnam, had been included in the study. However, the richest person identified or the largest firm mentioned were rarely the same across the discussions. Although the Enterprise Survey does not capture everything, it does provide a means for attempting to be more systematic. Several 'rich lists' have been published in the Vietnamese press, usually based on shareholdings of listed firms. See, for example, Thanh Nien News (2007, 2009a); Vietnamnet (2007a, 2007b); Vietnam News (2007). Since few firms in Vietnam are listed on the stock markets, and the markets themselves remain very volatile, this method was not used by the UNDP team to identify Vietnam's largest firms.

- Kingmaker Footwear Vietnam Ltd
- Mabuchi Motor Vietnam Co Ltd

For VNPT, the figure they provided in response to the 'head office and dependent unit only' data request was used. Since Vietnam Airlines reported zero tax and did not return the questionnaire, correction was not possible and therefore no taxes are recorded. The remaining five firms were contacted directly. Ba Ria – Vung Tau Post and Telecommunications provided a figure. Tainan Spinning provided a 'ballpark' figure, which has been included in the survey. The remaining three firms all indicated that they are still receiving tax incentives and paid little or no Corporate Income Tax (CIT) in 2005. However, they did pay other taxes, such as land taxes and VAT, but declined to provide these figures. Therefore, the taxes paid figures under-report for 100 percent foreign firms and state firms. Nevertheless, given the large size of the total figures involved, these omissions and the inclusion of rough figures do not affect the overall rankings.

Additional corrections and data cleaning were required. In the Enterprise Survey, 2,926 firms did not report sector of operation. In the Top 200 All and Top 200 VN, five firms did not report. Classification by sector for these firms was based on primary activity.[160] These firms are:

- Construction Company No. 319, assigned code 4520 in sector F construction
- Phu Yen Materials Co, assigned code 5141 in sector G wholesale and retail trade
- Company No. 28, assigned code 1810 in sector D manufacturing
- Thanh An Corporation, assigned code 4520 in sector F construction

All of these firms except Phu Yen Materials Company are under the Ministry of Defence. The sector non-responses in the Enterprise Survey result in over-statement of the share of

[160] GSO asks firms for a breakdown of activities, with primary activity forming the basis for sector classification.

Top 200 firms by sector for labour, assets, turnover and tax of the Enterprise Survey by sector.

Location data by province also required manual correction. At the time of the research, there were 64 provinces and cities in Vietnam which were assigned province codes in the Enterprise Survey ranging from one to 96. However, three additional codes are also present in the survey: 97, 98 and 99. Code 97 is a transpose of 79, the code for Ho Chi Minh City. Code 98 remains a mystery. Nine firms reported province code 98 in the Enterprise Survey. These firms were researched individually to find their location and assigned the corresponding province code.[161] The bulk of these firms are in Hanoi. Code 99 is predominantly for those GCs that reported as GCs. Following the classification rules in the Enterprise Survey, discussed below, these were assigned to Hanoi since this is where their headquarters are located. However, this over-states the figures for Hanoi since these are national firms.

The Enterprise Survey uses the enterprise rather than the establishment as the unit of analysis. Figures for a multi-establishment enterprise are valid at the national level but not at the provincial level if the enterprise has establishments in different provinces (Jammal *et al* 2006). Many of the largest firms are multi-establishment enterprises and it is not surprising that Hanoi and HCMC have much higher numbers of the largest firms than other provinces since this is where their headquarters tend to locate. Provincial counts are therefore misleading. Strictly speaking, this also applies to regional figures (north, centre, south), although the degree of misrepresentation is reduced since less firms have multiple establishments in multiple regions.

There are several serious shortcomings with the Enterprise Survey data. Efforts were made to correct these where possible. Due to these limitations, interpretation of figures requires considerable caution. Precision is not possible but that does not render the figures meaningless. While problematic, the 2006 data are an improvement over 2005

[161] The Vietnam Business Directory maintained by the Ministry of Trade (2007) is an excellent searchable database of firms in Vietnam available online.

with more detailed sector classifications and ownership types and less non-response for labour, assets, turnover and tax. However, some of these data, in particular for ownership type, are already out of date. The findings therefore present a snapshot of the largest firms in 2005.

## *4.3 Data Collection*

Following identification of the Top 200 Vietnamese firms, these firms were divided into two groups. The first group only received the written questionnaire, while the second group was also asked to participate in follow-up interviews. Firms were sent questionnaires beginning in August 2006 and interviews of selected firms were conducted between October 2006 and May 2007 by a team of UNDP researchers.[162]

Prior to the UNDP largest firms research project, no systematic study of the largest firms in Vietnam had been undertaken.[163] Given limited time and resources, a decision was taken to focus primarily on manufacturing firms. This became the primary criterion for selecting firms to interview. In addition, in order to better understand the dynamics of General Corporations, the headquarters of several GCs were contacted for questionnaire and interview, even though several of the head offices themselves were not listed in the Top 200. However, this focus on manufacturing firms and General Corporations resulted in neglect of the financial sector, particularly private joint stock banks in the Top 200, none of which were interviewed.

Two separate questionnaires were generated, one for firms and one for General Corporation head offices.[164] The Ministry of Planning of Investment, provincial People's Committees and provincial Departments of Planning and Investment assisted in

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[162] These researchers were Scott Cheshier, Jago Penrose, Nguyễn Thị Thanh Nga and one interpreter. Three additional interviews were conducted after May 2007 by Scott Cheshier. See Appendix Three for the Interview Schedule.

[163] See the previous chapter for discussion of the few publications discussing large firms in Vietnam. In November 2007, one month after publication of Cheshier and Penrose (2007a), Vietnam Report (2007) released its Top 500 Companies in Vietnam list. At the time of the research project, the UNDP team was unaware of the Vietnam Report project. The Vietnam Report ranking is based on revenues, but it is not clear how the issue of General Corporations and double counting is dealt with.

[164] The questionnaires are included in Appendices Four and Five.

contacting firms, arranging interviews and obtaining completed questionnaires. Interviews followed a semi-structured format. Interview questions were generated based on questionnaire responses and desk-based research on each firm prior to the interview. A few of the firms interviewed did not return questionnaires.

Of firms in the 2006 Top 200 VN, 91 returned questionnaires, were interviewed, or both. In total, 104 questionnaires were returned and 93 interviews were conducted with firms, general corporation head offices and industry associations.[165] In total, 127 firms responded, 37 of which are not in the 2006 Top 200 VN. Of these 127 responses, 34 firms only returned questionnaires, 23 firms (including five business associations) were interviewed without returning questionnaires, and 70 firms returned questionnaires and were interviewed.

I contributed to all stages of the project, including project formulation, cleaning and analysis of the Enterprise Surveys, questionnaire design, firm interviews, and report writing. I was responsible for the desk-based research performed prior to interviews for most General Corporations and their member companies, particularly those in the oil and gas, coal, rubber and chemicals sectors. I led the interview sessions for these firms. I participated in nearly all of the interviews, exceptions to this are indicated in Appendix Three. In addition, three interviews were conducted on my own. The results of the study were published as Cheshier and Penrose (2007a) and Cheshier and Penrose (2007b).

[165] See Appendix Three. The interview total includes interviews with five business associations, three additional interviews conducted by Scott Cheshier after May 2007, and two small firms included in the study on the recommendation of an United Nations Industrial Development Organization (UNIDO) officer.

# 5 The Top 200 Vietnamese Firms

In Chapter Two it was argued that a New Class existed in command economies in which a pattern of accumulation emerged based on leveraging access to the state. New Class power derived from a contradiction between national ownership of property but *de facto* control by state bureaucrats and managers. The end of central planning and the privatization of state property necessarily threatened the position of the New Class. Attempts to reproduce New Class power through transition occurred, following the basic pattern of state-related accumulation established under the command system. However, it was a *pattern*, and not all cadres succeed in reproducing themselves nor were all state firms dynamic or successful. In addition, those outside the New Class, such as private entrepreneurs, accumulated in ways similar to the New Class in transition. This pattern of state-related accumulation influences capitalist class formation. However, the process took a variety of forms and generated different outcomes in different countries. Chapter Two reviewed the variety of processes and outcomes in Eastern Europe and China.

Chapter Three provided some examples of this process in Vietnam. Lê Đức Thọ's family ran several Party shops during the planning period that provided luxury goods to senior officials. Former General Party Secretary Lê Duẩn's son founded Techcombank in a perfect example of Goodman's (2000) inter-generational transfer of power and privilege discussed in Chapter Two. The Party itself went into business with An Phu Corporation.

This chapter seeks to build upon these examples by discussing research conducted on the Top 200 Vietnamese firms. Two key features emerge. The first is the rising importance of the market imperative, with increasing competition forcing firms to adapt and improve. This is central to the development of capitalism in Vietnam. The second feature is the pervasiveness of state-related accumulation. However, state-related accumulation does not require intentionality on the part of the state. Indeed, the historical roots of this process in Vietnam are predicated precisely on a *lack* of control (Fforde 2005).

State-related accumulation also occurs irrespective of ownership type. Private firms leverage access to the state just as state firms seize new market opportunities to expand and accumulate. In many instances the boundary between state and private is blurred. However, as discussed in Chapter Three, political connections and access to the state remain insufficient conditions for success. Some firms, even with ample privileges, fail to exploit emerging opportunities. Others exploit them by shifting into more speculative activities like real estate and finance.

Some firms engage in activities of questionable legality. Examples of corruption and illicit accumulation, such as HCMC Food or Tamexco discussed in Chapter Three, are not difficult to find, particularly in the Vietnamese press.[166] The same applies for firms in the Top 200. Hanoi General Production and Import Export Company (Haprisomex), ranked 93rd in the 2006 Top 200 VN, provides an example. Haprosimex is a state enterprise under the Hanoi People's Committee and has become one of the leading export firms in Hanoi. Established in 1960 as a union of Hanoi handicraft cooperatives, Haprosimex was officially founded as a company in 1991. In 1993 Haprosimex was reorganized under Decree 388 and established the Thanh Tri Garment Factory. In 1996 Haprosimex established the Export Hat Factory and added Haprosimex Tours in 1998. It transformed into a Parent-Child corporation in 2006, with nine subsidiaries and one affiliate.[167] Haprosimex has trade representatives in over twenty countries, specializing in export of garments, bamboo and rattan handicrafts, and agricultural products. It also imported consumer goods, cotton, iron, steel, and bulldozers and other construction equipment.

However, a recent investigation into land use practices in Hanoi resulted in allegations of fraud. In 2009 Haprosimex was authorized to lease land in the central Hoan Kiem district of Hanoi from the Hanoi People's Committee. The lease is for a duration of 50 years and total rent to be paid to the People's Committee is to be approximately six billion VND. Haprosimex was to use this land as the location of its headquarters. Instead, Haprosimex

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[166] For example, much of Gainsborough's excellent work on the political economy of corruption (e.g. Gainsborough 2003a) was based on a close reading of the Vietnamese press.

[167] See Chapter Three for discussion of enterprise unions, Decree 388 and Parent-Child corporations.

leased the building on this land to NEM Fashion. The lease is for 34 years, with total compensation to Haprosimex of 24 billion VND. The 18 billion VND spread is equivalent to nearly USD one million. Haprosimex denies any wrong doing (Vietnamnet 2010).

Southern Food Corporation (Vinafood 2), ranked 36th in the Top 200 VN, provides another example.[168] In early October 2009 allegations emerged regarding possible fraud and illegal transfer pricing for personal gain. Mr. Trương Thanh Phong is the Chairman of Vinafood 2 and also the head of the Vietnam Food Association, responsible for setting minimum rice export prices.[169] In February 2009 the floor price for five percent broken rice delivered in July and August of 2009 was set at USD 460 per ton. This was reduced to USD 430 at the end of June. However, in a deal worth over USD two million, Mr. Phong signed a Vinafood 2 contract authorizing sale of 5,000 tons of rice to Saigon Food Pte Ltd for USD 406 per ton. Saigon Food exported this rice to an African buyer for an undisclosed price. Saigon Food is a subsidiary of Vinafood 2 based in Singapore, established in February 2009 with the approval of the Ministry of Planning and Investment. The Deputy General Director of Vinafood 2, Ms. Cao Thị Ngọc Hoa, is the Director of Saigon Food. This is very similar to the process of 'pocket-swapping' described by Wank (1999b) in Chapter Two. Mr. Phong and Ms. Hoa claim nothing illegal occurred. One week later, on 15 October, it was announced that the State Bank of Vietnam will provide an interest free loan to Vinafood 2 to assist the corporation in purchasing 500,000 tons of rice for the national buffer stock. In 2008 Vinafood 2 posted revenues of over USD two billion from rice exports alone (Vietnamnet 2009d, 2009e; Vietnam News 2009c).

A final example, resembling the processes described by Staniszkis (1991), comes from the Vietnam Coal and Mineral Industries Group (Vinacomin). Fifteen Vinacomin

[168] Its counterpart, Northern Food Corporation (Vinafood 1), is ranked 133rd.

[169] This is not unusual. The Chairman of Vinatex Group is also the head of the Vietnam Textile and Apparel Association. Geruco, the rubber group, was the founding member of the Vietnam Rubber Association and remains its leading member. The association offices are located in the Geruco compound in Ho Chi Minh City. The Chairman of the Vietnam Steel Association is a former Vice President of the Vietnam Steel Corporation (VSC). However, he has been quite vocal in bringing attention to the limitations of VSC and the development of the steel industry in Vietnam.

subsidiaries are in the Top 200 VN. In 2001, Mr. Đoàn Văn Kiển, General Director of Vinacoal (predecessor of Vinacomin), was censured by the Party for illegally trading in foreign currencies, violating government rules on borrowing foreign capital and repaying foreign debts, and for violations in construction projects which resulted in losses to the state budget. In 1998 Vinacoal suffered losses of USD 1.2 million from exporting coal too cheaply and in 1999 Vinacoal was USD 200 million in debt due to mismanagement. Nevertheless, Mr. Kiển was promoted to Chairman of Vinacomin when it was formed in 2005 (Vietnamnet 2009b).

In 2009 Mr. Kiển was censured again, with the Party Central Inspection Committee issuing a warning for nepotism and proposing to the Prime Minister that he be dismissed. Apparently Mr. Kiển signed and asked his subordinates to sign authorization for Vinacomin member Trade and Service Investment JSC to mine coal without a license. This is believed to have resulted in millions of tons of coal being mined and traded illegally. Mr. Kiển's younger brother, Mr. Đoàn Văn Thức, is Deputy Director of Trade and Service Investment JSC. Mr. Kiển was also faulted, again, with poor management, leading to uncontrolled mining in Quang Ninh province.[170] Mr. Kiển resigned from his post and was replaced by Mr. Lê Dương Quang, Deputy Minister of Industry and Trade (Thanh Nien News 2009a; Vietnamnet 2009b, 2009c).

However, the processes operating in Vietnam are more complex and more interesting than simple theft and corruption. While Haprosimex demonstrates reinvestment and expansion alongside illegal profit generating methods, many of Vietnam's large firms have grown through state-related accumulation that is *not* necessarily nefarious. As in China, this occasionally involves exploiting legal ambiguities in Vietnam. And as in China, what emerges is enormous variety, even though the broad pattern of class formation through leveraging access to the state remains a common feature.

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[170] This goes beyond smuggling and illegal mining. A foreign mining expert familiar with Vinacomin operations described Vinacomin's methods as 'skimming'. Normally, the easy to access and therefore most profitable coal at the top of a seam is used to finance extraction of the entire find. This maximizes output and makes the entire project financially viable. However, Vinacomin would normally just skim the easiest to access coal off the top and move on to the next mine. While very profitable, it made extraction of the remaining but deeper coal financially unviable.

The next section provides an overview of the Top 200 firms. Following this, discussion turns to the general corporations and economics groups which constitute a significant portion of the Top 200. In the third section selected cases will be presented to illustrate in more detail the strategies identified in the general overview of the Top 200 firms. The cases also demonstrate the variety of state-related accumulation processes operating in Vietnam, which will be linked to examples from Eastern Europe and China covered in Chapter Two. The final section summarizes the key findings. Unless otherwise stated, information provided throughout this chapter is from company questionnaires and interviews.

## *5.1 Overview and Analysis*

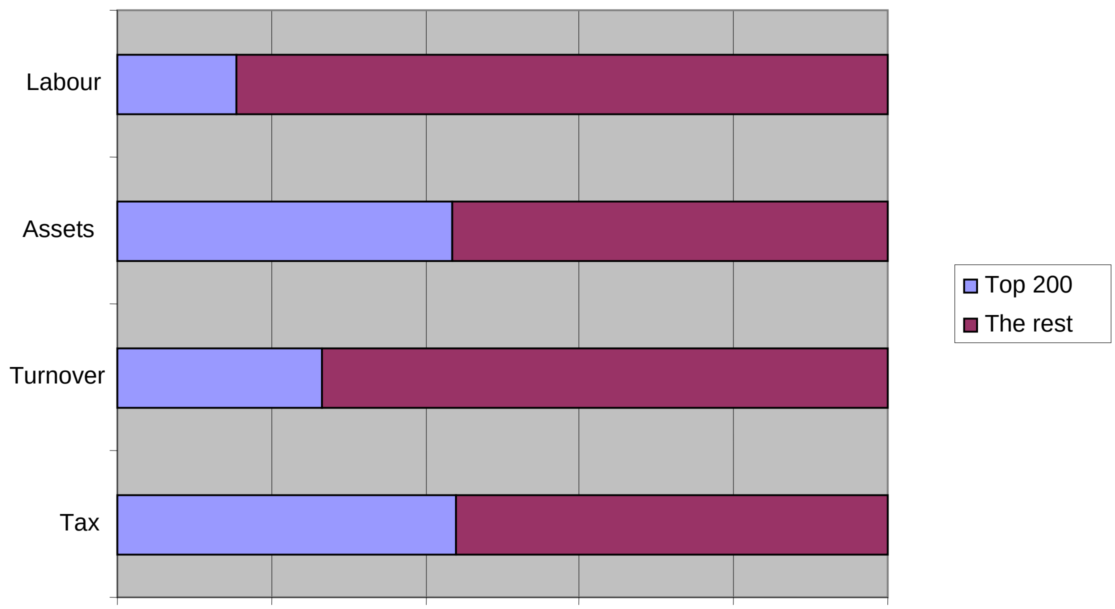
Vietnam's largest firms can only be understood within the context in which they operate. This section provides that context. It begins with a comparison of the largest firms of all ownership types (state, private, foreign) with other companies in Vietnam. This is followed by a comparison of different sectors of operation, with particular attention paid to the manufacturing sector. Discussion then turns to the Top 200 Vietnamese firms, which will be the focus of the remainder of the chapter. This is followed by discussion of the origins and current strategies of Vietnam's largest firms.

### 5.1.1 The Top 200 Firms

In 2005, 112,947 firms were included in the Enterprise Survey.[171] While accounting for a modest 15 percent of total labour, the Top 200 firms account for over forty percent of assets, over one-quarter of turnover and almost forty-five percent of taxes paid. For taxes and assets, a few very large firms account for the bulk of the Top 200's contribution to total taxes and assets recorded in the Enterprise Survey.[172]

[171] This section borrows from Cheshier and Penrose (2007a). Data presented in this section are from the 2006 Enterprise Survey, covering the year 2005.
[172] Although Vietnam's largest firms are big compared to other firms in Vietnam, in global terms many are more akin to small and medium sized enterprises. For example, the firm with the smallest number of workers in the Top 200 All employs 767 people and only 672 in the Top 200 VN. One component of the

Figure 4: Top 200 All share of Enterprise Survey




Among all ownership types and across the full range of sectors, the Top 200 firms account for a sizeable share of total labour, assets, turnover and taxes paid. In some cases, the largest firms *are* the sector. Vinacomin accounts for 95 percent of coal production in Vietnam. Vietsovpetro, a joint venture under the Vietnam Oil and Gas Group (Petrovietnam), is ranked fifth in the Top 200 All. It operates the White Tiger (*Bạch Hổ*), Dragon (*Rồng*) and Big Bear (*Đại Hùng*) fields. It dominates crude oil production, with the low estimates of Vietsovpetro output at around two-thirds of total production in Vietnam, nearly all of which is from White Tiger (USCS 2004). It alone accounted for fifteen percent of total government tax revenues in 2005.[173] It accounts for one-fifth of taxes paid as recorded in the entire Enterprise Survey. Vietsovpetro is also ranked first in

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international definition of a small and medium sized enterprise is a company with three hundred workers or less. The fifteen smallest firms in terms of employment in the Top 200 each have less than one thousand employees, 146 firms have less than five thousand employees and only ninety-three have more than three thousand. Within the Top 200, the largest thirty firms account for nearly forty percent of employment, nearly two-thirds of assets, over forty-five percent of turnover and over two-thirds of taxes paid by the 200 largest firms.

[173] The 2005 total tax revenues and grants figure is from IMF (2006), Table 14.

terms of turnover, accounting for three percent of total turnover in the Enterprise Survey.[174]

In terms of ownership type, the Top 200 All are predominately state and foreign firms. The Top 200 VN are mostly state firms. State firms in the Top 200 All account for nearly thirty percent of workers employed by state firms in the Enterprise Survey. Put another way, three percent of state firms account for almost 30 percent of employment, nearly two-thirds of assets, over forty percent of turnover and over forty percent of taxes paid by state firms in the Enterprise Survey. The situation is similar for foreign firms. The domestic private sector is not well represented in either Top 200 list, although the twenty-two largest private firms account for nearly fifteen percent of total private sector assets, mostly held by private banks.

**Table 9: Top 200 All share of Enterprise Survey Ownership Types**

| Enterprise Survey # Firms | Top 200 | | Share of Enterprise Survey Ownership Type, % | | | |
|---|---|---|---|---|---|---|
| | Firms | Ownership Type | Labour | Assets | Turnover | Tax |
| 4,083 | 122 | state | 29.6 | 65.5 | 41.9 | 41.5 |
| 105,167 | 22 | private | 1.9 | 13.7 | 4.8 | 4.6 |
| 3,697 | 56 | foreign | 15.9 | 10.1 | 24.3 | 67.8 |

In the manufacturing sector, the largest 110 manufacturing firms account for over fifteen percent of employment, almost one-quarter of assets, over one-quarter of turnover and nearly thirty percent of taxes paid by the 23,469 manufacturing firms included in the

[174] Established in 1981 as a joint venture with Zarubezhneft of Russia, it began producing oil in 1986. In addition to oil, in 1995 Vietsovpetro brought onshore associated natural gas from White Tiger, contributing to the development of the gas industry in Vietnam. However, the joint venture expires in 2011 and it is not clear that it will be renewed (Blagov 2006). Even if taken over by Petrovietnam, White Tiger output is declining. Estimates on the remaining life of White Tiger range from three to thirteen years. Other existing fields are much smaller. Some of the decline in output from White Tiger will be met by future domestic sources and also imported crude from the Middle East (Dragon Capital 2008). However, given its uncertain future, Vietsovpetro is losing staff and having difficulty replacing them, with Vietnamese and Russian workers and engineers leaving the company for more secure employment.

Enterprise Survey. Within the Top 200, they account for one-half of the employees and over one-third of turnover. Fifteen footwear firms account for over forty percent of employment. Over sixty percent of the Top 200 manufacturing workers are employed in forty-two footwear, textile, garment and seafood processing companies. Within the manufacturing sector, eight companies in tobacco products, beer and malt, motor vehicles and motorcycles account for sixty-five percent of the Top 200 manufacturing sector taxes paid.

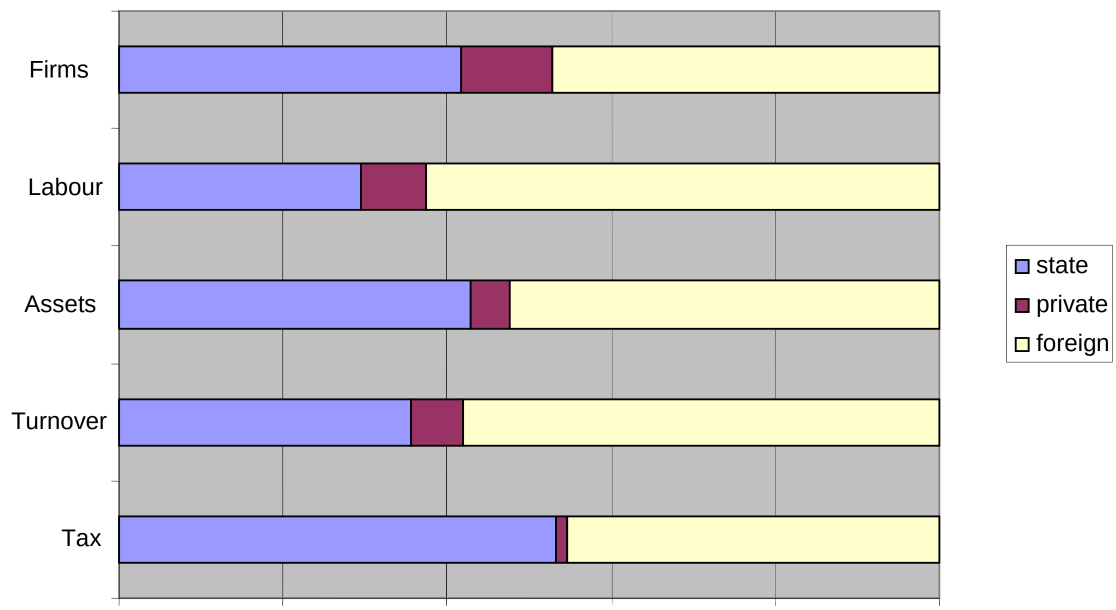
**Table 10: Top 200 All Sector share of Enterprise Survey Sectors**

| Enterprise Survey # Firms | Top 200 | | | Share of Enterprise Survey Sector, % | | | |
|---|---|---|---|---|---|---|---|
| | Firms | Sector* | Description | Labour | Assets | Turnover | Tax |
| 1,013 | 6 | A | Agriculture, forestry and related service activities | 24.4 | 14.2 | 29.7 | 52.2 |
| 1,173 | 15 | C | Mining and quarrying | 41.1 | 59.7 | 62.9 | 96.3 |
| 23,469 | 110 | D | Manufacturing | 15.8 | 24.4 | 27.2 | 29.7 |
| 208 | 2 | E | Electricity, gas and water supply | 50.1 | 84.4 | 85.5 | 58.3 |
| 14,523 | 12 | F | Construction | 4.9 | 8.4 | 9.5 | 9.8 |
| 45,822 | 20 | G | Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 6.6 | 9.3 | 13.3 | 17.1 |
| 4,655 | 1 | H | Hotels and restaurants | 3.6 | 4.6 | 9.0 | 11.7 |
| 6,609 | 17 | I | Transport, storage and communications | 38.9 | 62.6 | 54.9 | 68.9 |
| 1,096 | 16 | J | Finance, credit | 75.6 | 78.6 | 63.5 | 21.6 |
| 8,598 | 1 | L | Real estate, renting and business activities | 0.5 | 4.7 | 7.7 | 18.4 |

* Sectors with no firms in the Top 200 are not included.

Large foreign companies dominate manufacturing and are particularly important in terms of employment. Of the Top 200 manufacturing firms, foreign companies account for nearly one-half of the firms, almost two-thirds of employment, over half of assets, nearly sixty percent of turnover and forty-five percent of taxes paid. One wholly foreign owned footwear firm, Pouyen Vietnam, accounts for over thirteen percent of manufacturing workers in the Top 200. This company also accounts for one-fifth of all the foreign manufacturing workers. Pouyen Vietnam employs the second highest number of workers in the Top 200, after the Vietnam Post and Telecommunications Group (VNPT).

**Figure 5: Top 200 All Manufacturing by Ownership Type**




Within the Top 200 All, foreign firms are the only firms operating in the following manufacturing sub-sectors:

- Vegetable and animal oils
- Prepared animal feeds
- Other food products from starches
- Soaps and detergents
- Engines and turbines
- Domestic appliances
- Office machinery
- Computing machinery

- Electric motor, generators and transformers
- Insulated wire and cable
- Other electrical equipment
- Television and radio transmitters, apparatus for line telephony and telegraphy
- Television and radio receivers, sound or video recording apparatus
- Motor vehicles
- Motorcycles
- Bicycles
- Furniture

These foreign firms tend to be either of the import and distribute or import, assemble, export variety. Linkages with domestic suppliers are weak, although this varies by industry (VDF 2006). Large Vietnamese manufacturing firms are concentrated in seafood processing, textiles and garments, fertilizer, rubber products, cement and shipbuilding.

### 5.1.2 The Top 200 Vietnamese Firms

The Top 200 VN list was generated to focus on Vietnamese firms. The list is based on the Top 200 All but the forty-one 100 percent foreign firms are excluded. Joint ventures (JVs) remain. Of the 41 new firms, 34 are state firms, five are private and two are JVs. Four of the five private firms are in the manufacturing sector, two of which are fish processing companies.

**Table 11: Change in Sector of the 41 firms Top 200 All and Top 200 VN**

| | Sector | 100% foreign (-) | VN (+) | net change |
|---|---|---|---|---|
| A | Agriculture, forestry and related service activities | - | 4 | 4 |
| C | Mining and quarrying | - | 2 | 2 |
| D | Manufacturing | 39 | 16 | -23 |
| E | Electricity, gas and water supply | - | 1 | 1 |
| F | Construction | - | 6 | 6 |
| G | Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 1 | 5 | 4 |
| I | Transport, storage and communications | - | 2 | 2 |
| J | Finance, credit | 1 | 1 | 0 |
| L | Real estate, renting and business activities | - | 3 | 3 |
| T | Services for individuals and community | - | 1 | 1 |

Table 11 indicates the changes in sectors between the 100 percent foreign firms dropped from the Top 200 All and the new Vietnamese firms entering the list. The net negative impact on manufacturing is immediately apparent. Nearly all of the foreign firms are in the manufacturing sector. Only 16 of the incoming Vietnamese firms are in manufacturing, resulting in a shift of the Top 200 VN towards natural resource and service sectors.

Within the Top 200 VN, nearly three-quarters of the companies are state firms, most of which are members of General Corporations (GCs), as seen in Table 12.

**Table 12: Top 200 VN General Corporation Subsidiaries**

| General Corporation | Abbreviation | # Firms |
|---|---|---|
| Vietnam National Coal and Mineral Industries Group | Vinacomin | 15 |
| Vietnam National Textile and Garment Group | Vinatex | 11 |
| Vietnam National Cement Corporation | VNCC | 9 |
| Vietnam Rubber Group | Geruco | 8 |
| Vietnam National Chemical Corporation | Vinachem | 8 |
| Vietnam National Shipping Lines | Vinalines | 5 |
| Vietnam Shipbuilding Industry Group | Vinashin | 5 |
| Vietnam Insurance Group | Bao Viet | 4 |
| Vietnam Oil and Gas Group | Petrovietnam | 4 |
| Vietnam Post and Telecommunications Group | VNPT | 4 |
| Hanoi Construction Corporation | HACC | 3 |
| Vietnam Airlines | Vietnam Airlines | 3 |
| Vietnam National Petroleum Corporation | Petrolimex | 3 |
| Vietnam Paper Corporation | Vinapaco | 3 |
| Civil Engineering Construction Corporation No. 5 | Cienco 5 | 2 |
| Electricity of Vietnam | EVN | 2 |
| Hanoi Electronics Corporation | Hanel | 2 |
| Song Da Construction Corporation | Song Da | 2 |
| Vietnam Engine and Agricultural Machinery Corporation | VEAM | 2 |
| Vietnam Industrial Construction Corporation | Vinaincon | 2 |
| Vietnam Railways | VNR | 2 |
| Vietnam Steel Corporation | VSC | 2 |
| Other GCs* | | 19 |
| **Total** | | **120** |

* The 'Other GCs' line is for GC head offices and member companies that only have one unit in the Top 200 VN. The firm numbers include joint ventures, joint stock companies and limited liability companies in the Top 200 VN that retain GC affiliation.

**Table 13: Top 200 VN Independent Central SOE and State JSC Ministry Affiliation**

| Ministry | # Firms |
|---|---|
| Defence | 5 |
| Trade | 4 |
| Transport and Communications | 3 |
| Construction | 2 |
| Agriculture and Rural Development | 1 |
| Industry | 1 |
| Post and Telecommunications | 1 |
| State owned commercial banks | 4 |
| **Total** | **21** |

Within the state enterprise category, there are two broad types. The first are 'local' SOEs under the authority of provincial People's Committees (PPCs). The second are 'central' SOEs under the authority of ministries. State enterprises which are not member companies of General Corporations are classified as 'independent', and can be either 'local' or 'central'. Table 13 shows the ministry affiliation of independent (non-GC) central SOEs and state joint stock companies in the Top 200 VN.[175]

### 5.1.3 Origins of Vietnam's Largest Firms

Seventy of the Top 200 VN firms were established after 1995. Of the remaining firms, 27 were established before 1975. A further 25 southern firms, although dating themselves from 1975 or soon after, are actually reconfigurations of pre-existing southern private firms or subsidiaries of multinational companies.

Enterprises were established in the Democratic Republic of Vietnam for one of three purposes: to supply the war effort, to build infrastructure or to produce goods for the local economy. They were small scale workshops, factories or shipyards usually built with Chinese or Soviet aid and turnkey technologies. Nam Trieu Shipbuilding Company was established in 1965 to produce river craft for the navy. Sao Vang Rubber (SRC) was established in 1960 and produced tires for army vehicles. Thang Long Metal was established in 1969 to supply stoves and other products to the domestic market.[176] In a similar manner, southern firms also supplied the army or produced for the southern economy.

In 1975 the government embarked on the task of fusing the economies of the north and south. Southern firms were nationalized and transformed into state owned enterprises

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[175] The four state owned commercial banks (SOCBs) in the Enterprise Survey are Bank for Agriculture and Rural Development (Agribank), Bank for Investment and Development (BIDV), Bank for Foreign Trade (Vietcombank), and Industrial and Commercial Bank (Incombank). In 2008 'Incombank' became 'Vietinbank'. The four SOCBs are ranked first through fourth in terms of assets and account for one-fifth of total assets in the Enterprise Survey. The Ministry of Trade and the Ministry of Industry have since been combined into the Ministry of Industry and Trade.

[176] Nam Trieu Shipbuilding Company is ranked 41st in the Top 200 VN, Sao Vang Rubber is 175th, and Thang Long Metal is 165th.

following the northern model. Some firms continued in forms that were largely unchanged. Company No. 28 (Agtex) and Phong Phu Textiles produced uniforms for southern forces and continued to supply the armed forces after 1975. Nha Be Garments and Quang Ngai Sugar also passed into state ownership with few structural changes. Other firms were nationalized units of foreign companies. A Michelin tire factory became Southern Rubber Industry Company (Casumina) and a Nestle facility was combined with Dutch and Chinese companies to become Vietnam Dairy Products Company (Vinamilk). Other combinations of previously unrelated southern companies resulted in Southern Fertilizer Company (SFC) and a combination of ten private factories created Vietnam Electric Wire and Cable Company (Cadivi).[177]

### 5.1.4 Strategies of Vietnam's Largest Firms

Managers of Vietnamese firms and business groups must decide how best to respond to policy changes that have resulted in increased competition and uncertainty but also greater autonomy and opportunity. The strategies they choose are based on their perceptions of potential profitability in different markets and their capacity to compete, reduce costs, increase scale and improve quality. The firms interviewed described three broad strategies: upgrading core business activities; expanding markets; and diversifying into new business areas, frequently real estate, tourism and investment in the country's emerging capital markets. These are not mutually exclusive and many firms are pursuing two or all three strategies simultaneously.

Large firms are moving into related products, higher quality products and new business lines. They continue to develop brands, expand distribution channels and enter new markets. The main reason for this is increased competition. As discussed in Chapter Three, Vietnam has gained access to global markets, in exchange reducing protection for domestic industries. State owned enterprise reform has seen the barriers between state

[177] Company No. 28 is ranked 120th in the Top 200 VN, Phong Phu Textiles is 49th, Nha Be Garments is 52nd, Quang Ngai Sugar is 73rd, Southern Rubber Industry Company is 76th, Vietnam Dairy Products Company is 13th, Southern Fertilizer Company is 122nd, and Vietnam Electric Wire and Cable Company is 183rd.

firms break down with a corresponding increase in competition, even within strategic sectors. Foreign investment has poured into the country, focused on using Vietnam as an export base, selling products domestically, and natural resource exploitation. Increased competition has forced Vietnamese firms to adapt and respond.

Competition from China has driven Vietnamese exporters to increase product quality. Several large Vietnamese garment companies cited the competitive strength of China, combined with the removal of Multi-Fibre Agreement (MFA) quotas under the World Trade Organization (WTO), as the major motivation for moving into higher quality products. Garment Company No. 10 (Garco 10) said that because of China it is not possible to compete in ‘normal products’, meaning high volume, low margin, easy to produce garments. In order to survive Garco 10 is moving into higher quality shirts and suits that require more advanced technologies, more investment and skilled staff. Other large Vietnamese garment companies made similar moves for similar reasons. During a tour of the Hyundai Vinashin shipyard a senior engineer cited competition with China as the primary motivation behind attempting to cut project completion times, control costs and boost quality.[178]

Vietnamese firms have also responded to other sources of competition in foreign markets. Viet Foods is now the number one supplier of difficult to produce sushi shrimp, accounting for nearly forty percent of all the sushi shrimp consumed in Japan.[179] It plans to leverage its expertise into less demanding export markets to diversify and reduce its reliance on the Japanese market. Most large Vietnamese exporters mentioned expanding and diversifying export markets as a key goal.

While some firms only export, most large Vietnamese manufacturing firms sell in both domestic and overseas markets. The relative importance of domestic sales and exports varies by industry. Companies producing paper, metal and electrical products, dairy, and fertilizers were originally established to cater to the domestic market. However, most

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[178] Garments Company No. 10 is ranked 192nd in the Top 200 VN and Hyundai Vinashin is 20th.
[179] Viet Foods is ranked 185th. Viet Foods will be discussed in more detail below.

began exporting by the late 1990s and almost all now see export markets as the primary source of revenue growth. As a senior manager at Thang Long Metal said, *đổi mới* is about "product diversification to meet domestic demand and to export." Several firms mentioned using exports as a source of revenues to replace sales lost in the domestic market as import competition increases.

Expanding markets and moving into higher quality products are not the only strategies open to large Vietnamese firms. Not all firms are pursuing the quality niche strategy. Some are simply diversifying into similar products, for example from shrimp into catfish. Others are finding the push into higher value added products difficult, for example rubber plantations attempting to move into rubber manufactures. While some firms are actively pursuing the upgrading strategy, others indicated this was only a short term plan.

The quality niche strategy itself is only the beginning. It is an excellent strategy for confronting the challenge of high volume, low margin China and indicates a level of dynamism and optimism about the future. However, the security of moving from shirts to men's suits is not high, and may only be temporary as many competitors are attempting to make the same move. One positive sign is that the firms engaging in and succeeding in implementing this strategy are embracing the challenge and seeking avenues to adapt and expand in the face of increasingly fierce competition. Many of the managers interviewed also believed that their long-term survival and prosperity depended on their ability to continue to diversify activities and improve the efficiency and quality of their production processes.

However, many firms are moving into unrelated business areas, in particular real estate, tourism and finance. An extreme example is the Can Tho Agricultural and Animal Products Company (Cataco), ranked 85$^{th}$ in the Top 200 VN. A local state enterprise established in 1978 as an agricultural products and animal husbandry company, it began diversifying in 1992 into seafood processing and export, real estate and construction, hotels, restaurants and tourism. Cataco currently earns most of its revenue from seafood but is now shedding business units through equitization to raise capital for investment projects and will focus on hotels and restaurants.

Most firms are not leaving their core businesses, even though many core business areas are not profitable. Some firms said that they felt obliged to continue to operate their core businesses to secure jobs. These firms are expanding and improving existing products while simultaneously entering more profitable business lines. Sometimes these strategies are intertwined. For example, one company has been forced to relocate out of a major urban area and is using the opportunity to build new production facilities and to develop an industrial zone for itself and foreign investors.

Company No. 28 (Agtex) is a Ministry of Defence textile and garments firm moving into real estate, industrial zone development and petrol trading. The primary concern of senior management is to secure profits for itself and jobs for its employees. Profits from textiles and garments are expected to decrease, especially since Vietnam joined WTO, even to the point where they are “lower than if you deposit the money in the bank.” Operations in textiles and garments will provide jobs but no profits, and Agtex hopes to gain higher returns from its real estate, finance and petrol activities.

In 2003 Phong Phu Textiles under the Vietnam National Textile and Garment Group (Vinatex) built several profitable resorts. Phong Phu’s core business will be textiles but it is expanding in real estate and commercial centres. The plan is for sixty percent of revenues to come from textiles while real estate, tourism and other business activities provide most of its profits. These profits will be invested to expand further in textile production.

These examples show the range of strategies pursued by Vietnam’s largest firms as they respond and adapt to increased competition. Three general strategies emerged from the interviews: upgrading core business into more complex and higher value products; expanding markets; and diversifying business areas, often into real estate and finance. These strategies are frequently related and most firms are engaging in more than one, with some firms pursuing all three strategies simultaneously. The next section will discuss these strategies in relation to Vietnam's general corporations and economic groups, whose member companies comprise sixty percent of the Top 200 Vietnamese firms.

## *5.2 General Corporations and Economic Groups*

In a report presented to the Economic Committee of the National Assembly in late 2009 it was stated that Vietnam's 90 remaining state corporations and economic groups account for 40 percent of GDP, 40 percent of industrial production, 50 percent of export turnover, 30 percent of total domestic revenue and employ nine percent of the national labour force. In 2008 they had revenues totaling USD 48 billion. However, the report criticized the state conglomerates for misuse of land and inefficient use of capital. Thirty-four groups and corporations had invested in finance and credit, 18 in insurance and 34 in securities (Vietnam News 2009d). At the end of 2008, seven groups had *overdue* debt of USD 247 million, of which one group, the Vietnam Shipbuilding Industry Group (Vinashin), accounted for 91.4 percent (Vietnamnet 2009f).

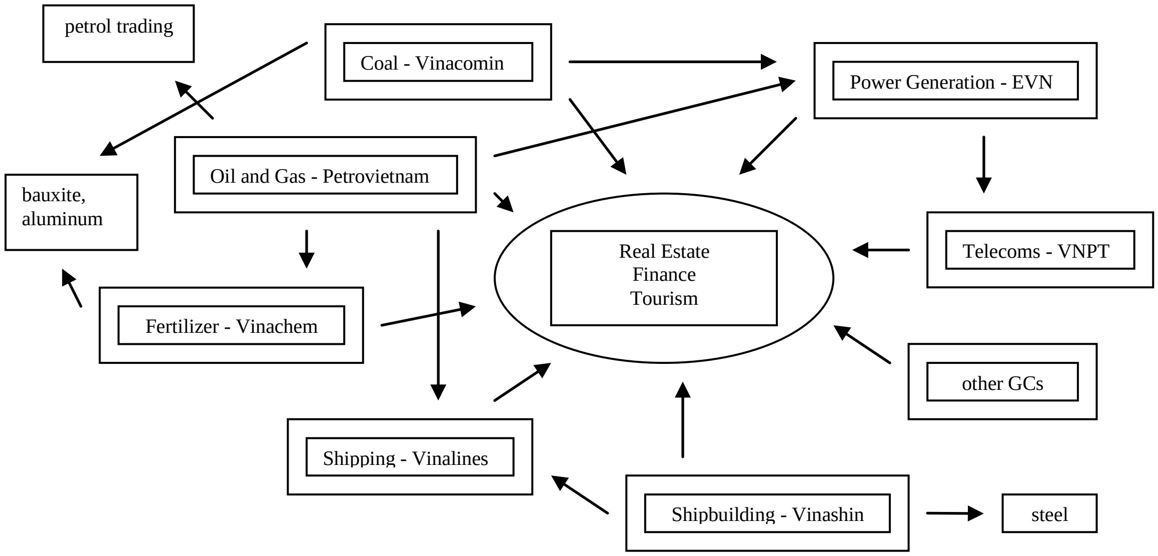
The recent scandals involving Vinacomin and Vinafood 2 discussed at the beginning of this chapter, and the abundance of Audis in the parking lot of Electricity of Vietnam (EVN), are exceptional. It is rare to see in full view the hollowing out and asset stripping for personal gain conducted by Mr. Kiển and his brother at Vinacomin, even if widely regarded as prevalent behaviour. The visible state-related accumulation processes occurring in Vietnam's economic groups and General Corporations most resemble the organizational proliferation and consortium building of Ding (2000a) and Stark's (1996) recombinant property. As discussed in Chapter Two, recombinant property is a form of portfolio management as organizational hedging, in which firms respond to uncertainty and opportunity by diversifying assets and redefining and recombining resources. This results in complex cross-ownership structures involving banks, investment funds and other enterprises (Lavigne 1999). Discussion of recent state corporation diversification into finance and real estate will illustrate this process. This trend is very pronounced amongst General Corporations.

As part of the reform process, several core monopolies have been opened to ‘bounded competition’ primarily from other General Corporations. The telecoms sector was dominated by the Vietnam Post and Telecommunications Group (VNPT), but has seen the entry of the Army’s Viettel, FPT and more recently the entry of Electricity of Vietnam (EVN), through EVN Telecom, and other providers. The Vietnam National Chemical Corporation’s (Vinachem) fertilizer base of operations has been penetrated by the Vietnam Oil and Gas Group (Petrovietnam). Both Petrovietnam and Vinacomin are moving into power generation, previously a monopoly of EVN.

As state enterprise reform expands to include General Corporations and economic groups, the proceeds from equitizing state capital in member companies provide corporations and economic groups with a new pool of investment funds. For example, EVN bumped up the timetable for equitizing its member companies to 2008, two years earlier than planned, to take advantage of favourable stock market conditions.[180] Proceeds from equitization, along with domestic and international bond issues and domestic and foreign loans will be used to meet the massive investments needed in power infrastructure. These funds will also be used to invest in telecommunications infrastructure, banking, securities, insurance, real estate, ports and “other areas [we] think will generate profits.” This exemplifies the economic group as diversified business conglomerate and is occurring in most other groups, as indicated in Figure 6.

[180] Following the collapse of the stock market, EVN put these plans on hold.

**Figure 6: General Corporation Diversification**




Source: adapted from Cheshier, Robertson and Stoops (2008), p. 14

General Corporation entry into finance and real estate are part of a longer historical diversification process.[181] However, diversification has moved beyond the traditional process of entry into related activities. It now includes acquiring banks, establishing finance, insurance, leasing and securities companies, speculating in real estate and building golf courses, office buildings, five star hotels and tourist resorts.

Control over financial institutions is at the core of this change. Finance companies are non-bank credit institutions licensed and supervised by the State Bank of Vietnam. In many respects similar to banks, they cannot provide payment settlement services. They are allowed to:

- accept long term deposits (one year or longer);
- borrow from domestic and foreign financial institutions;
- issue bonds and commercial paper;
- issue loans, including consumer loans;
- provide loan guarantees;

[181] See Cheshier and Pincus (2010) for further discussion.

- receive capital entrusted to them by the state or other organization (e.g. a GC);
- invest in projects;
- purchase shares in other companies;
- trade in foreign exchange and gold; and,
- perform underwriting, fund management and other financial services.[182]

Nearly sixty percent of existing financing companies are controlled by General Corporations. According to the State Bank of Vietnam, these include:[183]

- Electricity of Vietnam (EVN) Finance
- Hanoi Housing Development and Investment Corporation (Handico) Finance
- Song Da Construction Corporation Finance
- Vietnam Cement Corporation (VNCC) Finance
- Vietnam Coal and Mineral Industries Group (Vinacomin) Finance
- Vietnam Construction and Import Export Corporation (Vinaconex) and Viettel Finance
- Vietnam National Chemical Corporation (Vinachem) Finance[184]
- Vietnam Oil and Gas Group (Petrovietnam) Finance
- Vietnam Post and Telecommunications Group (VNPT) Finance
- Vietnam Rubber Group (Geruco) Finance
- Vietnam Shipbuilding Industry Group (Vinashin) Finance
- Vietnam Textile and Garment Group (Vinatex) Finance

The full details of General Corporation involvement in finance are difficult to ascertain. They are also undergoing rapid change. For example, General Corporation and economic

[182] Decree 79/2002/ND-CP of 4 October on Organization and Operation of Finance Companies.
[183] http://www.sbv.gov.vn/en/home/htCtytchinh.jsp.
[184] Vinachem became an economic group in December 2009.

group stakes in banks underwent dramatic shifts during the 2006-2008 boom-bust cycle, the results of which remain to seen.[185] Nevertheless, it is possible to map some of the connections.

**Table 14: Selected State Corporations with Financial and Real Estate Subsidiaries**

| Corporation | Primary Sector | Bank | Finance | Insurance | Securities | Land |
|---|---|---|---|---|---|---|
| Petrovietnam | Oil and Gas | X | X | X | X | X |
| Vinacomin | Coal | X | X | X | | X |
| Vinatex | Textiles, Garments | X | X | | X | X |
| Vinashin | Shipbuilding | X | X | | X | X |
| EVN | Electricity | X | X | | X | |
| VNPT | Post, Telecoms | X | X | X | | |
| Petrolimex | Petrol Distribution | X | | X | | |
| Vietnam Airlines | Airlines | X | | X | | |
| Geruco | Rubber | X | | | | X |
| Vinalines | Shipping | X | | | X | |

Source: adapted from Cheshier and Pincus (2010)

Vietnam National Petroleum Corporation (Petrolimex) holds a stake in the Petroleum Group (PG) Bank and has an insurance company, Petrolimex Insurance (PJICO). EVN has a stake in An Binh Bank (ABBank) (Vietnamnet 2008a). Vinashin has a stake in Hanoi Building Bank (Habubank) and a finance leasing company under Vinashin Finance. Petrovietnam holds a stake in Global Petrol Bank (GP Bank) and has its own insurance subsidiary, Petrovietnam Insurance (PVI) (Vietnamnet 2008c). VNPT has a stake in Maritime Bank (MSB) and has plans to turn its Vietnam Postal Savings Services Company (VPSC) into a bank (Vietnamnet 2006, 2007c). Its member company, Vietnam Mobile Telecom Services Company (VMS, commonly known as Mobifone), is an investor in Tien Phong Bank along with FPT. Vietnam Ocean Shipping Company (Vosco), member company of Vietnam National Shipping Lines (Vinalines), has a stake in Maritime Bank.[186] Vietnam Airlines is a shareholder in Techcombank. Vietnam Airlines member company Southern Airport Services Company (Sasco) is an investor in Lien Viet Bank along with Saigon Trading Corporation (Satra) (Vietnam Stock Market

[185] Thanks to Scott Robertson for highlighting this point.
[186] For discussion of Vosco's importance to smuggling operations, see Beresford and Đặng Phong (2000).

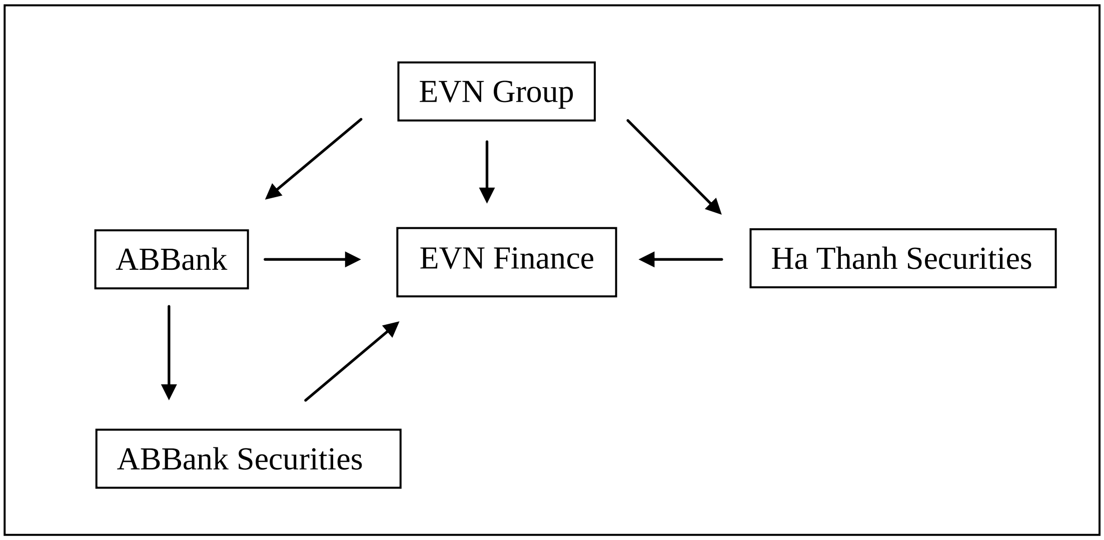
News 2008). Satra is also a strategic investor in Habubank (Vietnamnet 2007a). Vinatex has a stake in Nam Viet Bank (Navibank) and holds equity in Maritime Bank (Morgan Stanley Gateway Securities 2008). Both Vinacomin and Geruco have stakes in Saigon Hanoi Bank (SHB), which is a strategic partner of the Vietnam Machinery Erection Corporation (Lilama) (Vietnam News Agency 2007). Vietnam Airlines recently established an insurance company in which Vinacomin and Lilama are also investors (Thanh Nien News 2008).

Several General Corporations are also involved in securities companies, but as with banks this is extremely difficult to trace. Control can be exercised through a General Corporation invested bank which establishes a securities company, a GC independent investment in a securities firm or creation of a securities member company. Vinashin has a securities firm under Vinashin Finance. Vosco is an investor in Hai Phong Securities. Saigon Hanoi Bank, in which Vinacomin and Geruco are investors, has its own securities company. Vinatex holds a stake in Empower Securities and EVN has member company Ha Thanh Securities.

For the General Corporations, a finance company provides the ability to self-finance. It also acts as a fungibility machine, with the finance company functioning as a black box for corporate funds and maturing debt obligations. Combine a finance company with a large stake in a bank, and the General Corporation ability to self-finance increases exponentially. Combine these with a securities company, and the General Corporation can underwrite, purchase, trade, manipulate and profit from the equitization of its member companies – all within the same corporation.

EVN Finance provides an example of these interlocking connections. EVN itself holds 40 percent of EVN Finance. ABBank, in which EVN holds a 28 percent stake, owns 8.4 percent of EVN Finance. ABBank Securities and Ha Thanh Securities, EVN's own securities firm, also hold stakes in EVN Finance (VCCI 2008). The scope for intra-group lending, financial engineering, insider trading, and speculative profiteering is enormous.

**Figure 7: Interlocking Relations in EVN Finance**




Petrovietnam has real estate companies under Petrovietnam Finance Corporation (PVFC) and Petrovietnam Power Corporation (PV Power), and is involved in construction of office buildings, hotels, resorts, and golf courses. Vinatex also has a real estate company and at least one of its member companies, Phong Phu, has invested in resort complexes. Geruco is involved in construction of industrial zones, Vinacomin in commercial property development, and Vinashin in industrial zone development and hotel construction. The finance-real estate nexus is illustrated by the Vinashin Hotel project in Nam Dinh. The hotel is being built by Vinashin member company Hoang Anh Shipbuilding using loans from Habubank, in which Vinashin holds a seven percent stake.[187]

The activities of the Vietnam Shipbuilding Industry Group (Vinashin) over the last several years illustrate the diversification drive that results from relaxation of financial constraints. At the end of 2005 the Vietnamese government issued its first sovereign bond managed by Credit Suisse First Boston, obtaining USD 750 million. This was on-lent to Vinashin in 2006 to facilitate upgrading and expansion of the shipbuilding industry. In

187 http://www.habubank.com.vn/default.aspx?tabid=431&cateid=516&MainMenuID=1&MenuItemID=388.

2007 Vinashin established 154 new member companies. Excluding weekends, there are 260 working days in the year. Vinashin therefore created a new subsidiary on average every 1.69 days (Thời báo Kinh tế Sàigòn Online 2008). These include shipyards, investment and development companies, construction companies, and import export firms.[188]

Acquisition of self-financing capabilities facilitates transmogrification of General Corporations into investment groups, turning interest away from sector development. This is exemplified by the Vietnam Rubber Group (Geruco). Nine rubber plantations are in the Top 200 VN, eight of which are Geruco members.

**Table 15: Geruco member companies in Top 200 VN**

| Company | Rank |
|---|---|
| Dau Tieng Rubber Corp. | 27 |
| Dong Nai Rubber Co. | 30 |
| Binh Long Rubber Co | 57 |
| Phuoc Hoa Rubber Co | 66 |
| Phu Rieng Rubber Co | 67 |
| Loc Ninh Rubber Co. | 160 |
| Dong Phu Rubber Co. | 164 |
| Ba Ria Rubber Co. | 171 |

Many of these members are following Geruco into plantation development in Laos and Cambodia due to lack of available land in Vietnam. They have also been tasked by the government with moving into higher value added rubber products. This is proving difficult. Foreign firms are establishing rubber manufacturing facilities. Three Vietnam National Chemical Corporation (Vinachem) member companies already operate in this area. These plantations sell rubber to the foreign and Vinachem rubber manufacturers but do not receive any upgrading support from them.

[188] See Vinashin website for details (www.vinashin.com.vn/members.aspx). In the English version only companies related to shipbuilding are listed, while in the Vietnamese version the scope of diversification becomes more apparent. A full list of Vinashin members is included in KPMG Limited (2009). More recently, Deutsche Bank provided a USD two billion loan to Vinashin (Pincus and Vũ Thành Tự Anh 2008). For further discussion and critique of Vinashin, see Huỳnh Thế Du (2006).

One plantation tried to work with an Italian firm to develop elastic for the textile and garment industry. However, the partnership did not work due to incompatible objectives. The plantation wanted long term cooperation and assistance in exporting, but the Italians were only looking to sell equipment and machinery.

The response to difficulties in breaking into rubber manufactures mirrors that taken by other large firms in Vietnam. A few plantations are investing in the Geruco rubber based sports equipment company. Several plantations are moving into wood products manufacturing and a few into unrelated businesses like seafood. Almost all of them are engaging in real estate and industrial zone development.

At the same time, Geruco is using profits from rubber sales to invest in a variety of projects and companies. Geruco invests in five main categories: hydroelectric power stations, roads, industrial zones and residential areas, cement and infrastructure. Geruco prioritizes these categories because demand for electricity is increasing, roads require large amounts of capital and only large firms such as Geruco can afford to invest, IZs and residential areas can be built on existing Geruco land, cement also requires large capital investments so Geruco is well placed and infrastructure investments develop Geruco IZs and residential areas. Participation in investment projects depends on the type of investment with some projects run by Geruco and others as only a minority contributor. Geruco is also an investor in the Vietnam Steel Corporation and Essar Steel of Singapore hot rolled steel joint venture in Ba Ria – Vung Tau and will invest with the Vietnam National Chemical Corporation (Vinachem) and its member company Danang Rubber (DRC) with a foreign partner in radial tire production.

Geruco is becoming more of an investment house than a vehicle for developing the rubber sector in Vietnam. Many General Corporations and economic groups are following a similar pattern. As discussed for non-GC members in previous sections, few of the corporations and economic groups are abandoning their core businesses. However, the recent moves into finance and real estate are a perfect example of Stark's (1996) recombinant property and have important implications for industrialization and development in Vietnam.

### 5.2.1 Diversification, Discipline and Industrial Development

The dynamism of Vietnam's largest 200 firms bodes well for Vietnam's economic prospects. However, many of these firms are moving into speculative activities, particularly real estate and finance. This is most pronounced amongst Vietnam's state corporations, which represent sixty percent of the firms in the Top 200. Diversification into these activities at the expense of upgrading and expanding core business calls into question the use of General Corporations as vehicles for industrialization and national development.

Government proponents of the General Corporations in Vietnam point to the Korean *chaebol*, Japanese keiretsu and Chinese business groups as positive examples of the potential role of domestic, diversified conglomerates in the process of economic development.[189] They argue that only large business groups can achieve the economies of scale necessary to acquire new technologies and to compete with multinational firms. Like Vietnam's General Corporations, Korea's *chaebol* benefited from massive subsidized credit flows, the so-called 'policy loans', which were used to finance long term, risky investments in shipbuilding, steel, electronics, automobiles and other sectors.[190] The *chaebol* also accumulated capital on the basis of import monopolies. In short, the *chaebol* were 'political capitalists' much like Vietnam's General Corporations.

The *chaebol*, dependent as they were on state largesse in the form of subsidized capital, exhibited many of the maladies of soft budget constraints described by Kornai (1979).[191] Extremely high gearing ratios left the Korean conglomerates vulnerable to even small shifts in cash flow and gave the state considerable power to direct investment decisions.

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[189] This section borrows from a draft of Cheshier and Pincus (2010).
[190] Discussion of the *chaebol* is drawn from Woo (1991). For discussion of the failures of the business group model in Southeast Asia, see Studwell (2007).
[191] See discussion of Kornai (1979) in Chapter Three.

The response of the *chaebol* to this form of vulnerability was to become too big to fail. Fungibility played an important role in this process. Although the state disapproved of expansion mania and rampant diversification, "once credit is allocated, it is difficult to track down the actual use of the funds since various bookkeeping devices can hide it" (Woo 1991, 13).

However, there are also important differences between the *chaebol* during their state-sponsored growth, contemporary Chinese state holding companies and Vietnamese General Corporations. Chief among these is the relationship between the conglomerates and the banks. In both Korea and contemporary China, conglomerates were not given permission to open banks, an important factor in shifting the balance of power towards the state and away from business groups. In this, Vietnam's General Corporations bear more similarities to Chile's grupos and Indonesia's ill-fated *konglomerat* of the late Suharto period. Ownership of banks and other financial firms, combined with lax financial supervision and enforcement, opens the door to insider lending, underwriting, insuring and leasing, which provides groups with easy access to capital but at the same time undermines regulation of financial markets and greatly increases systemic risk.

Another key difference between the Korean and Vietnamese cases is the insistence of the Korean state on minimum performance standards and the capacity and willingness of successive governments to back up these standards with tough sanctions. Control of the banking system was an important weapon in the government's control arsenal. As Woo notes, "The [Korean] state was munificent, but also a harsh disciplinarian. It supplied the cold bath that the market could not. Export credits were wonderful gifts to the *chaebol* but to get, one had to be deserving: otherwise, licenses were immediately revoked" (Woo 1991, 165). Vietnam's General Corporations are not yet subject to the sorts of performance standards that forced the *chaebol* to continuously upgrade and compete on international markets to maintain their advantageous position. Weak state control, *de facto* – and increasingly *de jure* – autonomy, and disregard for central directives remain key features of the political economy of the General Corporations.

For example, as part of the state effort to tackle inflation in 2008, the Prime Minister called on the General Corporations to focus on their core businesses, to reduce unnecessary investment projects and to limit GC investments to only one bank. Subsequent reductions in General Corporation investments were heralded in the press as evidence of GC compliance (Vietnam News 2008a, Vietnamnet 2008b). However, the relevant policy change was not government directives and a newfound willingness of the GCs to comply; rather, the sharp rise in high interest rates on loans stemming from the government's tight money policy in the second half of 2008 designed to bring down the rate of inflation. Corporation member companies found access to working capital difficult or too expensive, and some General Corporations diverted investment expenditures to cover member company operating requirements. Reduced access to favourable loan conditions explains most of the decrease in investment. This also applies to corporation plans to acquire stakes in additional banks (Vietnam Business Finance 2008).

In April 2008, the Prime Minister ordered the General Corporations to invest at least seventy percent of their capital in their core business areas. The chairman of Petrovietnam responded that this policy amounted to 'shock therapy' and went on to state that "even when state conglomerates and enterprises investment in non-core businesses accounts for up to 40 or 50 percent of total investment and if these investments are profitable then the government should not ask them to disinvest from these businesses as this would cause the enterprise to collapse" (quoted in Pincus and Vũ Thành Tự Anh 2008). This was hardly the response expected from a state representative in one of the country's largest state corporations. The balance of power in Vietnam still lies with the General Corporations, while the government, short of tightening credit for the entire economy, appears unable to impose its will on its own conglomerates.

One of the most pressing concerns of government is the limited progress made by General Corporation in increasing productivity and profitability in their respective core sectors. While the General Corporations and economic groups account for 50 percent of Vietnam's exports, most of this is in natural resources like crude oil, coal and rubber or low value added light manufacturing products like garments. Production of textiles, steel, electricity, chemicals, and other sectors have failed to keep pace with demand, leaving the country heavily dependent on imports and facing chronic trade deficits.

According to Vietnam's General Statistics Office, Vietnam imports the most goods by value from China.[192] Table 19 presents the top ten imports from China to Vietnam, based on averaging import values between 2006 and 2008. In nine of the ten commodities a General Corporation exists with a mandate to develop that sector.

**Table 16: Top Ten Import Items from China to Vietnam, USD average 2006-2008**

| SITC Code | Commodity | GC responsible for sector development | Acronym | Value, USD million |
|---|---|---|---|---|
| 673 | Flat-rolled iron, etc | Vietnam Steel Corporation | VSC | 936 |
| 764 | Telecommunications equipment, parts, NES | Vietnam Post and Telecommunications Group | VNPT | 626 |
| 334 | Petroleum products | Vietnam Oil and Gas Group | Petrovietnam | 557 |
| 653 | Fabrics, man-made fibres | Vietnam Textile and Garments Group | Vinatex | 431 |
| 676 | Iron and steel bars, shapes | Vietnam Steel Corporation | VSC | 385 |
| 652 | Cotton fabrics, woven | Vietnam Textile and Garments Group | Vinatex | 380 |
| 672 | Ingots, etc iron or steel | Vietnam Steel Corporation | VSC | 346 |
| 562 | Fertilizer (not Group 272) | Vietnam Chemical Group | Vinachem | 328 |
| 655 | Knit crochet fabric, NES | Vietnam Textile and Garments Group | Vinatex | 328 |
| 782 | Goods, specialized transport vehicles | n/a | n/a | 276 |

Source: UN Comtrade, http://comtrade.un.org/db/

*Note*: based on Standard International Trade Classification (SITC) Revision 3,
NES: not elsewhere specified

[192] http://www.gso.gov.vn/default_en.aspx?tabid=472&idmid=3&ItemID=9130.

Domestic competition is increasing in some of these sectors, for example Petrovietnam's move into fertilizer production. In addition, Petrovietnam's first oil refinery, Dung Quat, came online in 2009. And given excess global production capacity, for example in steel, it is not necessarily desirable for Vietnam to continue attempting classic import substitution policies in every sector.[193] Nevertheless, in some sectors, production in terms of quality, complexity and efficiency is little changed from twenty years ago and equipment is often even older, in some cases dating from the 1960s. This calls into question the reason for existence of several General Corporations.

Nevertheless, some General Corporations have done better than others, and most GCs have at least a few dynamic and competitive member companies. For example, Mobifone and Vietnam Telecom Services Company (Vinaphone), both under VNPT, are significant players in the telecoms market. Nha Be Garments Company (Nhabeco), Viet Tien Garments Company (Vtec), and Garments Company No. 10 (Garco 10), all under Vinatex, are moving into higher quality garments products, expanding exports, and developing brands. Tan Mai Paper, nominally under the Vietnam Paper Corporation, is moving into specialty *couche* paper production for calendars and brochures and expanding exports while also engaging in mergers and acquisition to increase scale. Danang Rubber Company (DRC) under the Vietnam National Chemical Corporation (now economic group) has moved into production of large specialty mining tires, which it sells to Vinacomin and is beginning to export. It is the only producer of such tires in ASEAN.[194] Nevertheless, the conglomerates *as a whole* continue to rely for profits on natural resource and monopoly rents. Diversification has centred on lucrative ventures in residential and commercial properties, industrial estates, resorts, finance and distribution, and has for the most part avoided moving up the value chain.

Diversification helps the groups to finance their social policy obligations and achieve profit and tax targets. However, scope for risky intra-group lending and speculative investment increases with the presence of an intra-group finance company, bank and

[193] Mathews (2002), Nolan (2002), and Steinfeld (2004) also note changes in global production in which the vertically integrated firm is not necessarily the most effective corporate structure.
[194] All of these General Corporation member companies are in the Top 200 VN.

securities trading company. The attraction of investment in the group's core sector wanes as the General Corporations transform themselves into investment houses seeking out the highest returns available. The increasing financial autonomy of General Corporations gives them the power to resist state pressure to invest in slow-gestating industrial and export projects that are unprofitable, at least in the short term. A disjuncture has therefore emerged between the rhetoric of state-led industrialization and the practice of the state sector's largest business groups in Vietnam.

Chapter Two reviewed the literature on the development of capitalism in Southeast Asia and the warning represented by Yoshihara's (1988) view of 'technologyless growth' in the region. This was a growth trajectory dependent on importing foreign technology while domestic business groups speculated in real estate and finance rather than develop their own technological capabilities. Failure to discipline such groups and direct their activities into productive reinvestment in Indonesia led to a derailing of its capitalist transformation. Harvard Vietnam Program (2008a) is correct in stating that ownership of Vietnam's General Corporations and economic groups, whether kept within the state or turned private, is a political issue. The ability to impose discipline is the key issue, not ownership type. However, to date the state's track record in Vietnam is poor.

## *5.3 Selected Cases*

This section reviews twelve firms, emphasizing the variety of state-related accumulation processes operating in Vietnam. The history, strategies and growth of these firms will be linked to the processes discussed in Chapter Two. Examples of military and Chinese Vietnamese firms will also be presented. Yang's (2002) double entrepreneurship from the China literature is a feature of several cases, in which identification of profitable market opportunities is combined with skillful navigation of ambiguous rules and an uncertain institutional environment. A particular variation of Yang's double entrepreneurship will be explored through discussion of three firms contesting the definition of state capital.

Insider privatization, described by Staniszkis (1991) and Frydman *et al* (1998), is also relevant. Even though frequently referred to as kleptocracy, the process in Eastern Europe was often perfectly legal (Staniszkis 1991, Frydman *et al* 1998, Lavigne 1999). The same is true in Vietnam, even though the Vietnam literature, as in see in Chapter Three, tends to emphasize the more disreputable side of these activities.

A third prominent process relates to the first-mover advantages of constrained autonomy described by Nolan and Yeung (2001) in the China literature. Some firms were quicker to recognize emerging opportunities than others. Seizing these opportunities through expansion of sales and distribution networks, upgrading production and establishing brands led to capture of significant market position in an increasingly competitive environment. This often resulted in a growth trajectory described by Nolan (1996), in which constrained but autonomous state enterprises develop interlocking interests with other state firms, domestic private firms and foreign companies. The boundary between state and private blurs in these firms, making it difficult to distinguish them from Dickson's (2003) red capitalists.

There is some overlap between the various processes, for example the diversification and inter-firm linkages of recombinant property and constrained autonomy. Nevertheless, the story of each firm offers unique insights into the mechanisms of state-related accumulation as a process of class formation. And while not all firms discussed are success stories, the broad pattern of leveraging access to the state remains the central feature.

The first two cases are both private seafood companies. The first case, discussed briefly in the previous section, is Viet Foods Ltd.

**Viet Foods Ltd**

Viet Foods Ltd, ranked 185$^{th}$ in the Top 200VN, represents the most straightforward and least contentious form of state-related accumulation. The company was founded by Mr. Nguyễn Hữu Thanh, a former seafood professor at the University of Agriculture. In 1986 he began work with a local state seafood processing company and learned the business, along with developing close contacts with several Japanese buyers. After much hassle and negotiation, in 1997 he obtained loans from Vietcombank and BIDV to establish his own private limited liability company with the intention of supplying specialty seafood products to the Japanese market. Construction was completed in 1999 and the firm began operating in 2000, using nearly 100 percent imported equipment. Turnover in the first year of operation was USD five million. Obtaining further Vietcombank loans and using retained earnings, Viet Foods added cold storage facilities and additional production lines to meet growing demand. By 2006 the firm had turnover of USD 63 million, supplied nearly 40 percent of all the sushi shrimp consumed in Japan, and employed 3,300 workers.

Viet Foods is the standard transition success story. The entrepreneurial founder identified a market opportunity and seized it. Leveraging buyer connections obtained from working at a state owned company, similar to the process of 'pulling over connections' described by Wank (1999b), constitutes the primary relation to the state. However, without those connections it is doubtful whether Viet Foods would be as successful as it has been.

**Minh Phu Seafood Import Export Company**

Minh Phu Seafood, ranked 155th, represents a more complex version of the Viet Foods story. Mr. Lê Văn Quang began business as a seafood broker in 1988, purchasing inputs from farmers and renting processing facilities for production and export from local state firm Ca Mau Frozen Seafood Processing Import Export Corp. (Camimex) under the Ca Mau People's Committee.[195] In 1992 he established what would become Minh Phu Seafood Corporation after waiting over one year for approval of his private business license. He also began applying for approval to build his own processing facilities, but would not receive permission for seven years. Nevertheless, having his own business allowed him to sign his own contracts and select the state export company with the lowest fees rather than relying on only one state firm as intermediary.

[195] Camimex is ranked 126th in the Top 200 VN.

In 1995 the government decided to forbid renting of SOE processing facilities by private firms. Without his own factory, Mr. Quang was forced to establish a formal joint stock company, Minh Hai Utuco, in partnership with Camimex. This allowed Minh Phu continued access to Camimex production facilities. Minh Phu held a 40 percent stake and Mr. Quang was Vice Director of Sales at Minh Hai. However, since Minh Hai was a state enterprise with majority shares held by Camimex, relations were difficult and Mr. Quang had little influence.

Approval for Minh Phu's own factory was granted in 1997 and construction was completed in early 1999. No longer dependent on the partnership with Camimex, Mr. Quang sold his stake in Minh Hai in 2001. At the end of 2002 Minh Phu transformed into a two member limited liability company, and in 2006 became a joint stock company and listed on the stock market.

Minh Phu Seafood plans to develop the 'complete process' in seafood, including input stock development, harvesting, processing and exporting. This will facilitate quality control, ensure stable supply, reduce production costs and increase price competitiveness. In 2004 it established M Seafood in the U.S. to distribute its products and manage cash flow. While pursuing vertical integration, Minh Phu also plans to expand into real estate, ports, banking, investment funds and equity investments.

In January of 2007, Mr. Quang's wife, Ms. Chu Thị Bình, was listed as the richest woman in Vietnam based on her shares held in Minh Phu. Their daughter, Ms. Lê Thị Dịu Minh, was ranked sixth (Vietnamnet 2007a). In March of 2007, Mr. Quang, referred to as the 'King of Seafood', was listed as the ninth richest person in Vietnam (previously he was fourth) and his wife was tenth, based on the value of their shares in Minh Phu (Vietnamnet 2007b).

Minh Phu Seafood represents a curious form of state-related accumulation. Although renting state enterprise processing facilities could be construed as a form of insider privatization, Mr. Quang did not begin business inside a state firm. Furthermore, this was not strictly illegal until several years *after* Minh Phu was established. Mr. Quang was forced to interact with the state due to unfavourable rules and attitudes towards private sector activity. It was necessary in order to conduct business, rather than being a source of advantage and privilege. Nevertheless, as with Viet Foods, the early growth of Minh Phu did depend on accessing the state, and the skills, contacts and knowledge of the business served Minh Phu very well once the business climate improved. In this sense, Mr. Quang and the rise of Minh Phu Seafood is closer to Yang's (2002) double entrepreneurship from the China literature rather than the more nefarious accumulation processes described by Greenfield (1994) for Vietnam.[196]

The Viet Foods and Minh Phu Seafood cases demonstrate the broad definition of 'state-related accumulation' employed here. It is not always based in illegality or corruption, does not always involve cadres or bureaucrats leveraging privilege from inside the state, and is not always necessarily advantageous. However, for accumulation to occur, particularly in the initial stages, some linkage to the state was necessary.

The next three cases involve conflicts over definitions of own capital (*vốn tự có*) and state capital (*vốn nhà nước*) in state enterprises, with implications for ownership and control of these firms. As discussed in Chapter Three, the definition of own capital has a long and convoluted history, culminating in official abolition of the category in the 2003 State Enterprise Law.[197] Nevertheless, it remains a source of tension and conflict, the outcome of which appears to vary from firm to firm.

**Dak Lak Rubber Company (Dakruco)**

The first case is Dak Lak Rubber Company (Dakruco), a rubber producer and exporter ranked 170th in the Top 200 VN. Dakruco is a local state enterprise under the authority of the Dak Lak People's Committee and is one of the few rubber companies in the Top 200 not under Geruco, the national rubber group. The entity that would become Dakruco was established in 1975 by taking control of rubber and coffee plantations in Dak Lak

[196] See Chapter Three for discussion of Greenfield (1994).
[197] Thanks to Vũ Thành Tự Anh for assistance in navigating the confusion surrounding own capital. Any remaining errors of fact or omission remain the sole responsibility of the author.

province in the Central Highlands of the former southern regime. In 1981 the rubber and coffee plantations were separated into two different enterprise unions and in 1993 Dakruco was created from the rubber union under the reorganization of state enterprises associated with Decree 388.[198] Dakruco used the opportunity provided by Decree 388 to streamline its workforce, reorganize its management structure and invest in expanding and upgrading its processing facilities. The result was steadily increasing output, productivity, revenues and profits. In 2004 Dakruco obtained a business license to operate in Laos and began investing in rubber plantations in Laos in 2005. In 2006 Dakruco began a similar operation in Cambodia.[199] In 2005 Dakruco was approved to transform into a Parent-Child Corporation under Decree 153.[200] As part of this process, it is equitizing its subsidiary units, including its Rubber Wood Processing Company. It has plans to develop a rubber finance company, establish an eco-tourism business, and has already begun investing in development of high rise office buildings. Dakruco currently has 20 subsidiaries and employs over 6,600 workers.[201]

The contentious element of the Dakruco story concerns the estimation of the amount of state capital in the company. Mr. Huỳnh Văn Khiết, director of Dakruco, maintains that state capital only amounts to ten percent of total capital in the company.[202] In 1988 acting Prime Minister Võ Văn Kiệt authorized a loan from East Germany to Dakruco valued at USD 10 million, to be delivered in the form of steel, urea (fertilizer) and other materials. However, following the reunification of Germany in 1990 it was not clear who Dakruco should pay back. The decision was taken to consider this loan as own capital since it did not come directly from the Vietnamese state. Furthermore, after 1993 Dakruco did not receive any additional state budget support. The company required significant investment funds to turn itself around, but was denied state funding and Dakruco was forced to borrow from banks. These loans were considered own capital. As part of the 1993

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198 See Chapter Three for discussion of Decree 388.
199 Geruco is also moving into Laos and Cambodia, but the Geruco move into Laos occurred after Dakruco.
200 See Chapter Three for discussion of Decree 153.
201 http://www.dakruco.com/english/index_eng.asp.
202 In addition to being director of Dakruco, Mr. Khiết is also president of the Laotian and Cambodian subsidiaries, Vice Chairman of the Vietnam Rubber Association and Chairman of the Dak Lak People's Rubber Credit Fund. He also holds a PhD.

reorganization and the infusion of bank loans, Dakruco was revalued and state capital determined to be ten percent of total.

The benefit of the Parent-Child corporate structure is that proceeds from equitization of subsidiaries go to the parent firm, in this case Dakruco. It is only when the parent company itself equitizes that the issue of own versus state capital will become important. If the Dak Lak People's Committee agrees that Dakruco only has ten percent state capital, then 90 percent of Dakruco will be held by Mr. Khiết, the other senior managers, and employees of the company. Since share allocation is determined by seniority, Mr. Khiết stands to inherit the firm. It remains to be seen if this will in fact occur, particularly since the category 'own capital' no longer officially exists.

**Binh Duong Production and Import Export Co (Protrade)**

The second case involves Binh Duong Production and Import Export Co (Protrade), a local state enterprise under the authority of the Binh Duong People's Committee and ranked 124$^{th}$ in the Top 200 VN. Mr. Nguyễn Văn Minh, chairman and CEO of Protrade, began working in 1976 for a trading subsidiary of the local state Vifaco Animal Husbandry Company. In 1982 he borrowed a small sum (four million VND) from the welfare fund of his firm to establish a rubber processing company, the predecessor of Protrade. He repaid the loan in four years. With an eye for profitable ventures, he established an ice water factory in 1985, a garments export company in 1989, and a carton paper and packaging company in 1991. In 1992 Mr. Minh entered into a joint venture with a Singaporean firm to establish a golf course in Binh Duong. His firm contributed over USD 3.5 million, part of which involved conversion of land, and holds a 25 percent stake in the venture. In 1993 he established a rubber wood processing factory. Also in 1993, Mr. Minh obtained the license to transform his business operations into Protrade. In 1995 Protrade contributed nearly USD 15 million to a joint venture creating Dutch Lady Vietnam, in which Protrade holds 30 percent. Dutch Lady is ranked 112$^{th}$ in the Top 200 VN and has almost 40 percent of the domestic market in dairy products. Mr. Minh is the chairman of Dutch Lady. He was introduced to the Dutch company behind Dutch Lady in 1993 by his friend, the director of Vifaco.

In 2000, Protrade acquired a majority 51 percent stake in Thuan An General Import Export Company. Mr. Minh is now the chairman. In 2002 Mr. Minh purchased Ben Thanh Rubber Company and merged it into Protrade. In 2005 he did the same with his old employer, acquiring Vifaco and incorporating it into Protrade. In 2006 Protrade established the Hanh Phuc International Women and Children Hospital to serve high end Vietnamese and foreign clients. Protrade is the largest investor in the joint stock company, in which Thomson Medical of Singapore is also an investor. Mr. Minh is the chairman of the hospital and his daughter is a corporate director. Also in 2006, Protrade received permission to transform into a Parent-Child Corporation. In addition, Protrade is an investor in the Geruco member Dau Tieng Rubber Company project in Laos.[203] The firm also obtained a license for a second golf course in 2006, and is looking for investors for a third golf course. Mr. Minh is also exploring the possibility of establishing a racetrack with an Australian investor.

The evolution of Protrade's investments follow the emerging profitable opportunities in Vietnam. It is no accident that Protrade began in natural resource based and labour-intensive manufacturing and progressively moved into services. Mr. Minh described three criteria for deciding upon investments. First, the business activity had to be characterized by little or no competitive pressure, in particular he would not enter activities in which foreign firms were operating. Second, the investment had to be within the financial resources of the company. Considering the size and scope of Protrade's investments, joint venture contributions, and acquisitions, this does not seem to have been much of a problem. Third, he had to be able to invest sufficient capital to achieve scale and ensure quality.

However, Mr. Minh was the victim of timing. When he went into business in 1982 he could only establish a state enterprise. This created a conflict over ownership of Protrade that continues to this day. In response to Question 1.3 of the questionnaire, Protrade self identified as a state enterprise in which the state held 100 percent. In response to

[203] Dau Tieng is ranked 27th in the Top 200 VN.

Question 8.11, Protrade reported that state capital in the company was 57 percent of total capital.[204] When asked to clarify, the following explanation was given. Mr. Minh stated that Protrade is a state enterprise because the original loan used to establish the business in 1982 was borrowed from an SOE and is considered state capital. Furthermore, Mr. Minh is technically a state official appointed to manage Protrade. Even though he repaid the initial loan and subsequently did not receive any further state budget support, he could not declare his firm a private company. He also expressed a responsibility to the state and to his employees. Furthermore, since all after tax profits are now considered state capital, Protrade is an SOE even though all of its development occurred through use of 'own' funds, primarily retained earnings and loans. However, when asked about state approval of business decisions, Mr. Minh stated since Protrade's expansion was due to own capital, the state – in the form of the Binh Duong People's Committee – was not involved.

These issues came to a head in 2004, when Protrade equitized one of its subsidiaries. Officially, the proceeds from this equitization should have gone to the Binh Duong People's Committee. However, Mr. Minh successfully petitioned the People's Committee to keep the proceeds within Protrade on the grounds that no state capital was involved. Now that Protrade is a Parent-Child Corporation, this is no longer a problem and all the proceeds from equitizing subsidiaries will go to Protrade as the parent company. However, uncertainty remains when Protrade itself transforms. Mr. Minh plans to again petition the Binh Duong People's Committee to keep the proceeds on the grounds that it was his own money and effort that built the business. As with Dakruco, it remains to be seen if he will be successful. The overwhelming impression from the interview was that Mr. Minh did not consider this an insurmountable problem.

Like Minh Phu Seafood, Dakruco and Protrade are also examples of class formation through Yang's (2002) double entrepreneurship. However, state-related accumulation figures more prominently. Dakruco essentially received USD 10 million of materials for free. The role of land contributions in Protrade joint ventures explains part of its ability to

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[204] See Appendix Four for the company questionnaire.

contribute such large sums to these endeavors, and permission to keep the proceeds from equitization indicates a close relationship to the People's Committee. In addition, both Dakruco and Protrade are successfully using the Parent-Child corporate form to temporarily shield revenues from the state, even though both will have to face the issue when the time comes to transform the parent company. Nevertheless, the impression from both interviews was of an entrepreneur committed to *his* company and *his* workers built up on their own without state support, even though both firms are officially classified, for now, as state enterprises.

**Danang Sea Products Import Export Corporation (Seaprodex Danang)**

Dakruco and Protrade stand in stark contrast to the Danang Sea Products Import Export Corporation (Seaprodex Danang), ranked 99th in the Top 200 VN and a member of the GC Vietnam National Sea Products Corporation (Seaprodex). Established as an 'imex' in 1983, Seaprodex Danang acquired its first processing factory in 1985.[205] In 1988 it was grouped under the central state organization that would become Seaprodex Corporation. It was also part of a pilot programme experimenting with self balancing and profit maximization in state enterprises. The firm was selected to participate in the programme after the then company director petitioned Mr. Võ Văn Kiệt for inclusion. Although the enterprise was established with a small amount of state capital, it was then directed to increase its capital on its own through retained earnings and bank borrowing. In addition, it was granted decision making authority over its foreign exchange earnings, one of only a few state enterprises at that time that did not need to remit foreign exchange to the state. Although this mechanism was later applied to most firms in Vietnam, at the time Seaprodex Danang had more operational independence than most other state enterprises. This was controversial and the firm was subjected to multiple inspections and audits by the Ministry of Finance and the Ministry of Justice.

In early 1991 the government issued a decision regarding determination of state capital in state enterprises. Since Seaprodex Danang was involved in the complicated pilot

[205] See Chapter Three for discussion of the 'imexes'. In 1993 Seaprodex exported just over six percent of Vietnamese marine products and state import-export companies exported approximately seventy percent of total seafood exports (Fforde 1994).

programme, the level of state capital in the firm was not set until 1992. The government determined that all profits made under the pilot programme belonged to the state. However, the then director of the firm refused to sign the document, since he had built the company up on his own without state support. He lost this battle and ultimately had to accept classification of Seaprodex Danang capital as state capital.

There is an interesting issue of timing here. It is one thing for Dakruco and Protrade to contest own versus state capital in the 2000s and quite another for Seaprodex Danang to attempt this in the early 1990s at a much earlier stage of reform. As discussed in Chapter Three, the early 1990s was a period of recentralization from the perspective of firms, complicating the Seaprodex Danang attempt to claim its capital as its own. Another importance difference between these firms is the authority level of their state controlling institution. Dakruco and Protrade are both local state enterprises under provincial People's Committees while Seaprodex Danang is a central state enterprise under ministerial and General Corporation supervision. This central affiliation continues to hamper Seaprodex Danang. Technically, since Seaprodex Danang is not in a strategic sector, Seaprodex Corporation should sell its state majority share as Seaprodex Danang transforms to operate under the Enterprise Law. However, Seaprodex Danang accounts for one quarter of total revenues of the parent corporation and Seaprodex Corporation does not want to relinquish control. It is not yet clear how this issue will be resolved. Nevertheless, Seaprodex Danang demonstrates that not all firms are winning the contest over ownership and control surrounding the definitions of own versus state capital.

The next case involves a former independent central level state enterprise (i.e. not a member of a General Corporation). It is similar to Dakruco and Protrade in terms of a long serving founding member dominating the company, but does not involve a conflict over own versus state capital. Instead, the firm illustrates a process of formalizing *de facto* ownership and control through legal insider privatization similar to that described by Staniszkis (1991) and Frydman *et al* (1998) in Eastern Europe. The firm is the Corporation for Financing and Promoting Technology (FPT), ranked 12$^{th}$ in the Top 200 VN.

**Corporation for Financing and Promoting Technology (FPT)**

FPT was established in 1988 as the Food Processing Technology state enterprise under the Ministry of Science and Technology.[206] The firm was founded by Mr. Trương Gia Bình and a group of friends who had studied mathematics, physics and information technology in Russia. Mr. Bình married (and later divorced) the daughter of General Võ Nguyên Giáp. The group wanted to "connect Vietnam and Russia to help Vietnam develop and start making money."

The true origins of FPT are subject to dispute. The sanitized version provided in the interview attributes FPT's move into software development as the result of an upstairs neighbour fortuitously in need of information technology (IT) services. However, two reliable sources, both of whom claim to know Mr. Bình personally, remarked that FPT began by smuggling computers.[207] Either way, in 1990 the company was renamed the Corporation for Financing and Promoting Technology, which included a software development division, and began officially distributing Olivetti computers.

In 1994 FPT became the official distributor of IBM products in Vietnam. In 1997 it established FPT Telecom.[208] In 1998 FPT became the first internet service provider in Vietnam and began to officially distribute Oracle products. In 2000 the firm became the distributor for Samsung mobile phones in Vietnam and in 2001 it established the VNExpress online news service.

The year 2002 was pivotal for FPT's development. Not only did FPT become the official partner of HP in Vietnam, it also equitized into a joint stock company. The proceeds from the equitization were remitted to the state and state capital was initially held at a majority 51 percent. Mr. Bình held ten percent of the company. However, in the interview it was

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[206] There are discrepancies between the company history provided in Section Two of the firm questionnaire and the history of the firm listed on its website (http://www.fpt.com.vn/en/) and in its 2008 annual report (FPT Corporation 2008). When differences arise, preference is given to the website and annual report information.

[207] See Chapter Three for discussion of smuggling between the Soviet Union and Vietnam and its role in the accumulation process.

[208] FPT Telecom was equitized in 2005 and was transformed into a corporation under FPT in 2008.

emphasized that the senior management had "been running the company like a private company" since its inception, that there was no state involvement in management decisions, and the role of the supervising ministry was simply to facilitate FPT's operations. Furthermore, after FPT's equitization the firm's growth exploded. During the interview it was remarked that this was not a coincidence.

In 2003 FPT Software was formally established along with several other subsidiaries. In 2004 FPT Software equitized, and FPT became a Gold Partner of Cisco Systems and began distribution of Nokia mobile phones. In 2005 FPT became a Gold Partner of Microsoft and established FPT Software Japan Ltd. In 2006 the firm entered into a strategic partnership with Microsoft, FPT University was established, Texas Pacific Group and Intel Capital invested in the firm and FPT listed on the HCMC stock market. Following the infusion of funds, nine subsidiaries were established in 2007:

- FPT Capital
- FPT Securities
- FPT Land
- FPT Retail
- FPT Information Services
- FPT Hoa Lac High-Tech Park
- FPT Media and Entertainment
- FPT Promotion
- FPT Online Services

FPT also established Asia Pacific FPT Software in Singapore the same year. In 2008 FPT was renamed FPT Corporation.

In 2008 FPT also became a founding member of Tien Phong Bank along with Mobiphone, a mobile services provider and member of the state owned Vietnam Post and

Telecommunications Group (VNPT). In the same year FPT Software expanded to Malaysia, France, the U.S. and Australia and engaged in software outsourcing for IBM, HP, Sanyo, Hitachi, and Panasonic.

In its 2008 annual report, FPT stated that it surpassed the USD one billion revenue mark, had over 8,600 employees, 12 major subsidiaries and 40 additional member companies, and was the largest *private* company in Vietnam. This statement is correct since the state share in the company, now managed by the State Capital Investment Corporation (SCIC), dropped to just over seven percent. Mr. Bình remains the largest shareholder in FPT, with just over eight percent of shares in the company (FPT Corporation 2008).

The high market capitalization of FPT has made Mr. Bình and the other senior managers of FPT very rich. In the March 2007 richest people in Vietnam list reported by Vietnamnet (2007b), the top four richest persons were all senior FPT personnel, and five FPT senior managers were in the top ten. Mr. Bình, FPT Chairman, was ranked first.[209] Mr. Lê Quang Tiến, Mr. Bùi Quang Ngọc and Mr. Hoàng Minh Châu, all FPT Vice Chairmen, were ranked second through fourth. Mr. Đỗ Cao Bảo, a member of the FPT Board of Management, was ranked sixth.[210]

FPT represents one of the clearer examples of class formation through state-related accumulation. Early high level connections and questionable business activities gave FPT its start. It is also one of the clearer examples of the dynamism that can result from *de facto* autonomy, of running a nominally state firm like a private company. Prior to equitization, FPT was already a leading company in Vietnam. Formalizing ownership and control through legal insider privatization resulted in further explosive growth since the founders now had a *de jure* direct stake in the success of the company. It also made the

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[209] He has since been challenged for the top spot by Mr. Đoàn Nguyên Đức of Hoàng Anh Gia Lai (HAGL). Mr. Đức is the first person in Vietnam to have his own private jet (Thanh Nien News 2009b). Unfortunately, HAGL was not in the 2006 Top 200 VN and was not included in the research project. In the 2009 richest list, Mr. Bình is listed eighth. Due to wild fluctuations in the stock market, the rankings change. The specific rankings themselves are less relevant than the presence of these individuals on them. To ensure consistency with the timing of the firm interviews, the 2007 list has been used throughout.

[210] In addition, two senior female FPT managers were included in the January 2007 top 20 richest women list (Vietnamnet 2007a).

founders very wealthy. FPT has now become the leading IT firm and the largest private firm in Vietnam. It has expanded internationally and is partnered with some of the top IT firms in the world. While some foreign observers question its ability to move into higher value added services, the growth of FPT is nevertheless phenomenal.

**Vietnam Dairy Products Company (Vinamilk)**

Vietnam Dairy Products Company (Vinamilk), ranked just below FPT at 13th in the Top 200 VN, offers a contrasting story. Ms. Mai Kiều Liên, Chairwoman and General Director, has been in charge since 1992 and worked at the company since 1976, but neither she nor any of the other senior Vietnamese personnel appear on any of the rich lists, even though Vinamilk equitized in 2003 and listed on the HCMC stock exchange in 2006. Ms. Liên graduated from the Moscow University of Meat and Milk Processing in 1976 and received further training in economic management in 1984 from the University of Economics in Leningrad. She also holds a certificate of Government Management from the National Political Institute in Vietnam (Vinamilk Corporation 2008). Furthermore, she was a member of the Communist Party Central Committee between 1996 and 2001.[211] Vinamilk represents the variety of state-related accumulation processes operating in Vietnam.

Vinamilk was established as the Southern Coffee and Milk Company in 1976 following nationalization of four factories: Thong Nhat Dairy, formerly belonging to a Chinese corporation; Truong Tho Dairy, formerly belonging to Friesland; Dielac, under construction and formerly owned by Nestle; and Bien Hoa Coffee.[212] It operated under the General Department of Food. In 1978 there was a re-combination of ministries to create the Ministry of Food Industry. Vinamilk was transferred to this ministry and changed its name to the United Enterprises of Milk, Coffee and Candies Company No. 1. Due to this government restructuring, all food product companies were assigned to the Ministry of Food Industry. Two existing but previously independent factories were

[211] http://vi.wikipedia.org/wiki/Mai_Ki%E1%BB%81u_Li%C3%AAn.
[212] Friesland is the Dutch company that returned to Vietnam and joint ventured with Protrade to create Dutch Lady, Vinamilk's main competitor in the domestic market.

transferred to Vinamilk: Lubico Candy of HCMC and Bich Chi Nutrient Powder Factory of Dong Thap.[213]

In 1988 Vinamilk was the first company to introduce powdered milk into the Vietnamese market. It also began to build its brand name and distribute nationwide once internal barriers to trade were removed.[214] In 1989 the Ministry of Food Industry was separated into the Ministry of Food (MoFD) and the Ministry of Industry (MoI). The Ministry of Agriculture (MoA) was also created. Vinamilk and dairy products fell under Industry. Food fell under MoFD and coffee under MoA. So Lubico Candy was returned to HCMC and Bich Chi Nutrient Powder was returned to Dong Thap, both under MoFD. Bien Hoa Coffee was returned to Dong Nai, under MoA.[215] In 1991 Vinamilk launched launched Ultra High Temperature (UHT) processed milk and yogurt in Vietnam.

In 1992, the Milk, Coffee and Candy Company No. 1 changed its name to Vietnam Dairy Products (Vinamilk), under the Ministry of Light Industry in yet another ministry move. In 1994 Vinamilk built a dairy factory in Hanoi to better serve the northern market. In 1996 Vinamilk created the Binh Dinh Dairy Joint Venture with Dong Lanh Quy Nhon JSC to better serve the central region and in 2000 Vinamilk opened the Can Tho Dairy Factory to better serve the Mekong Delta.

In 2004 Vinamilk acquired Saigon Milk JSC. In 2005 the company bought out Dong Lanh Quy Nhon to become the sole owner of Binh Dinh Dairy. In the same year Vinamilk opened a dairy factory in Nghe An and entered into a joint venture with SABMiller. In 2006 Vinamilk acquired Tuyen Quang Dairy Farm and opened An Khang, a health clinic in HCMC. In 2007 the firm acquired a controlling (55 percent) interest in Lam Son Milk Company Ltd and its JV with SABMiller launched Zorok beer.[216] Since

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[213] On Vinamilk's website (http://vinamilk.com.vn) and in their 2008 annual report (Vinamilk Corporation 2008), they state that the Lubico and Bich Chi factories were part of the company from its founding in 1976. The information cited here is from the interview.
[214] Prior to this, Vinamilk had been forced to sell to state distribution companies.
[215] For a brief time Vinamilk itself was under MoA. There was a plan to link dairy farms and milk production but this did not happen. The argument was that "milk had something to do with cows, and this [cows] means agriculture."
[216] SABMiller bought out Vinamilk in 2009.

2003 foreign investors have acquired stakes in Vinamilk, including Fraser and Neave Dairy of Singapore, Deutsche Bank, Dragon Capital and Arisaig. As with many companies in Vietnam, Vinamilk now also has a real estate subsidiary, International Real Estate Company Ltd, which has its own real estate subsidiary, Victory Real Estate (Vinamilk Corporation 2008). Vinamilk currently has nearly 40 percent of the dairy market in Vietnam and one of the top brand names in the country.

In its 2008 annual report, Vinamilk described itself as one of largest private firms in Vietnam. As with FPT, this is correct since the state share in Vinamilk, managed by SCIC, dropped to a minority 47.6 percent.[217] What is interesting about Vinamilk is not its ownership type – whether classified as state or private – but rather that its expansion began so early, over a decade before it equitized. Vinamilk identified and seized market opportunities in ways similar to Shougang Steel and Sanjiu Pharmaceuticals in China as part of what Nolan and Yeung (2001) described as the first-mover advantages of constrained autonomy. Vinamilk's expansion is also an example of the growth pattern described by Nolan (1996) in China, in which constrained but autonomous state enterprises develop linkages with other firms to the degree that it becomes difficult to distinguish them from Dickson's (2003) red capitalists.

When asked about the repeated changes of its supervising ministry, Vinamilk simply stated that it "made no difference." Vinamilk also resisted becoming a General Corporation in order to focus its financial strength on its core business. Vinamilk felt that the company structure, rather than the state corporation model, was better suited to expanding its dairy business. This self-determination contrasts with Seaprodex Danang and was perhaps a function of Ms. Liên's standing in the Party.[218] Interestingly, Vinamilk now believes the *private* corporation model to be useful, having transformed into Vinamilk Corporation in 2008 while also expanding into real estate. Vinamilk demonstrates the variety in Vietnam's state-related accumulation processes and

[217] When Vinamilk listed in 2006, the state share was a majority stake with just over 50 percent.
[218] Ms. Liên is listed as one of the representatives of SCIC, and therefore state capital, on the Vinamilk board (Vinamilk Corporation 2008).

highlights the importance of looking at firms rather than only individuals as part of class formation.

The next three cases involve Chinese Vietnamese firms, but with very different histories and relations to the state. As with most of the firms presented in this section, these firms highlight both class formation processes described in Chapter Two and elements of the reform process in Vietnam discussed in Chapter Three.

**Cho Lon Investment and Import Export Corporation (Cholimex)**

The first case is the Cho Lon Investment and Import Export Corporation (Cholimex), ranked just outside the top 200 at 216th in the 2006 Top 200 VN.[219] Cholimex was established in 1981 as a proto-joint stock company involving state officials from Ho Chi Minh City's District Five, known as Chợ Lớn and the historic centre of the Chinese in Vietnam, and the city's Chinese Vietnamese. As discussed in Chapter Three, after 1975 the HCMC People's Committee realized that much of the existing production capacity in the city remained viable but lacked raw materials, inputs and spare parts. The new economic policies were not reinvigorating the city's economy. In addition, many of the pre-1975 entrepreneurs were in re-education camps or, by 1981, had fled the country as part of the boat people exodus. Lacking the skills, equipment and capital to jumpstart production itself, the HCMC PPC turned to remaining Chinese Vietnamese to get the economy moving again. Cholimex was created as part of this process.

Cholimex was managed by three representatives from the District Five People's Committee and three local Chinese Vietnamese entrepreneurs. The District Five officials acted as a bridge between the HCMC PPC and local Chinese Vietnamese. The state contributed land, administrative approval and protection to engage in business. Local Chinese Vietnamese contributed their overseas business connections and own capital. Their investments were valued in gold, in return for which they received shares in Cholimex.

[219] Cholimex was ranked 173rd in the 2005 Top 200 VN. Cholimex is also discussed in Hastings and Wehrfritz (2006) and briefly in Rama (2008).

The experiment was immediately a success. Accessing pre-1975 overseas Chinese networks in Singapore, Hong Kong and Taiwan, Cholimex imported raw materials and inputs, including yarn for textiles, flour for food processing and spare parts. These were supplied to Cholimex factories and other factories in HCMC. Cholimex then exported the output of many of these factories. Imports were also exchanged with farmers for agricultural and aquacultural products and herbal medicines for export. Since Cholimex was not allowed to handle foreign exchange, most of these transactions were trade in kind. However, Cholimex did sell some goods directly to local consumers.

Although the freedom granted to the company provided a spur to the local economy it also undermined the planning and price system. In 1982 Hanoi clamped down on non-plan activity and in 1983 the company surrendered its right to trade to a newly established state trading enterprise, Imexco.[220] At the same time, Cholimex was 'nationalized'. The state took control of the firm, buying back the shares contributed by local Chinese Vietnamese. However, the management staff, predominately Chinese Vietnamese, did not change.

Cholimex remained subordinate to Imexco until 1989. Although selling to the same markets and even to the same buyers, all exports had to go through Imexco.[221] This hampered business activities but forced Cholimex to focus on expanding and upgrading its production facilities. In 1983 it upgraded two of its original workshops, the Export Marine Products and Foods Processing Enterprise and the Agricultural Export Processing Factory. It also had factories producing medicines and doing electronics assembly and in 1986 it established a garments factory.

Following the resumption of direct foreign trade in 1989, Cholimex was renamed the District Five Investment Import Export Company. At the same time, the Export Marine Products and Foods Processing Enterprise, which would eventually become Cholimex

[220] For discussion of these 'imexes', see Chapter Three.
[221] Cholimex also managed to sneak its 'brand' onto product labels, using 'Q5' to indicate Cholimex products exported by Imexco in order to maintain relationships with overseas buyers.

Food JSC, began to produce chilli sauce and other condiments, becoming one of the top brands in Vietnam. In 1993 the company was renamed under Decree 388, becoming the Cho Lon Investment Import Export Company and continued to diversify. In 1995 it established the Cholimex Business Centre, specializing in leasing office space and providing business services to the influx of foreign investors. In 1997 it opened the Vinh Loc Industrial Zone to lease land and office space to foreign and domestic firms. In 2000 it equitized its medical factory, creating Cho Lon Pharmaceutical JSC, in which Cholimex retains 24 percent. It also established a construction and real estate company. In 2003 Cholimex opened the Can Gio Aquaculture Trading Centre and in 2006 it became a Parent-Child corporation focused on investing in real estate and industry. It now has over twelve subsidiaries and has plans to open a securities trading company in the near future.

Cholimex is a bit of an oddity. It began as an innovative public-private partnership but regressed into a fairly standard local state enterprise, real estate subsidiary and all. In this respect, Cholimex is similar to Seaprodex Danang. What began arguably as a ‘red hat’ firm – in which a quasi-private firm operated with protective cover from the state – became a simple ‘red’ enterprise.[222] However, the firm also demonstrates some of the dynamism of constrained autonomy shown by Vinamilk, for example in the popular products of Cholimex Food. What remains unique about Cholimex is the ‘buyout’ of the original Chinese Vietnamese investors, upon whom the company was built. In its early years over half the employees at Cholimex were Chinese Vietnamese but now this figure stands at only 20 percent. And while the original management stayed through the ‘nationalization’ and Imexco phases of the company’s history, there are no longer any Chinese Vietnamese amongst Cholimex’s senior management. The current Vietnamese senior managers have been in their positions for over ten years. Cholimex highlights the ambiguity of some forms of state-related accumulation in Vietnam.

[222] See Chapter Two for discussion of ‘red hat’ firms.

**Binh Tien Consumer Goods Production Ltd (Biti's)**

The second case is Binh Tien Consumer Goods Production Ltd (Biti's), ranked 158$^{th}$ in the Top 200 VN. Biti's has been held up as an example of the dynamism of the emerging private sector in Vietnam (e.g. Trần Khánh 1993, Hiebert 1996). As will be seen, it is indeed a great success story and was one of the most ambitious and motivated firms interviewed. However, the story is more complex than simple private sector dynamism.

In 1982 two Chinese born in Vietnam, Mr. Vưu Khải Thành and his wife, established two small rubber sandal production workshops, Binh Tien and Van Thanh. Together they employed twenty workers. Mr. Thành had previously worked in his cousin's footwear firm and decided to strike out on his own. At that time, many materials were unavailable in Vietnam and only rubber was sourced domestically. Mr. Thành had to smuggle or purchase smuggled chemicals and other inputs. Products were of low quality.

The workshops supplied footwear to the military and exported via government contracts. For example, Vietnam had received a Soviet loan to build a hydroelectric plant. Vietnam repaid this loan in consumer goods, with Biti's assigned to produce footwear and export to the Soviet Union as part of the loan repayment scheme. Biti's was compensated from the state budget. It also exported by selling to the organization that would eventually become Vinatex, which exported on behalf of Biti's. In 1986 the two workshops were merged into the Binh Tien Rubber Cooperative, now producing higher quality slippers sold both in Vietnam and exported to Eastern Europe. In only four years, Biti's went from twenty to 1,000 employees. Also in 1986, the Biti's brand was launched.

In 1989, the year central planning was formally abolished, Biti's became the first private company in Vietnam to be given an import and export license. The firm had lobbied hard for three years to attain approval, and was eventually selected to participate in a pilot programme allowing private companies to engage directly in foreign trade. Biti's was selected for the programme because it had experience producing for export and was also involved in charitable work and other social activities.

Prior to 1989, Biti's exported predominately to the Soviet Union. After 1989, it expanded to France, Germany and Spain. At roughly the same time as Vinamilk, Biti's also began to see the opportunities emerging in the growing domestic market. However, it was easier to export since this only required production and packaging. Biti's recognized that in order to succeed in the domestic market, it would need a sales and distribution system.

In 1990 Biti's upgraded its production facilities with Taiwanese technology, producing sandals and slippers. With this upgrade, Biti's could now produce higher quality footwear to compete with Thai imports. It established a branch office first in Ho Chi Minh City, and then in Hanoi and other provinces and cities, all done under the Biti's brand. It took five years to capture market share from Thai imports.

In 1991 Biti's became the first private Vietnamese company to establish a joint venture with a foreign firm, contributing land and capital to take a 45 percent stake in the Taiwanese invested Sun Kuan JV producing indoor slippers.[223] In 1992 Biti's transformed into a limited liability company, Binh Tien Imex Corp Ltd, with 2,300 employees.[224] In 1993, Biti's recorded USD 15 million in sales of shoes and sandals and was the largest producer and exporter of footwear in Vietnam (Hiebert 1996). In 1994, following the thaw in relations between Vietnam and the U.S., Biti's became the first Vietnamese firm to open an office in the United States (Hiebert 1996, Templer 1998). In 1995, to meet growing demand, Biti's established Binh Tien Dong Nai Imex Corp Ltd (Dona Biti's), producing sport shoes and leather footwear using Korean technology. Biti's itself expanded into production of ladies fashion footwear. Biti's products had been sold in China since the middle 1990s, and in 2000 Biti's opened four representative offices in China.

In 2002 Biti's began diversifying into real estate development, hotels, tourism and office space rental with the establishment of the Central Highlands Trade Centre. It also began

[223] The license for this joint venture was obtained in 1989.

[224] There are often differences in translation of Vietnamese company names into English. Binh Tien Consumer Goods Production Ltd is taken from the GSO Enterprise Survey, while Binh Tien Imex Corp Ltd is from the interview and the Biti's website (http://www.bitis.com.vn/). Both are referred to as "Biti's." To ensure that these are in fact the same company, their addresses were compared.

construction of the Lao Cai International Border Gate Trade Centre on the Chinese border, which was completed in 2006. These are multi-function complexes that include a trade centre, office space and hotels. In 2003 Biti's established a training centre in Dong Nai to improve the skills and design capacity of its workforce, and in 2004 it established an investment and construction joint venture with a Chinese partner. The Northern Trade Centre in Ha Dong, now part of Hanoi, was established in 2005 and in 2006 the Danang Business Centre was opened. Also in 2006, Biti's launched the Vosto brand using Italian technology to produce more expensive, higher quality footwear. The remainder of the Vietnamese market was covered by the Western Branch, established in 2008, and the Southern Branch, established in Nha Trang in 2009.

The Biti's trademark has now existed for over 25 years and is consistently voted one of the top brands in Vietnam. Biti's now employs over 9,000 workers and has 4,500 sales agents and shops selling its products in Vietnam. In addition, Biti's exports to over 40 countries, with its brand registered in over 30 countries. It has 25 distributors and over 300 sales agents in China and now has offices in Laos and Cambodia. In addition to upgrading its footwear products and expanding its real estate, tourism and trade ventures, Biti's plans to diversify into other consumer goods such as wallets, purses, hats and garments. Mr. Thành and his wife have come a long way from two small rubber sandal workshops, in the process creating one of the most dynamic firms in Vietnam.

The early history of Biti's, as a supplier to the military and participant in Soviet loan repayment programmes, is not included in existing accounts of the firm's origins. The focus has instead been on its path breaking moves into direct import and export and foreign joint venture (e.g. Hiebert 1996, Beresford and Đặng Phong 2000). Mr. Thành and the company are rightly applauded for their excellent management of the firm and its rapid expansion and growth. However, it is simply inconceivable that the first license for a private company to engage directly in foreign trade or enter a foreign joint venture were not politicized, particularly in the highly charged atmosphere surrounding the end of central planning. The stream of high level visitors to Biti's – including General Võ Nguyên Giáp, current Party General Secretary and former chairman of the National

Assembly Mr. Nông Đức Mạnh, former Prime Minister Mr. Phan Văn Khải, a Chinese Vice Prime Minister who was also the former Party Secretary of Shanghai, and a Prime Minister of Laos – testify to this. There is nothing illegal here, and the skill and entrepreneurialism of Mr. Thành are not in question. Nevertheless, Biti's remains a prime example of Dickson's (2003) red capitalists.[225]

**Ut Xi Aquatic Products Processing Company (Ut Xi)**

Ut Xi Aquatic Products Processing Company (Ut Xi), ranked 83rd in the Top 200 VN, is a rare example from the Top 200 of growth with almost no relation to the state. In 1998 Ms. Nguyễn Thị Xi established a private seafood firm, having been a relatively poor seafood broker for over forty years. In 2002 she, along with five others, founded Ut Xi as a limited liability company in order to export. Ut Xi acquired a factory from a nearby state enterprise and built two more processing facilities, financed by family money and a loan from Agribank. The factories became operational in 2003 and Ut Xi's revenues exploded. In 2006 Ut Xi transformed into a joint stock company with Ms. Xi as Chairwoman holding 45 percent of the shares.

Of the other founders, three are sons of Ms. Xi and one is her daughter-in-law. The final founding member is Mr. Tiêu Cẩm Châu, a Chinese Vietnamese who was a classmate of Ms. Xi's son. All had prior experience in the seafood business, Mr. Châu having worked in seafood since 1981. It is not clear if this included work at a state firm. Ut Xi was able to access export markets by leveraging Mr. Châu's business connections.

Ut Xi's growth from founding to one of the largest firms in Vietnam in only four years is remarkable. Leveraging business connections is a familiar pattern, and in seafood is similar to Viet Foods, but the connections of Mr. Châu are more likely to be from Chinese networks rather than the state. Other than purchase of an SOE factory, no relation to the state was indicated in the interview.

[225] Templer (1998) notes that "Vietnam's largest private company, Bitis, is owned by a family of Viet Hoa [Vietnamese Chinese] who have used family ties, business acumen and an appreciation of the value of close government connections to get rich" (Templer 1998, p.303) but does not provide any details.

Timing is once again important. Ut Xi emerged and flourished in the early 2000s, after implementation of the 1999 Enterprise Law and considerable relaxation of barriers to private firms. Unlike Minh Phu Seafood, Ut Xi was able to grow without being forced into relationships with the state. Whether or not Ut Xi represents a new growth dynamic remains an open question. However, within the Top 200, Ut Xi represents the exception that proves the rule.

The next two cases involve military companies. Within the Top 200 VN there are five firms under the Ministry of Defence:

**Table 17: Military Companies in the Top 200 VN**

| Company | Rank | Sector |
|---|---|---|
| Military Telecom Corporation (Viettel) | 9 | Telecommunications |
| Saigon Newport | 45 | Transport |
| Construction Company No. 319 | 63 | Construction |
| Company No. 28 (Agtex) | 120 | Garments |
| Thanh An Corporation | 149 | Construction |

Company No. 28 (Agtex) was briefly discussed in previous sections. The first military enterprise under discussion here is the Military Telecom Corporation, more commonly known as Viettel.

### Military Telecom Corporation (Viettel)

The forerunner of Viettel, Sigelco, was established in 1989 as an electronics information and equipment company under the Ministry of Defence (MoD). Sigelco provided services to the military via the military's own dedicated telecommunications network.[226] It also engaged in commercial operations, remitting profits to MoD as part of the effort to reduce state budget expenditures on the military. Sigelco's commercial operations mainly involved constructing towers, microwave systems and equipment for the state monopoly under the Ministry of Post and Telecommunications (MoPT), the organization that would

[226] This network has its own prefix, 069. It is not used for commercial purposes.

eventually become the Vietnam Post and Telecommunications Group (VNPT). Sigelco also engaged in small scale import and export.

Between 1989 and 1994, the company built a broadband microwave backbone system across the country. In 1993 Sigelco became Viettel. In 1995 the government ended the monopoly status of VNPT and called for more operators in the telecommunications sector. The same year, Viettel was granted a license to provide fixed local and long distance leased lines and mobile and internet services based on its experience supporting the telecommunications operations of the military and VNPT. However, Viettel did not launch its own commercial service until 2000. In 1995 the telecommunications market remained small. Furthermore, Viettel did not want to launch piecemeal coverage, preferring to wait until it could roll-out nationwide service. In 1999 Viettel completed its own national fibre optic backbone system and in 2000 launched the first Voice over Internet Protocol (VoIP) long distance service in Vietnam.[227] This was expanded to include VoIP international services in 2001.

In 2002 Viettel became an internet service provider and in 2003 it offered fixed line telephone service. In 2004 Viettel Mobile was launched, now one of the top mobile service providers in Vietnam. In 2006 Viettel expanded into Laos and Cambodia. In 2007 it recorded over USD one billion in revenue, with twelve million subscribers. In 2008 Viettel partnered with the Vietnam Construction and Import Export Corporation (Vinaconex), ranked 139th in the Top 200 VN, to establish a finance company.

During the initial public offering (IPO) of its member company Viettel Post in 2009, Viettel sold a 25 percent stake (Wall Street Securities 2009). Viettel also acquired an 18.9 percent stake Vinaconex (Vietnam News 2009a).[228] In addition, in 2009 Viettel began construction of a USD 50 million high-tech hub in Hoa Lac High-Tech Zone. The 25-floor office building will support the Viettel joint venture with Chunghwa of Taiwan and house an international standard data centre (Vietnam News 2009b). At the end of 2009

[227] This system is separate from the military telecommunications network. While Viettel does provide back-up to the military network, it is no longer involved in running the MoD network.
[228] This reduced the SCIC stake in Vinaconex from 63.36 percent to 51.35 percent (Vietnam News 2009a).

Viettel became an economic group, with plans to expand into media content, banking services and foreign and domestic real estate (FPT Securities 2009).[229] Viettel also holds a 10 percent stake in Military Bank (Military Bank 2008).

By 2009, Viettel had over 300 showrooms and 20,000 retail agents in Vietnam, along with 25 million subscribers and over 6,800 employees. Its mobile phone subsidiary, Viettel Telecom, is ranked 83rd out of the 100 largest telecom companies in the world and has been ranked one of the four leading telecom companies in a developing country. In terms of subscribers, Viettel has been ranked 41st out of the 650 largest telecoms companies worldwide (Vietnam News 2009b).

In early 2007, as part of an effort to reduce the role of the military and police in business, the Party re-affirmed that military and police companies not related to national security need to be equitized and transferred to civilian control (BBC News 2007). When asked about the impact of this on Viettel's operations during the interview in 2007, Viettel responded that it did not think it would affect Viettel.[230] Given Viettel's expansion since 2007, it clearly hasn't. Viettel is a prime example of Nolan and Yeung's (2001) constrained autonomy. Although the plan was not fixed in Vietnam as in China, and Vietnam did not 'grow out of the plan' in the same way (Naughton 1994, 1996), reduction of entry barriers allowing increased competition are an important element of the Viettel success story. Leveraging its early experience with the military and VNPT, Viettel captured *second*-mover advantages and went on to link with domestic and foreign firms. Its growth has been impressive.

[229] It is unknown how this will effect management of state capital in Viettel. During the interview in 2007, Viettel stressed that state capital was managed by MoD. However, since Viettel was a state enterprise under a ministry, in theory this management function should have eventually been passed over to SCIC under the Ministry of Finance. Now that Viettel is an economic group, it is unclear what role, if any, SCIC will play.
[230] The Ministry of Public Security, in partnership with a Russian telecom company, received a license to establish a mobile phone company in Vietnam in *late* 2007. The company, Gtel, was launched in 2008 and was the seventh mobile provider in Vietnam.

**Dong Bac Coal Corporation**

The second military case is Dong Bac Coal Corporation, ranked 44th in the Top 200 VN. It is not listed in Table 18 because it is a member company of the Vietnam Coal and Mineral Industries Group (Vinacomin). Dong Bac was established in 1994 to oversee military coal mines and coal processing factories under the authority of the Ministry of Defence. However, in 1994 the government also created Vinacoal, the GC 91 forerunner of the economic group Vinacomin, to centralize management of Vietnam's coal resources. Dong Bac was made a member of Vinacoal, and remains to this day the largest subsidiary of Vinacomin. Dong Bac (literally, north east) is located in Quang Ninh province on the Chinese border, site of the majority of Vietnam's coal reserves. Given the national security and economic development dimensions to its operations, it retained its link to the army even though placed under Vinacoal. Its first priority is commercial success and its second priority is training army sappers.[231]

In 2001 Dong Bac established the General Construction and Trading Company, a subsidiary producing coal stoves, trading in materials and fuels used by Dong Bac, and responsible for construction of infrastructure in support of Dong Bac investments. In 2005 it established the Tay Nguyen Mineral Exploitation subsidiary in Dak Nong province to spearhead Vinacomin's move into bauxite mining in the Central Highlands. This move was supported by the Ministry of Defence. Dong Bac is also an investor in Vinacomin's Nhan Co Aluminum JSC, which will turn Dak Nong bauxite into aluminum.[232]

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[231] It does not have any direct links, beyond purchase of supplies, with Industrial Explosives Material Company, the Vinacomin subsidiary ranked 114th in the Top 200 VN.

[232] Vinacomin's bauxite projects have become very controversial. In early 2009 an open letter to the Prime Minister was issued under the signature of 97 year old General Võ Nguyên Giáp warning of the potentially destructive environmental consequences of bauxite mining and urging the Prime Minister to reconsider the projects. Given General Giáp's extreme age, it is almost certain that other interests are behind the issuance of the letter. However, the entire matter remains very unclear. There are two primary bauxite and aluminum sites, one in Nhan Co in Dak Nong province and the other in Tan Rai in Lam Dong province, both in the Central Highlands. The U.S. mining firm Alcoa signed a memorandum of understanding with Vinacomin in 2006 to explore the possibility of investing in the Nhan Co project. Vinacomin had been in discussion with Aluminum Corporation of China (Chalco) as early as 2005 regarding Chinese participation in bauxite mining and aluminum production. It was eventually agreed that the engineering arm of Chalco, China Aluminum International Engineering Company (Chalieco), would build the facilities at Tan Rai. Following General Giáp's letter, several journalists investigated the issue and criticized the government on online

In 2006 Dong Bac transformed into a Parent-Child corporation. Its senior management is nominated by the Ministry of Defence and approved by Vinacomin. A division of labour has been agreed upon, with the army supervising Dong Bac's defence responsibilities and Vinacomin supervising Dong Bac's business activities and responsible for management of its state capital. Vinacomin exercises strict control of Dong Bac's coal business. Dong Bac can only sell coal to Vinacomin and cannot export coal directly. All coal transactions go through Vinacomin. For non-coal business activities, Dong Bac has a higher degree of autonomy. It is also engaged in petrol trading, including construction of storage facilities at Cua Ong port. In addition, Dong Bac has a small stake in Military Bank. In its 2006 corporation charter Dong Bac is also approved to operate in manufacturing of vehicles and ships, but has not yet invested in these operations. In 2007 Dong Bac partnered with a Laotian firm to exploit natural resources (copper, gold, lead, zinc) in Laos.

As with Viettel, Dong Bac did not feel that the 2007 government decision to reduce military management in firms would have much effect. Unlike Viettel, Dong Bac did not give the overwhelming impression of dynamism and growth. A stake in a bank and movement into Laos or Cambodia are fairly common maneuvers for Vietnam's large firms. However, Dong Bac and its supervision by both Vinacomin and the Ministry of Defence highlights the complexity of authority relations within Vietnam's General Corporations.

The twelve firms reviewed demonstrate the variety of state-related accumulation processes operating in Vietnam, similar in many respects to various processes observed in Eastern Europe and China. These firms also demonstrate the dynamism that has

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blogs for selling Vietnam's natural resources to China, destroying the environment and failing to provide jobs for Vietnamese workers since Chalieco was importing its own Chinese labour. No mention was made of U.S. involvement via Alcoa. This sparked an anti-Chinese nationalist outrage. Several bloggers were eventually arrested. The Politburo and the Prime Minister issued a series of statements, declaring their intention to ensure the environmental safety and economic feasibility of the projects, and the desire to undertake the projects without foreign assistance. While a ban was issued on foreign *investment* in bauxite projects, placing Alcoa participation in jeopardy, the Chalieco engineering contract to *build* facilities on behalf of Vinacomin went forward. Later in 2009, foreign work visas were limited to three month duration, possibly in an attempt to curtail use of imported Chinese labour. It remains to be seen how the issue will be resolved (Vietnam News 2005, 2008b; Reuters 2009; Vietnamnet 2009a).

resulted from increased competition. Although not all firms discussed were success stories, the broad pattern of leveraging access to the state remains a common feature.

## 5.4 The Role of the Communist Party in Vietnam

Even after nearly thirty years of reform, it is still relatively early in Vietnam's capitalist transformation. Vietnam is only just now emerging into the ranks of 'middle-income countries', and while its record to date has been impressive, much remains to be done. One-off gains from granting property rights to farmers and removing restrictions on production and trade will not sustain growth indefinitely. The 'easy' reforms, and therefore the 'easy' growth, will need to be followed by deeper structural change. This is politically difficult. As Hutchcroft (1998) observes, it "is far easier, for example, to liberalize imports than to promote high-value exports; less troublesome to dismantle a system of preferential fiscal incentives than to create a revenue system able to sustain the long-term infrastructural needs of development; and [sic] much simpler to give out new bank licenses than to assure the 'prudential regulation' of the financial system" (Hutchcroft 1998, p.3). However, these 'deeper reforms' are not just about institution building. They are fundamentally about resolving the Djilas contradiction and coming to terms *politically* with the emergence of capitalism in Vietnam.

Inability to discipline capital can lead to Latin American style outcomes, typified in Southeast Asia by the Philippines and post-Suharto Indonesia (Yoshihara 1988, Hutchcroft 1998, Studwell 2007). However, it remains unclear why some nations develop the political will to impose discipline and orient accumulation towards long term growth and structural change. Greenfeld (2001) argues that part of the answer depends on the rise of nationalism and the type of nationalism that emerges. Woo (1991) on South Korea; Samuels (1994) on Japan; and Doner, Ritchie and Slater (2005) more generally argue that part of the answer depends on the perception of vulnerability, a systemic threat which generates an imperative to succeed, a develop or die mentality.

Steinfeld's (2009, 2010) work on China supports both positions. The lesson China seems to have drawn from the Asian Financial Crisis was that state-led development would not deliver, highlighting China's vulnerability in terms of pursuing an inadequate growth strategy. This occurred in the context of a redefinition of the role of the Chinese Communist Party, in which China's 'quest for modernity' was increasingly defined in nationalist rather than socialist terms. This influenced the shift to the Three Represents and inclusion of private entrepreneurs into the ranks of the Party. Whether intentional or not, China has in practice, even if perhaps still not in rhetoric, resolved the New Class contradiction by initiating transformation into a capitalist state (Breslin 2004).[233]

In Vietnam, this has not yet occurred. The Party has historically responded quickly and pragmatically in times of crisis. However, at present it does not appear that a sufficient sense of vulnerability exists to initiate resolution of the New Class contradiction. The status quo remains the state-led development model of the 1990s and 2000s. This can be seen in the fact that the debates about the role of the Party remain largely unchanged. For example, in August 1995, then Prime Minister Võ Văn Kiệt sent a secret memo to his fellow Politburo members addressing these issues in the run-up to the VIII[th] Party Congress in 1996.[234] Mr. Kiệt argued that 'national interest' was more important than 'socialism', and explicitly argued against a Stalinist definition of socialism as state ownership, instead advancing a definition of the role of the Party based on facilitating national development and ensuring social welfare. In this formulation, 'socialist orientation' is separated from ownership of the means of production and the role of the Party is to develop the nation and improve the lives of its citizens (Vasavakul 1997, Riedel and Turley 1999). Almost fifteen years later, in 2009, the rector of a prominent

[233] This is not meant to suggest that China's problems are now over. China continues to face serious political, economic, social and environmental issues. Its continued transformation is not guaranteed. However, resolving the New Class contradiction does mean that the tensions of the old system can be overcome rather than simply delayed, even if resolving one contradiction simply opens up new ones.
[234] This memo was subsequently leaked and is discussed in Vasavakul (1997) and Riedel and Turley (1999). The intention here is not to hold up Võ Văn Kiệt as a 'reformer', but simply to highlight the terms of the debate within the Party.

university in Vietnam presented a document for discussion in the run-up to the XI$^{th}$ Party Congress in 2011 in which the exact same points were made.[235]

Whether intended or not, capitalism has been unleashed in Vietnam. State-related accumulation has generated incredible economic dynamism, but also resulted in the 'embourgeoisement of the state' (Greenfield 1994). What then is the role of the Party? What does it mean to be a communist in Vietnam? The Party has not yet decided how to relate to itself, and in particular how to relate to the emergence of an increasingly autonomous capitalist class from within the state. This is not necessarily about ideology or commitment to socialism, it is about legitimating principles. Without a rationale, a definition of its role beyond ownership, by what standards are activities judged? How are policy options generated and chosen between? So-called consensus based politics is insufficient, since without a sense of vulnerability and imperative for change it simply leads to lowest common denominator outcomes. Failure to resolve the New Class contradiction, demonstrated by the inability to define the role of the Party, results in continuation of the status quo state-led development model. However, as indicated by the Philippines and post-Suharto Indonesia, there is a very real danger that this will simply degenerate into money politics and rent-distribution rather than continued economic growth. The recent wave of massive and overlapping investment licenses granted at the provincial level, resulting in, for example, plans for a port in every coastal province, indicates that this process is already underway (Harvard Vietnam Program 2008a).[236] In addition, this prevents effective disciplining, as demonstrated by the difficulties with Vietnam's state corporations, and makes achieving the policy coordination necessary for the next generation of needed reforms extremely difficult.

[235] In order to protect the identity of this individual, details regarding the context in which this information was obtained have been omitted. See Quinn-Judge (2005) for discussion of the Anti-Party Affair in the late 1960s in which many of the same issues were debated.

[236] The rising formal power of provincial interests is an important part of the story in Vietnam. However, since this dissertation is not directly about the history of the Party or the evolution of the state, this will not be discussed in detail. For discussion of these issues, see Đặng Phong and Beresford (1998); Abuza (2002); Vasavakul (1997); Riedel and Turley (1999); Gainsborough (2007a); and Abrami, Malesky and Zheng (2007, 2008).

These issues also extend to relations between the Party and the people. As ‘state-led development’ is increasingly perceived as a euphemism for corruption and personal enrichment, failure to resolve the New Class contradiction and redefine the role of the Party erodes legitimacy. The Communist Party in Vietnam needs to resolve the New Class contradiction by defining its purpose. Failure to do so could result in the derailing of Vietnam’s capitalist transformation.

## 5.5 Summary

This chapter presented the findings of research conducted on the Top 200 Vietnamese firms. One of the key findings is the increasing importance of competition – the market imperative – in all sectors for firms of all ownership types. This is one hallmark of the development of capitalism in Vietnam. In response, Vietnam’s largest firms have adopted three general strategies: upgrading core business into more complex and higher value products, expanding markets and diversifying business areas, often into real estate and finance. These strategies are frequently related and most firms are engaging in more than one, with some firms pursuing all three strategies simultaneously. Diversification into finance and real estate is a fairly common practice, but is particularly pronounced amongst Vietnam’s General Corporations and economic groups.

Twelve case studies were presented which illustrate these strategies, along with a considerable degree of dynamism. The firms reviewed also highlight the centrality of state-related accumulation to the process of class formation in Vietnam. This pattern of accumulation comes in a variety of forms identifiable from the Eastern Europe and China literature, such as double entrepreneurship, contesting ownership, insider privatization, constrained autonomy turned red capitalism, and recombinant property. It is not necessarily corrupt and can even be quite mundane. Nevertheless, this broad pattern of accumulation demonstrates that the capitalist class in Vietnam is emerging from within the state.

# 6 Conclusion

The primary argument of this dissertation is that the capitalist class in Vietnam is emerging from within the state. Chapter One argued that viewing growth and development as the extension of markets is insufficient for understanding the transformation occurring in Vietnam. The chapter sought to reorient the theoretical approach used to analyze this change, arguing for the importance of using a Marxist definition of capitalism which stresses the emergence of a new social division of labour based on the emerging class relation between capital and labour. This provides a framework capable of capturing the unique features of capital as an 'ism' and serves as a guide to empirical investigation. However, there is a tendency towards the doctrinaire in Marxism. The approach adopted here is similar to what Pelley (2002) refers to as a 'Marxish framework'. While a theoretical model of capitalism is useful, it needs to be applied with flexibility in practice. Given unique historical and political circumstances, Vietnam will have its own variety of capitalism. Attempting to identify which type or model of capitalism is operating in Vietnam misses the point since there is no one correct form. The more important question is: what is the nature of Vietnamese capitalism?

Chapter Two introduced Djilas (1957) and the concept of communist bureaucracies as a New Class. This was used as a lens to explore the formation of a capitalist class. For Djilas, the New Class is based on a contradiction between national property and control over its use. This contradiction is predicated on a disjunction between a legal definition of property as collective and *de facto* ownership and control by state bureaucrats and managers. It cannot be resolved without jeopardizing the position of the New Class. The foundation of New Class power therefore erodes during transition as property is privatized and the plan is dismantled. Reproduction of New Class power during transition becomes an issue of fundamental importance, and how the Djilas contradiction is resolved influences the formation of a capitalist class.

Attempts to reproduce New Class power do not occur in a vacuum. Under a command economy, the New Class accumulates based on leveraging access to the state. In Eastern

Europe and China, resolution of the New Class contradiction during transition followed a pattern of state-related accumulation that has its roots in the planning period. However, different countries experienced different outcomes, with state continuity a key element in orienting this process towards economic growth. Chapter Two identified specific methods used to resolve the Djilas contradiction in Eastern Europe and China, which provided guidance for identifying similar processes of capitalist class formation in Vietnam. Discussion also included the development of capitalism in Southeast Asia and its relevance to the emergence of capitalism in Vietnam.

Chapter Three served the dual purpose of literature review and discussion of events between 1954 and 2006 in Vietnam. It was argued that, as in Eastern Europe and China, a pattern of accumulation based on leveraging access to the state emerged under planning. In the initial period between 1954 and 1974 in the north this functioned primarily to overcome shortages and improve living standards. However, after national reunification in 1975, it expanded into a process of commercializing the state. The continued ability to arbitrage price differentials between plan and market by diverting inputs and assets from the state system, along with opportunities to engage in smuggling through travel abroad, increasingly became sources of capital accumulation. State firms and those connected to the state increasingly engaged in commercial activities outside the plan. The process accelerated through the 1980s and ultimately destroyed the basis for central planning, forcing the Vietnamese Communist Party to attempt resolution of the New Class contradiction.

In the 1990s and 2000s, temporary resolution of the Djilas contradiction followed a relatively straightforward application of the Stalinist definition of socialism as state ownership. The state sector would play the ‘leading role’ in the economy and this led to a state enterprise focused development model. As in China, state-related accumulation included both state and private entrepreneurs and shaped the process of capitalist class formation. Although based on leveraging access to the state, the growing influence of the market imperative, manifested as increased competition, resulted in remarkable economic dynamism.

Much work has been done on these issues in Vietnam, but has tended to focus on processes occurring at lower levels in the state hierarchy or is based on aggregate comparisons between state and private. None have systematically investigated Vietnam's largest firms. This dissertation presented research on the Top 200 Vietnamese firms to assess how the ongoing attempt to resolve the Djilas contradiction is influencing the emergence of a capitalist class from within the state.

Chapter Four reviewed methodology. The firm was used as the unit of analysis because it is in firms that capital and labour meet. Firms are the 'vehicles' of capitalism. The focus was on large firms because large firms are better able to achieve the economies of scale and scope that contribute to international competitiveness. They also invest in the acquisition and development of technologies and products and therefore pioneer entry into higher value-added activities. In addition, large firms' requirements for infrastructure, capital and skilled labour have significant and often positive spillover effects for the rest of the economy. Nevertheless, competitive large *and* small firms are important to a dynamic economy. However, most of the work done in Vietnam tends to focus on small and medium sized enterprises. This dissertation presented research findings on Vietnam's largest firms in order to address this limitation. The remainder of the chapter explained the methodology used for selecting the Top 200 firms.

Chapter Five presented the research results. Two key features emerged. The first was the rising importance of the market imperative, with increasing competition forcing firms to adapt and improve. In response, Vietnam's largest firms adopted three general strategies: upgrading core business into more complex and higher value products; expanding markets; and diversifying business areas, often into real estate and finance. These strategies are frequently related and most firms engage in more than one, with some firms pursuing all three strategies simultaneously. Diversification into finance and real estate is a fairly common practice, but is particularly pronounced amongst Vietnam's General Corporations and economic groups.

The second feature is the pervasiveness of state-related accumulation. However, state-related accumulation does not require intentionality on the part of the state. Indeed, the historical roots of this process in Vietnam are predicated precisely on a *lack* of control. State-related accumulation also occurs irrespective of ownership type. Private firms leverage access to the state just as state firms seize new market opportunities to expand and accumulate. In many instances the boundary between state and private is blurred. However, political connections and access to the state remain insufficient conditions for success. Some firms, even with ample privileges, fail to exploit emerging opportunities.

Twelve case studies of individual firms were presented which illustrated the three general adaptive strategies, along with a considerable degree of dynamism. The firms reviewed also highlighted the centrality of state-related accumulation to the process of class formation in Vietnam. This pattern of accumulation comes in a variety of forms identifiable from the Eastern Europe and China literature. However, it is not necessarily corrupt and can even be quite mundane. Nevertheless, this broad pattern of accumulation demonstrates that the capitalist class in Vietnam is emerging from within the state.

## *6.1 Further Research*

This dissertation is intended to be the beginning of a larger story about the development of capitalism in Vietnam. However, this dissertation has focused on only one element of this process – how the capitalist class is emerging from within the state. The full story of the development of capitalism in Vietnam requires, first and foremost, analysis of the formation of wage labour. In addition, examination of the economic structure and bureaucracy from at least the 19$^{th}$ century Nguyễn dynasty, tracing its evolution through the period of French colonialism and into two major wars, needs to be incorporated into the analysis. The rise of nationalism and the history of the Communist Party, along with changes in land tenure, the role of trade and foreign investment, and changes in the global economy also need to be included. Finally, large private business groups, which for methodological reasons do not appear in the Top 200, need to be investigated. As Ut Xi Aquatic Products demonstrates, it is possible that the growth dynamic based on state-related accumulation is changing. Whether or not this is true, and whether or not this only applies in some sectors but not others, needs to be examined. These topics remain important areas for further research.

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**Table 18: Company Websites**

| Company | Acronym | Website |
|---|---|---|
| Binh Tien Consumer Goods Production Ltd | Bitis | http://www.bitis.com.vn/ |
| Cho Lon Investment and Import Export Corporation | Cholimex | http://cholimex.com.vn/ |
| Corporation for Financing and Promoting Technology | FPT | http://www.fpt.com.vn/en/ |
| Dak Lak Rubber Company | Dakruco | http://www.dakruco.com/english/index_eng.asp |
| Electricity of Vietnam | EVN | http://www.evn.com.vn/ |
| Military Bank | MB | http://www.militarybank.com.vn/ |
| Military Telecom Corporation | Viettel | http://www.viettel.com.vn/ |
| Minh Phu Seafood Import Export Company | Minh Phu | http://www.minhphu.com/trangchu_e.php |
| Petrovietnam Finance Corporation | PVFC | http://www.pvfc.com.vn/ |
| Technological and Commercial Joint Stock Bank | Techcombank | https://www.techcombank.com.vn/ |
| Vietnam Airlines | Vietnam Airlines | http://www.vietnamairlines.com.vn/ |
| Vietnam Coal and Mineral Industries Group | Vinacomin | http://www.vinacomin.vn/ |
| Vietnam Construction and Import Export Corporation | Vinaconex | http://www.vinaconex.com.vn/ |
| Vietnam Dairy Company | Vinamilk | http://vinamilk.com.vn/ |
| Vietnam National Chemical Corporation | Vinachem | http://www.vinachem.com.vn/ |
| Vietnam National Petroleum Corporation | Petrolimex | http://www.petrolimex.com.vn/ |
| Vietnam National Shipping Lines | Vinalines | http://www.vinalines.com.vn/ |
| Vietnam Ocean Shipping Company | Vosco | http://www.vosco.com.vn/ |
| Vietnam Oil and Gas Group | Petrovietnam | http://www.pvn.vn/ |
| Vietnam Post and Telecommunications Group | VNPT | http://www.vnpt.com.vn/ |
| Vietnam Rubber Group | Geruco | http://www.vnrubbergroup.com/ |
| Vietnam Shipbuilding Industry Group | Vinashin | http://www.vinashin.com.vn/ |
| Vietnam Textile and Garment Group | Vinatex | http://www.vinatex.com/Intro.aspx |

# Appendix 1: The Top 200 Firms, All

| Rank | English Name |
|---|---|
| 1 | Bank for Agriculture and Rural Development |
| 2 | Vietnam Post and Telecommunications Corporation |
| 3 | Electricity of Vietnam |
| 4 | Bank for Investment and Development of Vietnam |
| 5 | Vietsovpetro JV Enterprise |
| 6 | Bank for Foreign Trade of Vietnam |
| 7 | Pouyen Vietnam Co Ltd |
| 8 | Vietnam Insurance Corporation |
| 9 | HCMC Post and Telecommunications |
| 10 | Military Telecom Corporation |
| 11 | Vietnam Railway Corporation |
| 12 | Thai Nguyen Iron and Steel Co |
| 13 | Canon Vietnam Co Ltd |
| 14 | The Corporation for Financing and Promoting Technology |
| 15 | Vietnam Dairy Products Co. |
| 16 | Southern Steel Corporation |
| 17 | Vietnam Mobile Telecom Services Company |
| 18 | Tae Kwang Vina Industrial Co Ltd |
| 19 | Vietnam Paper Corporation |
| 20 | Fujitsu Vietnam Computer Products Co Ltd |
| 21 | CP Vietnam Livestock Co Ltd |
| 22 | Pouchen Vietnam |
| 23 | Saigon Tobacco Co. |
| 24 | Bao Viet Life Insurance |
| 25 | Honda Vietnam Co Ltd |
| 26 | Chang Shin Co Ltd |
| 27 | Hyundai Vinashin Shipyard Co Ltd |
| 28 | Bao Viet Insurance |
| 29 | Nidec Tosok Vietnam Co Ltd |
| 30 | Petroleum Technical Services Company |
| 31 | Furukawa Automotive Parts Co Ltd |
| 32 | Vietnam Construction Investment Import and Export Holding Corporation |
| 33 | Hwa Seung Vina Co Ltd |
| 34 | Vedan Vietnam |
| 35 | Yazaki EDS Vietnam Co Ltd |
| 36 | Saigon Tourist Holding Company |
| 37 | Dau Tieng Rubber Corp. |
| 38 | Viet Tien Garment Co. |
| 39 | Saigon Thuong Tin Bank |
| 40 | Dong Nai Rubber Co. |

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|---|---|
| 41 | Vietnam Airlines |
| 42 | Hanoi Public Service and Transportation Co. |
| 43 | Tainan Spinning Co Ltd |
| 44 | Asia Commercial Bank |
| 45 | Yamaha Motor Vietnam Co Ltd |
| 46 | Saigon Beer Alcohol and Beverage Corporation |
| 47 | Hoang Thach Cement Co |
| 48 | Mabuchi Motor Vietnam Co Ltd |
| 49 | Civil Engineering Construction Corp. No.5 |
| 50 | Nissei Electric Vietnam Co Ltd |
| 51 | Hualong Corporation Vietnam |
| 52 | Petrolimex B12 |
| 53 | Vietnam Southern Food Corporation |
| 54 | HCMC Water Supply Co |
| 55 | Bim Son Cement Co |
| 56 | Khanh Viet Corporation |
| 57 | Prudential Vietnam |
| 58 | Metro Cash and Carry Vietnam |
| 59 | Nam Trieu Shipbuilding Company |
| 60 | Saigon Newport Co |
| 61 | Hanoi Textile and Garment Co |
| 62 | Dong Bac Coal Co. |
| 63 | Orion-Hanel Picture Tube Co Ltd |
| 64 | Cua Ong Coal Selecting Co. |
| 65 | Lam Thao Fertilizers and Chemicals Co |
| 66 | Petrolimex Region 2 |
| 67 | Phong Phu Textile Co. |
| 68 | Chi Hung Joint Venture Co. |
| 69 | Thanh Le Commercial Import Export Co |
| 70 | Industrial and Commercial Bank of Vietnam |
| 71 | Nha Be Garment Co. |
| 72 | Dona Pacific Vietnam Co Ltd |
| 73 | Vietnam Manufacturing and Export Processing Co Ltd |
| 74 | Nam Viet Co Ltd |
| 75 | Binh Long Rubber Co |
| 76 | Kim Anh Co Ltd |
| 77 | Development Investment Construction Corp. |
| 78 | Formosa Vietnam Co Ltd |
| 79 | Construction Company No. 1 |
| 80 | Sumitomo Bakelite Vietnam Co Ltd |
| 81 | Vietnam Ocean Shipping Co |
| 82 | Petrovietnam Gas Company |
| 83 | Southern Airport Authority |

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|---|---|
| 84 | Construction Company No. 319 |
| 85 | Bai Bang Paper Co |
| 86 | Noi Dia Coal Co Ltd |
| 87 | Phuoc Hoa Rubber Co |
| 88 | Lever Vietnam JVC |
| 89 | Dona Victor Moulds MFG Co |
| 90 | Phu Rieng Rubber Co |
| 91 | Ha Long Shipyard |
| 92 | Bach Dang Shipyard |
| 93 | Thanh Cong Textile Co. |
| 94 | Samyang Vietnam Co Ltd |
| 95 | Petrolimex Region 1 |
| 96 | Intimex Import Export Co |
| 97 | Quang Ngai Sugar Corp. |
| 98 | Vietnam Acecook Co Ltd |
| 99 | Vietnam Sea Transport and Chartering Co |
| 100 | Southern Rubber Industry Co |
| 101 | Saigon Passenger Railway Transportation Co. |
| 102 | Kinh Do JSC |
| 103 | Saigon Co.opMart |
| 104 | Civil Engineering Construction Corp. No.1 |
| 105 | Tan Mai Paper Co. |
| 106 | Ut Xi Aquatic Products Processing Co. Ltd. |
| 107 | Bao Minh Co |
| 108 | Cai Lan Oil and Fats Industries Co Ltd |
| 109 | Can Tho Agricultural and Animal Products Company |
| 110 | Uni President Vietnam Co Ltd |
| 111 | Ha Bac Nitrogen Fertilizers and Chemical Co |
| 112 | Northern Airports Authority |
| 113 | Dona Orion Vietnam Co Ltd |
| 114 | Binh Duong Trading Investment and Development Corporation |
| 115 | Cao Son Coal Co. |
| 116 | Uong Bi Coal Co. |
| 117 | Ha Tu Coal Co. |
| 118 | Saigon Port |
| 119 | Hanoi General Production and Import-Export Company |
| 120 | Vietnam Glass and Ceramics for Construction Corp. |
| 121 | Ha Tien Cement Co No.1 |
| 122 | Thai Binh Co Ltd. |
| 123 | Machino Auto Parts Co Ltd |
| 124 | Phu Yen Material Company |
| 125 | Vietnam Air Petrol Co |
| 126 | Seaprodex Danang Co |

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|---|---|
| 127 | Scancom Vietnam Co Ltd |
| 128 | Vissan Import Export Corporation |
| 129 | Saigon Agriculture Corporation |
| 130 | Can Tho Sea Product Processing Export Enterprise |
| 131 | Hai Phong Port |
| 132 | Yazaki Haiphong Vietnam Co Ltd |
| 133 | Saigon Post and Telecommunication JSC |
| 134 | Vang Danh Coal Co. |
| 135 | Petrovietnam Fertilizer and Chemicals Co. |
| 136 | Nui Beo Coal Co. |
| 137 | Chutex International Co Ltd |
| 138 | Phy My Hung Joint Venture Co. |
| 139 | Sumi-Hanel Electronics Co. |
| 140 | Construction Company No. 4 |
| 141 | Technological and Commercial Joint Stock Bank |
| 142 | Theodore Alexander Co Ltd |
| 143 | Dutch Lady Vietnam |
| 144 | Industrial Explosive Material Company |
| 145 | Freetrend Industrial Vietnam Co Ltd |
| 146 | Holcim Vietnam Ltd. |
| 147 | Vietnam Export Import Commercial Joint Stock Bank |
| 148 | Company No. 28 |
| 149 | Green River Wood and Lumber Vietnam Co Ltd |
| 150 | Eastern Asia Commercial Bank |
| 151 | Coc 6 Coal Co. |
| 152 | Triumph International Vietnam Co Ltd |
| 153 | Always Co Ltd |
| 154 | Ha Tien Cement Co No.2 |
| 155 | Ha Long Coal Co. |
| 156 | But Son Cement Co |
| 157 | Nam Dinh Textile Co |
| 158 | Binh Duong Production and Import Export Co. |
| 159 | Proconco Producing Animal Feeds JVC |
| 160 | Southern Fertilizers Co |
| 161 | Hanoi Trade Corporation |
| 162 | Ca Mau Frozen Seafood Processing Import Export Corp. |
| 163 | Pangrim Neotex Co Ltd |
| 164 | An Giang Agriculture and Foods Import Export Co. |
| 165 | Hoang Gia Cat Tuong Co. Ltd |
| 166 | Northern Foodstuff Co |
| 167 | Mao Khe Coal Co. |
| 168 | Hoang Mai Cement Co |
| 169 | Kingmaker Footwear Vietnam Co Ltd |

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|---|---|
| 170 | Saigon Transportation Mechanical Corporation |
| 171 | Minh Quy Aquatic Products Processing Co Ltd. |
| 172 | Tin Nghia Import Export Co |
| 173 | Vietnam Apatite Company |
| 174 | Thang Loi Textile and Garment Co |
| 175 | Vietnam Northern Food Corporation |
| 176 | Toyota Vietnam |
| 177 | Vietnam International Bank |
| 178 | Dong Nai Agricultural Products and Food Processing Import Export Co |
| 179 | Thanh An Corporation |
| 180 | Vietnam Construction and Import Export Corporation |
| 181 | Phuong Nam Joint Stock Commercial Bank |
| 182 | Deo Nai Coal Co. |
| 183 | Ninh Thuan Agricultural Products Export Co. |
| 184 | Viet Thang Textile Co. |
| 185 | Phu Nhuan Jewelry Joint Stock Company |
| 186 | Water Electrical Mechanical Installation and Construction Joint Stock Co |
| 187 | Vietnam Industrial Construction Corporation |
| 188 | Electrical Mechanical Appliances and Technology Development Company Co |
| 189 | Aquatic food trading Company |
| 190 | Sanyo Vietnam Home Appliances ASEAN |
| 191 | Lam Son Sugar Joint Stock Corporation |
| 192 | Binh Tien Consumer Goods Production Co. Ltd. |
| 193 | LG Electronics Vietnam Co Ltd |
| 194 | Ajinomoto Vietnam Co Ltd |
| 195 | Petec Trading and Investment Corporation |
| 196 | Cai Doi Vam Import Export Company |
| 197 | Danang Rubber Co |
| 198 | Grobest Industrial Vietnam Co Ltd |
| 199 | Minh Phu Seafood Import Export Co. |
| 200 | Loc Ninh Rubber Co. |

## Appendix 2: The Top 200 Firms, Vietnamese

| Ran k | English Name | Abbreviation |
|---|---|---|
| 1 | Bank for Agriculture and Rural Development | AGRIBANK |
| 2 | Vietnam Post and Telecommunications Corporation | VNPT |
| 3 | Electricity of Vietnam | EVN |
| 4 | Bank for Investment and Development of Vietnam | BIDV |
| 5 | Vietsovpetro JV Enterprise | VIETSOVPETRO |
| 6 | Bank for Foreign Trade of Vietnam | VIETCOMBANK |
| 7 | Vietnam Insurance Corporation | BAOVIET |
| 8 | HCMC Post and Telecommunications | |
| 9 | Military Telecom Corporation | VIETTEL |
| 10 | Vietnam Railway Corporation | VNR |
| 11 | Thai Nguyen Iron and Steel Co | TISCO |
| 12 | The Corporation for Financing and Promoting Technology | FPT |
| 13 | Vietnam Dairy Products Co. | VINAMILK |
| 14 | Southern Steel Corporation | SSC |
| 15 | Vietnam Mobile Telecom Services Company | VMS |
| 16 | Vietnam Paper Corporation | VINAPIMEX |
| 17 | Saigon Tobacco Co. | VINATABA SAIGON |
| 18 | Bao Viet Life Insurance | BAO VIET LIFE |
| 19 | Honda Vietnam Co Ltd | HONDA VIETNAM |
| 20 | Hyundai Vinashin Shipyard Co Ltd | HVS |
| 21 | Bao Viet Insurance | |
| 22 | Petroleum Technical Services Company | PTSC |
| 23 | Vietnam Construction Investment Import and Export Holding Corporation | CONSTREXIM HOLDINGS |
| 24 | Saigon Tourist Holding Company | SAIGON TOURIST |
| 25 | Viet Tien Garment Co. | VTEC |
| 26 | Saigon Thuong Tin Bank | SACOMBANK |
| 27 | Dau Tieng Rubber Corp. | |
| 28 | Vietnam Airlines | VIETNAM AIRLINES |
| 29 | Hanoi Public Service and Transportation Co. | TRANSERCO |
| 30 | Dong Nai Rubber Co. | DONARUCO |
| 31 | Asia Commercial Bank | ACB |
| 32 | Saigon Beer Alcohol and Beverage Corporation | SABECO |
| 33 | Yamaha Motor Vietnam Co Ltd | YAMAHA VIETNAM |
| 34 | Hoang Thach Cement Co | |
| 35 | Petrolimex B12 | PETROLIMEX B12 |
| 36 | Vietnam Southern Food Corporation | VINAFOOD 2 |
| 37 | Khanh Viet Corporation | |
| 38 | Bim Son Cement Co | BCC |
| 39 | Civil Engineering Construction Corp. No.5 | CIENCO 5 |
| 40 | HCMC Water Supply Co | |
| 41 | Nam Trieu Shipbuilding Company | |
| 42 | Hanoi Textile and Garment Co | HANOSIMEX |
| 43 | Orion-Hanel Picture Tube Co Ltd | OHPT |

| | | |
|---|---|---|
| 44 | Dong Bac Coal Co. | NECO |
| 45 | Saigon Newport Co | SNP |
| 46 | Cua Ong Coal Selecting Co. | |
| 47 | Lam Thao Fertilizers and Chemicals Co | LAFCHEMCO |
| 48 | Petrolimex Region 2 | PETROLIMEX SAIGON |
| 49 | Phong Phu Textile Co. | PHONGPHU TEXCO |
| 50 | Thanh Le Commercial Import Export Co | THALEXIM |
| 51 | Chi Hung Joint Venture Co. | |
| 52 | Nha Be Garment Co. | NHABECO |
| 53 | Industrial and Commercial Bank of Vietnam | INCOMBANK |
| 54 | Development Investment Construction Corp. | DIC |
| 55 | Nam Viet Co Ltd | NAVICO |
| 56 | Kim Anh Co Ltd | |
| 57 | Binh Long Rubber Co | |
| 58 | Petrovietnam Gas Company | PVGAS |
| 59 | Vietnam Ocean Shipping Co | VOSCO |
| 60 | Construction Company No. 1 | |
| 61 | Southern Airport Authority | SAA |
| 62 | Bai Bang Paper Co | BAPACO |
| 63 | Construction Company No. 319 | |
| 64 | Lever Vietnam JVC | UNILEVER VIETNAM |
| 65 | Noi Dia Coal Co Ltd | |
| 66 | Phuoc Hoa Rubber Co | |
| 67 | Phu Rieng Rubber Co | |
| 68 | Ha Long Shipyard | |
| 69 | Bach Dang Shipyard | |
| 70 | Petrolimex Region 1 | PETROLIMEX HANOI |
| 71 | Intimex Import Export Co | INTIMEX |
| 72 | Thanh Cong Textile Co. | T.CTEX |
| 73 | Quang Ngai Sugar Corp. | |
| 74 | Vietnam Sea Transport and Chartering Co | VITRANSCHART |
| 75 | Saigon Co.opMart | |
| 76 | Southern Rubber Industry Co | CASUMINA |
| 77 | Saigon Passenger Railway Transportation Co. | |
| 78 | Kinh Do JSC | KIDOCO |
| 79 | Civil Engineering Construction Corp. No.1 | CIENCO 1 |
| 80 | Tan Mai Paper Co. | |
| 81 | Cai Lan Oil and Fats Industries Co Ltd | CALOFIC |
| 82 | Bao Minh Co | BAO MINH |
| 83 | Ut Xi Aquatic Products Processing Co. Ltd. | |
| 84 | Ha Bac Nitrogen Fertilizers and Chemical Co | HANICHEMCO |
| 85 | Can Tho Agricultural and Animal Products Company | CATACO |
| 86 | Northern Airports Authority | NAA |
| 87 | Cao Son Coal Co. | |
| 88 | Binh Duong Trading Investment and Development Corporation | BECAMEX IDC |
| 89 | Saigon Port | CSG |
| 90 | Ha Tu Coal Co. | |

| | | |
|---|---|---|
| 91 | Vietnam Glass and Ceramics for Construction Corp. | VIGLACERA |
| 92 | Uong Bi Coal Co. | |
| 93 | Hanoi General Production and Import-Export Company | HAPROSIMEX |
| 94 | Ha Tien Cement Co No.1 | |
| 95 | Machino Auto Parts Co Ltd | MAP |
| 96 | Vietnam Air Petrol Co | VINAPCO |
| 97 | Phu Yen Material Company | PYGEMACO |
| 98 | Petrovietnam Fertilizer and Chemicals Co. | PVFCCo |
| 99 | Seaprodex Danang Co | SEAPRODEX DANANG |
| 100 | Vissan Import Export Corporation | VISSAN |
| 101 | Phy My Hung Joint Venture Co. | |
| 102 | Thai Binh Co Ltd. | |
| 103 | Can Tho Sea Product Processing Export Enterprise | |
| 104 | Saigon Post and Telecommunication JSC | SPT |
| 105 | Saigon Agriculture Corporation | |
| 106 | Hai Phong Port | |
| 107 | Vang Danh Coal Co. | |
| 108 | Nui Beo Coal Co. | |
| 109 | Technological and Commercial Joint Stock Bank | TECHCOMBANK |
| 110 | Holcim Vietnam Ltd. | |
| 111 | Sumi-Hanel Electronics Co. | |
| 112 | Dutch Lady Vietnam | |
| 113 | Vietnam Export Import Commercial Joint Stock Bank | VIETNAM EXIMBANK |
| 114 | Industrial Explosive Material Company | VIMICCO |
| 115 | Construction Company No. 4 | |
| 116 | Eastern Asia Commercial Bank | |
| 117 | Proconco Producing Animal Feeds JVC | PROCONCO |
| 118 | Coc 6 Coal Co. | |
| 119 | But Son Cement Co | |
| 120 | Company No. 28 | AGTEX |
| 121 | Ha Tien Cement Co No.2 | |
| 122 | Southern Fertilizers Co | SFC |
| 123 | Ha Long Coal Co. | |
| 124 | Binh Duong Production and Import Export Co. | PROTRADE |
| 125 | Nam Dinh Textile Co | NATEXCO |
| 126 | Ca Mau Frozen Seafood Processing Import Export Corp. | CAMIMEX |
| 127 | Hanoi Trade Corporation | HAPRO |
| 128 | Hoang Mai Cement Co | |
| 129 | Saigon Transportation Mechanical Corporation | SAMCO |
| 130 | Northern Foodstuff Co | FONEXIM |
| 131 | An Giang Agriculture and Foods Import Export Co. | AFIEXCO |
| 132 | Toyota Vietnam | TOYOTA VIETNAM |
| 133 | Vietnam Northern Food Corporation | VINAFOOD 1 |
| 134 | Minh Quy Aquatic Products Processing Co Ltd. | |
| 135 | Mao Khe Coal Co. | |
| 136 | Tin Nghia Import Export Co | TIMEX CO |
| 137 | Vietnam International Bank | VIBank |

| | | |
|---|---|---|
| 138 | Hoang Gia Cat Tuong Co. Ltd | |
| 139 | Vietnam Construction and Import Export Corporation | VINACONEX |
| 140 | Vietnam Apatite Company | VINAAPCO |
| 141 | Phuong Nam Joint Stock Commercial Bank | |
| 142 | Thang Loi Textile and Garment Co | VITEXIM |
| 143 | Phu Nhuan Jewelry Joint Stock Company | |
| 144 | Ninh Thuan Agricultural Products Export Co. | |
| 145 | Dong Nai Agricultural Products and Food Processing Import Export Co | DONAFOODS |
| 146 | Deo Nai Coal Co. | |
| 147 | Petec Trading and Investment Corporation | PETEC |
| 148 | Vietnam Industrial Construction Corporation | VINAINCON |
| 149 | Thanh An Corporation | |
| 150 | Electrical Mechanical Appliances and Technology Development Company Co | GELIMEX |
| 151 | Viet Thang Textile Co. | VICOTEX |
| 152 | Aquatic Food Trading Company | APT CO |
| 153 | Water Electrical Mechanical Installation and Construction Joint Stock Co | COWAELMIC |
| 154 | Lam Son Sugar JSC | LASUCO |
| 155 | Minh Phu Seafood Import Export Co. | |
| 156 | Cai Doi Vam Import Export Company | CADOVIMEX |
| 157 | Hanoi Beer Alcohol and Beverage Corporation | HABECO |
| 158 | Binh Tien Consumer Goods Production Co. Ltd. | BITIS |
| 159 | Danang Rubber Co | DRC |
| 160 | Loc Ninh Rubber Co. | |
| 161 | Southern Airport Services Co | SASCO |
| 162 | Hanoi Clean Water Company | |
| 163 | Saigon Petro Co | SAIGON PETRO |
| 164 | Dong Phu Rubber Co. | |
| 165 | Thang Long Metal Ltd. | |
| 166 | HCMC Urban Environment Co | |
| 167 | Chinfon Haiphong Cement Co. | CHC |
| 168 | 1-5 Automobile Mechanics Co. | |
| 169 | Pha Rung Shipyard | |
| 170 | Dak Lak Rubber Co. | DAKRUCO |
| 171 | Ba Ria Rubber Co. | BRC |
| 172 | Saigon Culture Company | |
| 173 | Vietnam Automobile Component Manufacturing Company | VAP |
| 174 | Power Construction Engineering Company No. 1 | PCC1 |
| 175 | Sao Vang Rubber Co | SRC |
| 176 | Power Engineering Consulting Company No. 1 | |
| 177 | Ba Ria - Vung Tau Post and Telecommunications | |
| 178 | Vietnam Food Production Company | VIFON |
| 179 | Duong Huy Coal Co. | |
| 180 | Dong Thap Import Export Trading Co | DOCIMEXCO |
| 181 | Vietnam National Tea Corporation | VINATEA |

| | | |
|---|---|---|
| 182 | Hai Phong Cement Co | |
| 183 | Vietnam Electric Wire and Cable Corporation | CADIVI |
| 184 | Production Service Import Export Co. | |
| 185 | Viet Foods Co Ltd | VIET FOODS |
| 186 | Seafood Import Export JSC | |
| 187 | Nha Trang Textile Co. | NHATEXCO |
| 188 | Housing and Urban Development Corporation | HUD |
| 189 | Song Da Co. No. 9 | |
| 190 | Vietnam National Shipping Lines | VINALINES |
| 191 | Song Da Co. No. 10 | |
| 192 | Garment Company No. 10 | GARCO 10 |
| 193 | Construction and Investment Development Co | INVESCO |
| 194 | Vietnam National Textile and Garment Corporation | VINATEX |
| 195 | Ben Thanh Tobacco Co | |
| 196 | Civil Engineering Construction Co. No.568 | |
| 197 | Hon Gai Coal Selecting Co. | |
| 198 | Communication and Transportation Construction Company | |
| 199 | Hoa Phat Steel JSC | |
| 200 | Vietnam Joint Stock Commercial Bank for Private Enterprises | VPBank |

# Appendix 3: Interview Schedule

| **Company** | **Questionnaire** | **Date Interviewed** |
|---|---|---|
| ***I. Questionnaire and Interview*** | | |
| Honda Vietnam Co Ltd | X | 5-Dec-06 |
| Toyota Vietnam | X | 5-Dec-06 |
| Lam Thao Fertilizers and Chemicals Co | X | 6-Dec-06 |
| Hanoi General Production and Import Export Company | X | 7-Dec-06 |
| Machino Auto Parts Co Ltd | X | 7-Dec-06 |
| Vietnam Chemical Corporation[2] | X | 15-Dec-06 |
| Lam Son Sugar Co[7] | X | 3-Jan-07 |
| Vietnam Coal and Mineral Industries Group[2] | X | 4-Jan-07 |
| Vietnam National Tea Corporation | X | 4-Jan-07 |
| Vietnam Apatite Company[3] | X | 5-Jan-07 |
| Vietnam Automobile Component Manufacturing Co[7] | X | 7-Jan-07 |
| Vietnam Paper Corporation[3] | X | 8-Jan-07 |
| Rang Dong Light Source and Vacuum Flask Co[1] | X | 8-Jan-07 |
| The Corporation for Financing and Promoting Technology | X | 9-Jan-07 |
| Vietnam National Shipping Lines | X | 9-Jan-07 |
| Vietnam Post and Telecommunications Group | X | 10-Jan-07 |
| Vietnam Oil and Gas Group[2,9] | X | 11-Jan-07 |
| Vietnam Glass and Ceramics for Construction Corporation | X | 11-Jan-07 |
| Vietnam Shipbuilding Industry Group[2] | X | 12-Jan-07 |
| Van Dien Fused Magnesium Phosphate Co[1] | X | 12-Jan-07 |
| Thang Long Metal Ltd | X | 15-Jan-07 |
| Vietnam Sea Transport and Chartering Co | X | 16-Jan-07 |
| Viet Tien Garment Corporation | X | 18-Jan-07 |
| Binh Dien Fertilizer Co[1] | X | 22-Jan-07 |
| Vietnam Electric Wire and Cable Corporation | X | 22-Jan-07 |
| Coastal Fisheries Development Co[1] | X | 24-Jan-07 |
| Southern Rubber Industry Co | X | 24-Jan-07 |
| Petrovietnam Fertilizer and Chemicals Co | X | 25-Jan-07 |
| Dong Nai Rubber Co | X | 26-Jan-07 |
| Tan Mai Paper Co | X | 26-Jan-07 |
| Chi Hung Joint Venture Co | X | 29-Jan-07 |
| Binh Duong Production and Import Export Co | X | 30-Jan-07 |
| Nha Trang Seafood Co[1] | X | 1-Feb-07 |
| Ninh Thuan Agricultural Export Co[7] | X | 1-Feb-07 |
| Dak Lak Rubber Co[3] | X | 2-Feb-07 |

| | | |
|---|---|---|
| Hyundai Vinashin Shipyard Co Ltd | X | 2-Feb-07 |
| Cho Lon Investment and Import Export Corporation[1,10] | X | 3-Feb-07 |
| Fuvi Mechanical Technology Co[1] | X | 5-Feb-07 |
| Southern Fertilizers Co[4] | X | 6-Feb-07 |
| Nha Be Garment Co | X | 6-Feb-07 |
| Vietnam Rubber Group[2] | X | 7-Feb-07 |
| Ba Ria Rubber Co[4] | X | 8-Feb-07 |
| Petrovietnam Gas Company[4] | X | 9-Feb-07 |
| Phong Phu Textile Corporation[5,9] | X | 23-Feb-07 |
| Sao Ta Food Co[1] | X | 5-Mar-07 |
| Ut Xi Aquatic Products Processing Co Ltd | X | 5-Mar-07 |
| Minh Phu Seafood Import Export Co | X | 6-Mar-07 |
| Can Tho Agricultural and Animal Products Company | X | 7-Mar-07 |
| Viet Foods Co Ltd | X | 7-Mar-07 |
| Quang Ngai Sugar Corporation | X | 8-Mar-07 |
| Danang Rubber Co[9] | X | 9-Mar-07 |
| Seaprodex Danang Co | X | 9-Mar-07 |
| Nam Trieu Shipbuilding Company | X | 12-Mar-07 |
| Vietnam Ocean Shipping Co | X | 12-Mar-07 |
| Bach Dang Shipyard | X | 13-Mar-07 |
| Ha Long Shipyard | X | 14-Mar-07 |
| Dong Bac Coal Corporation | X | 14-Mar-07 |
| Industrial Explosive Material Company | X | 21-Mar-07 |
| Vietnam National Petroleum Corporation[2] | X | 23-Mar-07 |
| Sao Vang Rubber Co | X | 26-Mar-07 |
| Electricity of Vietnam[3] | X | 27-Mar-07 |
| Petroleum Technical Services Company | X | 28-Mar-07 |
| Electrical Equipment Manufacturing Co | X | 30-Mar-07 |
| 1-5 Automobile Mechanics Co | X | 31-Mar-07 |
| Garment Company No.10 | X | 31-Mar-07 |
| Company No.28 | X | 2-Apr-07 |
| Mercedes Benz Vietnam Ltd[1] | X | 4-Apr-07 |
| An Phu Corporation[1] | X | 5-Apr-07 |
| Southern Basic Chemicals Co[1] | X | 9-Apr-07 |
| Vietsovpetro[9] | X | 17-May-07 |
| ***II. Interview Only*** | | |
| Vietnam Cement Association[1] | | 26-Oct-06 |
| Vietnam Steel Association[1] | | 26-Oct-06 |
| Vietnam Fertilizer Association[1] | | 27-Oct-06 |

| | | |
|---|---|---|
| Vietnam Textile and Apparel Association[1,8] | | 10-Dec-06 |
| Vietnam Textile and Garment Group | | 9-Jan-07 |
| Vietnam Rubber Association[1] | | 17-Jan-07 |
| Binh Long Rubber Co[7] | | 30-Jan-07 |
| Dau Tieng Rubber Corporation[3] | | 30-Jan-07 |
| Hoang Gia Cat Tuong Co Ltd | | 31-Jan-07 |
| Cat Thai Plastic Co[1,4] | | 5-Feb-07 |
| Cai Doi Vam Import Export Company | | 6-Mar-07 |
| Cai Lan Oil and Fats Industries Co Ltd | | 13-Mar-07 |
| Lilama Corporation[2] | | 16-Mar-07 |
| Military Telecom Corporation | | 22-Mar-07 |
| Vietnam Northern Food Corporation[7] | | 27-Mar-07 |
| March 8 Textile Co[1] | | 29-Mar-07 |
| Hanoi Textile and Garment Co | | 29-Mar-07 |
| Binh Tien Consumer Goods Production Co Ltd | | 2-Apr-07 |
| Vietnam Dairy Products Co | | 10-Apr-07 |
| Vietnam Engine and Agricultural Machinery Corporation[2] | | 16-May-07 |
| Vinashin Finance Co[1,6] | | 5-Aug-08 |
| State Capital Investment Corporation[1,6] | | 15-Aug-08 |
| International Consumer Products Corporation[1,6] | | 1-Sep-09 |
| ***III. Questionnaire Only*** | | |
| An Giang Agriculture and Foods Import Export Co. | X | |
| Anvifish Co Ltd[1] | X | |
| Bridge Construction Company No.12[1] | X | |
| Cao Son Coal Co | X | |
| Chinfon Haiphong Cement Co | X | |
| Civil Engineering Construction Corporation No.1 | X | |
| Coc 6 Coal Co | X | |
| Construction and Investment Company No.18[1] | X | |
| Construction and Production Material Co[1] | X | |
| General Production Investment Service Import Export Co[1] | X | |
| Ha Long Coal Co | X | |
| Ha Tu Coal Co | X | |
| Hanoi Clean Water Company | X | |
| Hanoi Post and Telecommunications[1] | X | |
| Hoang Thach Cement Co | X | |
| Hon Gai Coal Co[1] | X | |
| Hon Gai Coal Selecting Co | X | |
| Mao Khe Coal Co | X | |
| Northern Airports Authority | X | |

| | | |
|---|---|---|
| Northern Foodstuff Co | X | |
| Nui Beo Coal Co | X | |
| Petrolimex B12 | X | |
| Petrolimex Region 1 | X | |
| Power Construction Engineering Company No.1 | X | |
| Proconco Producing Animal Feeds Co | X | |
| Saigon Newport Co | X | |
| Song Da Company No.10 | X | |
| Thua Thien Hue Construction Corporation[1] | X | |
| Uong Bi Coal Co | X | |
| Vang Danh Coal Co | X | |
| Vietnam Construction and Import Export Corporation | X | |
| Vietnam Construction Investment Import and Export Holding Corp. | X | |
| Vietnam Food Production Company | X | |
| Vietnam Railway Corporation | X | |

*Note*: unless otherwise indicated, interviews were conducted in person by Scott Cheshier, Jago Penrose and Nguyễn Thị Thanh Nga

[1] not in the Top 200

[2] General Corporation Head Office that is not in the Top 200

[3] interview conducted by Scott Cheshier and Nguyễn Thị Thanh Nga

[4] interview conducted by Scott Cheshier and Jago Penrose

[5] interview conducted by Jago Penrose and Nguyễn Thị Thanh Nga

[6] interview conducted by Scott Cheshier

[7] interview conducted by Jago Penrose

[8] interview conducted by Nguyễn Thị Thanh Nga

[9] additional information obtained via phone interview by Nguyễn Thị Thanh Nga

[10] additional information obtained via follow up interview by Jago Penrose

## Appendix 4: Firm Questionnaire

UNDP

Questionnaire for Largest Firms in Vietnam

Date: ____________________

**Note**: This questionnaire is intended for several types of firms and not all questions may be applicable.

Please list values in **Vietnam dong**

Company Name (English): ________________________________________________

Company Name (Vietnamese): _____________________________________________

Website address: ________________________________________________________

**Section 1: General Information**

1. When was the firm founded (Year)? ______________________________________
2. Current Legal Operating Structure: _______________________________________
3. Division of Ownership:

| **Owner** | **Percent** |
|---|---|
| 1.) | |
| 2.) | |
| 3.) | |
| 4.) | |
| 5.) | |

4. If an SOE please indicate whether: a public utility _____, or a business SOE ______

   Also please indicate supervising agency _______________________________

5. If a member company of a corporation please provide the name of parent company:

   ___________________________________________________________________

6. Is the firm classified as operating in a state sector (either 100% or 50% or more state capital) according to Decision 155/QD-TTg of 2004? Yes ___, No ___

7. Please list the firm's major activities and record the total values for 2003, 2004 and 2005:

| Activity | 2003 | 2004 | 2005 |
|---|---|---|---|
| Primary activity: ______________________ | | | |
| Secondary activity: ____________________ | | | |
| Other: ______________________________ | | | |

* Rank the firm's activities by total value added. If this is not possible rank according to the value of operations. If both are impossible rank according to net turnover.

8. If the firm's Primary Activity* is product-diversified please complete the following in ***percent*** for the products which contributed most by value to the Primary Activity in 2005 (if not product-diversified, please complete for Primary Activity as Product 1):

| | | Export Sales | | Sales to Domestic Customers | | | | |
|---|---|---|---|---|---|---|---|---|
| | Percent of Primary Activity | Trading Agent | Business to Business | FIE | SOE | Private | Other | Related Firm* |
| Product 1: __________ | | | | | | | | |
| Product 2: __________ | | | | | | | | |
| Product 3: __________ | | | | | | | | |
| Product 4: __________ | | | | | | | | |
| Product 5: __________ | | | | | | | | |

* Subsidiary, affiliate, joint venture, parent company, partner firm, etc.

9. Indicate which of the following are major suppliers of ***raw materials*** for your primary product or service and provide percentage of total inputs (Please tick box):

| Supplier | Major Supplier | | Percent total inputs |
|---|---|---|---|
| | Yes | No | |
| SOEs | | | |
| Domestic private | | | |
| Joint-ventures | | | |
| FIEs | | | |
| Imported directly by firm | | | |

10. Indicate which of the following are major suppliers of ***intermediate inputs*** for your primary product or service and provide percentage of total inputs (Please tick box):

| **Supplier** | **Major Supplier** | | **Percent total inputs** |
|---|---|---|---|
| | **Yes** | **No** | |
| SOEs | | | |
| Domestic private | | | |
| Joint-ventures | | | |
| FIEs | | | |
| Imported directly by firm | | | |

11. Please complete the following table:

| | **Domestic Market Share (percent)** | **Share of Vietnam Exports (percent)** |
|---|---|---|
| **Primary Activity** | | |
| *of which:* | | |
| Product 1 | | |
| Product 2 | | |
| Product 3 | | |
| Product 4 | | |
| Product 5 | | |
| **Secondary Activity** | | |

12. Indicate which of the following are your major competitors for your primary activity and rank their importance (1 – Most Important, 5 – Least Important):

| **Competitor** | **Major Competitor** | | **Rank** |
|---|---|---|---|
| | **Yes** | **No** | |
| SOEs | | | |
| Domestic private | | | |
| Joint-ventures | | | |
| FIEs | | | |
| Imports | | | |

13. Please indicate the numbers of staff in the following categories:

| Category | Male | Female | Total |
|---|---|---|---|
| Board of Management | | | |
| Board of Directors | | | |
| Line Managers | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | |
| Workers (non-management) with non-science based university degrees. | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | |
| Unskilled workers | | | |
| Administrative Staff | | | |
| Other | | | |
| Total | | | |

**Section 2: History of Firm**

| Year | Event* | Reason |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

***Please include:** Major investments by value (production facilities, capital assets); Change in Senior Management; Organizational expansion (acquisition, subsidiary, joint-venture, domestic branch office, overseas office); Expansion into new markets; Changes in ownership; New or improved product or service; Financial changes: change in source of credit.

**Section 3: Strategy and Planning**

1. Is your strategy set out in a business plan which is available as a document?

   Yes ___, No ___

2. Is the business plan:

   a. Available to the public? ____

   b. Available to investors only? ____

   c. For internal use only? ____

3. How does the business plan reflect the industry development plan?

   Mostly___ Partially____ Not at all_____ No Industry Plan _____

4. If a member company, how does your business plan relate to the corporation business plan if one exists?

   Mostly ___ Partially ____ Not at all ____ No GC plan _____

5. What are the key performance indicators in your strategy/ business plan? __________

   ____________________________________________________________________

6. Please indicate if any of the following are planned or anticipated in the next five years and indicate the reason:

| | Planned | | Reason | | | |
|---|---|---|---|---|---|---|
| | **Yes** | **No** | **Reorganize existing production processes** | **Expand existing production processes** | **Develop new production processes** | **Other (Please Detail)** |
| Create subsidiaries | | | | | | |
| Create affiliates | | | | | | |
| JV with FIE | | | | | | |
| JV with VN firm | | | | | | |
| New Production Facility | | | | | | |
| Other (Please detail) | | | | | | |

**Section 4: Capital Equipment**

1. When was the majority of your capital equipment made (Please tick box)?

| | 1960s | 1970s | 1980s | 1990s | 2000s |
|---|---|---|---|---|---|
| Primary Activity | | | | | |
| Secondary Activity | | | | | |

2. If capital equipment has been replaced in the ***last five years*** please indicate how quality, output and costs have been effected (Please tick box):

| Activity | Effects | | | | | |
|---|---|---|---|---|---|---|
| | Same Quality | Increase Quality | Same Output | Increase Output | Same Costs | Reduce Costs |
| Replaced existing equipment to produce same product or service | | | | | | |
| Supplemented existing equipment to undertake same product or service | | | | | | |
| Replaced existing equipment to produce new product or service | | | | | | |
| Produce new product or service alongside existing product or services | | | | | | |

3. If capital equipment will be replaced in the ***next five years*** please indicate how quality, output and costs will be effected (Please tick box):

| Activity | Effects | | | | | |
|---|---|---|---|---|---|---|
| | **Same Quality** | **Increase Quality** | **Same Output** | **Increase Output** | **Same Costs** | **Reduce Costs** |
| Replace existing equipment to produce same product or service | | | | | | |
| Supplement existing equipment to undertake same product or service | | | | | | |
| Replace existing equipment to produce new product or service | | | | | | |
| Produce new product or service alongside existing product or services | | | | | | |

4. Are there incentives to buy capital equipment domestically? Yes ___, No ___
5. Please assess the ***quality*** of your main product or service in relation to (Please tick box):

| | | Inferior | Equal | Superior | Don't Know |
|---|---|---|---|---|---|
| **Vietnamese competitors** | State | | | | |
| | Domestic Private | | | | |
| **Foreign competitors** | Imports | | | | |
| | FIEs in Vietnam | | | | |
| **Competitors in export markets** | | | | | |

6. Please assess the ***price*** of your main product or service in relation to: (Please tick box)

| | | Lower | Equal | Higher | Don't Know |
|---|---|---|---|---|---|
| **Vietnamese competitors** | State | | | | |
| | Domestic Private | | | | |
| **Foreign competitors** | Imports | | | | |
| | FIEs in Vietnam | | | | |
| **Competitors in export markets** | | | | | |

7. Indicate which of the following was/ will be associated with purchase of equipment:
   a. Reduction/ Increase* of unskilled staff.
   b. Reduction/ Increase* of staff with science degree.
   c. Reduction/ Increase* in skilled staff.
   d. No Change _____

   *Please delete as appropriate

8. Rate the degree to which each of the following factors affect the acquisition of capital equipment (1 – Very Important, 5 – Not Important):

| **Factors** | **Importance** | | | | |
|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** |
| Difficulties finding suitable equipment/ technology | | | | | |
| Difficulties licensing suitable technology from foreign firms | | | | | |
| Lack of capital | | | | | |
| Staff lack skills required to absorb technology into existing business and production processes | | | | | |
| Obstacles to laying off workers | | | | | |
| Acquiring necessary government approval | | | | | |

**Section 5: Innovation (improvements to existing processes, or actions undertaken to incorporate new equipment or processes)**

1. Please indicate whether the firm has improved or will improve production processes and/ or business processes in the last five years/ next five years in response to the following factors (Please tick box):

| | **Last 5 Years** | | | **Next 5 Years** | | |
|---|---|---|---|---|---|---|
| | **N/A*** | **No** | **Yes** | **N/A*** | **No** | **Yes** |
| Competitive pressure from Vietnamese private firms | | | | | | |
| Competitive pressure from Vietnamese SOEs | | | | | | |
| Competitive pressure from FIEs | | | | | | |
| Competitive pressure from imports | | | | | | |
| To match quality of competitors in export markets | | | | | | |
| Quality regulations in new export markets | | | | | | |
| To meet quality requirements of foreign partner | | | | | | |
| New government regulation | | | | | | |
| Government sectoral strategy and development policies | | | | | | |

* Not Applicable

2. Please indicate importance of the following when improving production processes, business processes and product (1-Very Important, 5-Not Important):

| **Method** | **Importance** | | | | |
|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** |
| Internal R&D department | | | | | |
| Suggestions from workers and managers | | | | | |
| Cooperation with domestic R&D institutions | | | | | |
| Reverse engineering | | | | | |
| Buy technology from domestic sources | | | | | |
| Buy technology from foreign sources | | | | | |
| Joint venture with domestic enterprises | | | | | |
| Joint venture with foreign enterprises | | | | | |
| Hiring domestic consultants | | | | | |
| Hiring foreign consultants | | | | | |
| Domestic training | | | | | |
| Training/ study tour abroad | | | | | |
| Google | | | | | |

3. Please indicate significance of the following obstacles to desired process improvements (1 - Very Significant, 5 – Not Significant):

| **Method** | **Significance** | | | | |
|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** |
| Lack of capital | | | | | |
| Lack of skilled technical staff | | | | | |
| Lack of access to technology | | | | | |
| Lack of technical knowledge. | | | | | |
| Other ________________________ | | | | | |

4. Please *rank* the following activities in order of priority (1 – Most Important, 8 – Least Important) in the last five years and the next five years:

| **Activities** | **Last Five Years** | | **Next Five Years** | |
|---|---|---|---|---|
| | **Primary Activity** | **Secondary Activity** | **Primary Activity** | **Secondary Activity** |
| Product improvement | | | | |
| Improvement of production process | | | | |
| New production facilities | | | | |
| New product models | | | | |
| Upgrade existing production facilities | | | | |
| Increase market share in existing markets | | | | |
| Enter new foreign market | | | | |
| Others | | | | |

**Section 6: Labour**

1. Please indicate the length of time staff have been with the firm, and if staff joined the firm within the last three years please indicate from where they were recruited:

| **Category** | **Length of time with firm (Percent of each category)** | | | **If recruited within last 3 years recruited from (Percentage of each category):** | | | | |
|---|---|---|---|---|---|---|---|---|
| | Over 10 Years | 10-5 Years | 3-5 Years | Domestic Private firm | Domestic SOE | FIE | Gov Institution | Direct from University |
| Board of Management | | | | | | | | |
| Board of Directors | | | | | | | | |
| Line Managers | | | | | | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | | | | | | |
| Workers (non-management) with non-science based university degrees. | | | | | | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | | | | | | |
| Unskilled workers | | | | | | | | |
| Administrative Staff | | | | | | | | |
| Other | | | | | | | | |

2. Please complete the following table for ***members of the Board of Management***:

| | **Number** |
|---|---|
| Are full time members? | |
| Has a university degree from a Western University? | |
| Has a university degree from a non-Western (Soviet Bloc, China) University? | |
| Has a science-based university degree? | |
| Has a Vietnamese university degree or equivalent? | |
| Has an MBA from a foreign business school? | |
| Has an MBA from a VN business school? | |
| Has experience working in an FIE? | |
| Has experience working abroad? | |
| Can communicate directly with foreign counterparts in English? | |

3. Please complete the following table for ***Board of Directors***:

| | **Number** |
|---|---|
| Are full time members? | |
| Has a university degree from a Western University? | |
| Has a university degree from a non-Western (Soviet Bloc, China) University? | |
| Has a science-based university degree? | |
| Has a Vietnamese university degree or equivalent? | |
| Has an MBA from a foreign business school? | |
| Has an MBA from a VN business school? | |
| Has experience working in an FIE? | |
| Has experience working abroad? | |
| Can communicate directly with foreign counterparts in English? | |

4. What percentage of skilled workers with a science degree (graduate or post-graduate):
   a. Has experience working in an FIE in the same field_____
   b. Was trained in a foreign University______

5. What proportion of skilled workers:
   a. Has experience working in an FIE in the same field_____
   b. Was trained in a foreign University______
6. Please complete the following table (Please tick box):

| **Category** | **Average wage (percentage of staff in each category)** | | | |
|---|---|---|---|---|
| | **<2mil VND** | **2-5mil VND** | **5-10mil VND** | **>10mil VND** |
| Board of Management | | | | |
| Management (e.g. Directors) | | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | | |
| Workers (non-management) with non-science based university degrees. | | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | | |
| Unskilled workers | | | | |
| Administrative Staff | | | | |
| Other | | | | |

7. Please record percentage of training budget spent on following categories:

| **Category** | **In firm** | **Outside of firm in Vietnam** | **Training courses/ Study Tours in foreign country** |
|---|---|---|---|
| Board of Management | | | |
| Board of Directors | | | |
| Line Managers | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | |
| Workers (non-management) with non-science based university degrees. | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | |
| Unskilled workers | | | |
| Administrative Staff | | | |
| Other | | | |

8. Please indicate the importance of training for the following (1 – Very important, 5 – Not important)

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Bring new staff to required level | | | | | |
| Raising standard of existing skill sets | | | | | |
| Learning to use new equipment | | | | | |
| Learning new business processes | | | | | |
| Other ___________________________ | | | | | |

9. Please indicate the availability of the following (Please tick box):

| Category | Readily Available | Available but expensive | Not Available |
|---|---|---|---|
| Board of Management | | | |
| Board of Directors | | | |
| Line Managers | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | |
| Workers (non-management) with non-science based university degrees. | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | |
| Unskilled workers | | | |
| Administrative staff | | | |
| Other | | | |

## Section 7: Relationship with state institutions

1. Rate state involvement in the following decisions (if member company of a corporation, please also fill out second column) (Please tick box):

| **Decision** | **State Involvement** | | | | | **Parent Company Involvement** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Very High | High | Medium | Low | None | Very High | High | Medium | Low | None |
| Business plan and strategies | | | | | | | | | | |
| Investment | | | | | | | | | | |
| Hiring senior management | | | | | | | | | | |
| Hiring new staff | | | | | | | | | | |
| Firing existing staff | | | | | | | | | | |
| Determining staff wages | | | | | | | | | | |
| Product diversification | | | | | | | | | | |
| Business Diversification | | | | | | | | | | |
| Sourcing raw materials and inputs | | | | | | | | | | |
| Price paid for raw materials and inputs | | | | | | | | | | |
| Importing | | | | | | | | | | |
| Exporting | | | | | | | | | | |
| Determining prices of products | | | | | | | | | | |

2. Please indicate state involvement in the following activities and if involved, which state institution(s) (Please tick box):

| | **Very High** | **High** | **Medium** | **Low** | **None** | **State institution(s)** |
|---|---|---|---|---|---|---|
| Provide brand name | | | | | | |
| Find business partners | | | | | | |
| Assist in exporting | | | | | | |
| Assist in importing | | | | | | |
| Provide financing | | | | | | |
| Guarantee firm loans from banks | | | | | | |
| Provide land | | | | | | |
| Guarantee buyers of firm output | | | | | | |
| Assist in acquisition of new technology | | | | | | |

3. If a member company of a corporation, please fill out in relation to parent company involvement (Please tick box):

| | **Very High** | **High** | **Medium** | **Low** | **None** |
|---|---|---|---|---|---|
| Provide brand name | | | | | |
| Find business partners | | | | | |
| Assist in exporting | | | | | |
| Assist in importing | | | | | |
| Provide financing | | | | | |
| Guarantee firm loans from banks | | | | | |
| Provide land | | | | | |
| Guarantee buyers of firm output | | | | | |
| Assist in acquisition of new technology | | | | | |

4. If an SOE, does the firm have plans to transform into an entity operating under the Enterprise Law? Yes ___, No ____, Already transformed _____

   If yes, what is the anticipated ownership type following transformation?

   ___________________________________________________________

   If yes, is this plan approved? Yes _____, No _____

**Section 8: Finances**

1. Please complete the following table:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| **Total Revenues** | | | |
| **Total Assets** | | | |
| **Turnover from sales, service** | | | |
| *of which:* | | | |
| Domestic sales, service | | | |
| International sales, service | | | |

2. How much did the firm remit to the state (taxes, returns to state capital, other) in:

   2003 _______________, 2004_______________ and 2005_______________?

3. Did the firm benefit from any tax incentives in (Yes/No):

   2003 _______________, 2004_______________ and 2005_______________?

4. If a member company, how much do you remit to the parent company (management fees, dividends, capital usage fees, other) in:

   2003 _______________, 2004_______________ and 2005_______________?

5. If the firm did not pay Corporate Income Tax (CIT) in the following years, please indicate why not:

| Year | Reason | | | |
|---|---|---|---|---|
| | **Made a loss** | **Broke even** | **Tax incentive** | **Other** |
| 2003 | | | | |
| 2004 | | | | |
| 2005 | | | | |

6. Please complete the following table:

| Share of Total Debt (Short and Long should equal 100%) | Percent |
|---|---|
| **Short term** | |
| % short term debt secured by government | |
| **Long term** | |
| % long term debt secured by government | |

7. Is securing a loan easier ____ or more difficult ____ now than five years ago?

8. Please indicate how the importance of the following when securing credit has changed over the last five years (Please tick box):

| | **Never Required** | **Unchanged** | **Less frequently required** | **More frequently required** |
|---|---|---|---|---|
| Collateral | | | | |
| Financial statements | | | | |
| Feasibility study | | | | |
| Company audit | | | | |

9. Please rank the following in order of importance for sourcing funds for ***capital investments*** (1 – Most Important, 11 – Least Important):

| **Source** | **5 Years Ago** | **Now** | **In 5 Years** |
|---|---|---|---|
| Retained earnings | | | |
| Central State budget | | | |
| Local State budget | | | |
| SOCB loan | | | |
| JSC bank loan | | | |
| Foreign bank loan | | | |
| DAF (VDB) | | | |
| Sale of assets | | | |
| Equity offerings | | | |
| Bonds | | | |
| Transfer from parent company | | | |

10. Please provide the debt/asset ratio for: 1995 ______, 2000 ______, 2005 ______

11. Please indicate the percentage of state capital in total capital _________

12. If a member company of a corporation, please indicate the percentage of parent company capital in total firm capital _________

13. Does the firm plan to list on the stock market? Yes ___, No ___

    If the firm is already listed, please provide the code: _______

14. Do you have investments in other companies? ___________

15. Please complete (percentage not value):

| Revenue Source | Percentage of total revenues | | |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| Sales | | | |
| Financial investments | | | |
| Renting, leasing land | | | |
| Other ______________________ | | | |
| **Total (should equal 100%)** | | | |

16. Please complete (percentage not value):

| Expenditures | Percentage of total expenditure | | |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| | | | |
| Wages | | | |
| Staff training | | | |
| Research and development | | | |
| Marketing | | | |
| Product distribution | | | |
| Market research | | | |
| Raw materials and inputs | | | |
| Maintenance of equipment | | | |
| Other _________________ | | | |
| **Total (should equal 100%)** | | | |

# Appendix 5: General Corporation Head Office Questionnaire

UNDP

Corporation Questionnaire

Date: __________________

Please list values in **Vietnam dong**

**Definitions**:

***Corporation***: all units of the corporation, including: head office, dependent accounting units, independent accounting units

***Head office***: the administrative office and departments of the corporation only

Corporation Name (English): ___________________________________________________

Corporation Name (Vietnamese): _______________________________________________

Website address: _____________________________________________________________

**Section 1: General Information**

1. Current Legal Operating Structure of the corporation:

| | **Corporation Type** | **Supervising Agency** |
|---|---|---|
| GC 90 | | |
| GC 91 | | |
| Parent-Subsidiary Model | | |
| Economic Group | | |
| Other _______________________ | | |

2. When was the corporation founded (Year)? _________________________

   If already transformed, please indicate the year of transformation? _____

   Does the ***corporation*** have plans to transform into an entity operating under the Enterprise Law? Yes ___, No ____,

   If yes, what is the anticipated transformation year? _______________________

   If yes, what is the anticipated transformation model?

   Parent-children company _________________economic group_________________

3. Did the head office exist prior to becoming the head office of the corporation?

   Yes ___ No ___, If yes, was it a: SOE ___, Government Agency ___, Other ___

   If yes, please provide the name of the former organization: ______________________

4. Which enterprises were the founding members of the corporation?

| **Enterprise Name** |
|---|
| 1.) |
| 2.) |
| 3.) |
| 4.) |
| 5.) |

5. Is the ***corporation*** classified as operating in a state sector according to Decision 155/QD-TTg of 2004? Yes ___, No ___

6. Please list the ***corporation's*** major activities and record total value: (million VND)

| **Activity** | **2003** | **2004** | **2005** |
|---|---|---|---|
| Primary activity: ______________________ | | | |
| Secondary activity: ____________________ | | | |
| Other: ______________________________ | | | |
| | | | |

* Rank the firm's activities by total value added. If this is not possible rank according to the value of operations. If both are impossible rank according to net turnover.

7. If the ***corporation's*** Primary Activity is product-diversified please complete the following in percent for the products which contributed most by value to the Primary Activity in 2005 (if not product-diversified, please complete for Primary Activity as Product 1):

| | | Export Sales | | Sales to Domestic Customers | | | |
|---|---|---|---|---|---|---|---|
| | **Percent of Primary Activity** | **Trading Agent** | **Business to Business** | **FIE** | **SOE** | **Private** | **Other** |
| Product 1: ___________ | | | | | | | |
| Product 2: ___________ | | | | | | | |
| Product 3: ___________ | | | | | | | |
| Product 4: ___________ | | | | | | | |
| Product 5: ___________ | | | | | | | |

8. If the ***corporation's*** Secondary Activity is product-diversified please complete the following in percent for the products which contributed most by value to the Secondary Activity in 2005 (if not product-diversified, complete for Secondary Activity as Product 1):

| | | Export Sales | | Sales to Domestic Customers | | | |
|---|---|---|---|---|---|---|---|
| | **Percent of Secondary Activity** | **Trading Agent** | **Business to Business** | **FIE** | **SOE** | **Private** | **Other** |
| Product 1: ___________ | | | | | | | |
| Product 2: ___________ | | | | | | | |
| Product 3: ___________ | | | | | | | |
| Product 4: ___________ | | | | | | | |
| Product 5: ___________ | | | | | | | |

9. Please complete the following table for the ***corporation***:

| | **Domestic Market Share (percent)** | **Share of Vietnam Exports (percent)** |
|---|---|---|
| ***Primary Activity*** | | |
| *of which:* | | |
| Product 1 | | |
| Product 2 | | |
| Product 3 | | |
| Product 4 | | |
| Product 5 | | |

| | **Domestic Market Share (percent)** | **Share of Vietnam Exports (percent)** |
|---|---|---|
| ***Secondary Activity*** | | |
| *of which:* | | |
| Product 1 | | |
| Product 2 | | |
| Product 3 | | |
| Product 4 | | |
| Product 5 | | |

10. Indicate which of the following are your major competitors for your ***corporation's*** Primary Activity and rank their importance (1 – Most Important, 5 – Least Important):

| **Competitor** | **Major Competitor** | | **Rank** |
|---|---|---|---|
| | **Yes** | **No** | |
| Other state corporations | | | |
| Domestic private | | | |
| Joint-ventures | | | |
| FIEs | | | |
| Imports | | | |

11. Please indicate the numbers of ***head office*** staff in the following categories:

| **Category** | **Male** | **Female** | **Total** |
|---|---|---|---|
| Board of Management | | | |
| Board of Directors | | | |
| Line Managers | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | |
| Workers (non-management) with non-science based university degrees. | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | |
| Unskilled workers | | | |
| Administrative Staff | | | |
| Other | | | |
| Total | | | |

12. Please indicate the numbers of ***corporation*** staff in the following categories:

| **Category** | **Male** | **Female** | **Total** |
|---|---|---|---|
| Board of Management | | | |
| Board of Directors | | | |
| Line Managers | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | |
| Workers (non-management) with non-science based university degrees. | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | |
| Unskilled workers | | | |
| Administrative Staff | | | |
| Other | | | |
| Total | | | |

## Section 2: History of Corporation

| Year | Event* | Reason |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

***Please include:** Major investments by value (production facilities, capital assets); Change in Senior Management; Organizational expansion (acquisition, subsidiary, joint-venture, domestic branch office, overseas office); Expansion into new markets; Changes in ownership; New or improved product or service; Financial changes: change in source of credit.

**Section 3: Strategy and Planning**

1. Is your strategy set out in a business plan which is available as a document?

   Yes ___, No ___

2. Is the business plan:

   a. Available to the public? ____

   b. Available to investors only? ____

   c. For internal use only? ____

3. How does the business plan reflect the industry development plan?

   Mostly___ Partially____ Not at all_____ No Industry Plan _____

4. Does the business plan include subsidiaries and joint venture member companies of the corporation? Yes ___ No ____

5. What are the key performance indicators in your strategy/ business plan? __________

   ____________________________________________________________________

6. Please indicate if any of the following are planned or anticipated by the ***corporation*** in the next five years and indicate the reason:

| | **Planned** | | **Reason** | | | |
|---|---|---|---|---|---|---|
| | **Yes** | **No** | **Reorganize existing production processes** | **Expand existing production processes** | **Develop new production processes** | **Other (Please Detail)** |
| Create subsidiaries | | | | | | |
| Create affiliates | | | | | | |
| JV with FIE | | | | | | |
| JV with VN firm | | | | | | |
| New Production Facility | | | | | | |
| Other (Please detail) | | | | | | |

**Section 4: Capital Equipment (please answer all questions in this section for the <u>corporation</u>)**

1. Are there incentives for the corporation to buy capital equipment domestically?

   Yes ___, No ___

2. Please assess the ***quality*** of the corporation's main product or service in relation to (Please tick box):

| | | Inferior | Equal | Superior | Don't Know |
|---|---|---|---|---|---|
| **Vietnamese competitors** | State | | | | |
| | Domestic Private | | | | |
| **Foreign competitors** | Imports | | | | |
| | FIEs in Vietnam | | | | |
| **Competitors in export markets** | | | | | |

3. Please assess the ***price*** of the corporation's main product or service in relation to (Please tick box):

| | | Lower | Equal | Higher | Don't Know |
|---|---|---|---|---|---|
| **Vietnamese competitors** | State | | | | |
| | Domestic Private | | | | |
| **Foreign competitors** | Imports | | | | |
| | FIEs in Vietnam | | | | |
| **Competitors in export markets** | | | | | |

**Section 5: Innovation (improvements to existing processes, or actions undertaken to incorporate new equipment or processes)**

1. Please indicate whether the ***corporation*** has improved or will improve production processes and/ or business processes in the last five years/ next five years in response to the following factors (Please tick box):

| | **Last 5 Years** | | | **Next 5 Years** | | |
|---|---|---|---|---|---|---|
| | **N/A*** | **No** | **Yes** | **N/A*** | **No** | **Yes** |
| Competitive pressure from Vietnamese private firms | | | | | | |
| Competitive pressure from Vietnamese state corporations | | | | | | |
| Competitive pressure from FIEs | | | | | | |
| Competitive pressure from imports | | | | | | |
| To match quality of competitors in export markets | | | | | | |
| Quality regulations in new export markets | | | | | | |
| To meet quality requirements of foreign partner | | | | | | |
| New government regulation | | | | | | |
| Government sectoral strategy and development policies | | | | | | |

* Not Applicable

2. Please indicate importance of the following when improving production processes, business processes and products of the ***corporation*** (1-Very Important, 5-Not Important):

| **Method** | **Importance** | | | | |
|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** |
| Internal R&D department | | | | | |
| Suggestions from workers and managers | | | | | |
| Cooperation with domestic R&D institutions | | | | | |
| Reverse engineering | | | | | |
| Buy technology from domestic sources | | | | | |
| Buy technology from foreign sources | | | | | |
| Joint venture with domestic enterprises | | | | | |
| Joint venture with foreign enterprises | | | | | |
| Hiring domestic consultants | | | | | |
| Hiring foreign consultants | | | | | |
| Domestic training | | | | | |
| Training/ study tour abroad | | | | | |
| Google | | | | | |

3. Please *rank* the following activities in order of priority for the ***corporation*** (1 – Most Important, 8 – Least Important) in the last five years and the next five years:

| **Activities** | **Last Five Years** | | **Next Five Years** | |
|---|---|---|---|---|
| | **Primary Activity** | **Secondary Activity** | **Primary Activity** | **Secondary Activity** |
| Product improvement | | | | |
| Improvement of production process | | | | |
| New production facilities | | | | |
| New product models | | | | |
| Upgrade existing production facilities | | | | |
| Increase market share in existing markets | | | | |
| Enter new foreign market | | | | |
| Others | | | | |

## Section 6: Labour (please complete all questions in this section for the <u>head office</u>)

1. Please indicate the percentage of staff who have the following length of time with the head office, and please indicate the percentage of staff who joined the firm within the last three years and their previous employment with the following institutions (%):

| **Category** | **Length of time with firm (Percent of each category)** | | | **If recruited within last 3 years recruited from (Percent of each category):** | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Over 10 Years | 10-5 Years | 3-5 Years | Member company | SOE | Domestic Private firm | FIE | Gov Institution | Direct from University |
| Board of Management | | | | | | | | | |
| Board of Directors | | | | | | | | | |
| Line Managers | | | | | | | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | | | | | | | |
| Workers (non-management) with non-science based university degrees. | | | | | | | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | | | | | | | |
| Unskilled workers | | | | | | | | | |
| Administrative Staff | | | | | | | | | |
| Other | | | | | | | | | |

2. Please complete the following table for ***members of the Board of Management*** of the head office:

| | **Number** |
|---|---|
| Are full time members? | |
| Has a university degree from a Western University? | |
| Has a university degree from a non-Western (Soviet Bloc, China) University? | |
| Has a science-based university degree? | |
| Has a Vietnamese university degree or equivalent? | |
| Has an MBA from a foreign business school? | |
| Has an MBA from a VN business school? | |
| Has experience working in an FIE? | |
| Has experience working abroad? | |
| Can communicate directly with foreign counterparts in English? | |

3. Please complete the following table for ***managers*** (e.g. Directors) of the head office:

| | **Number** |
|---|---|
| Has a university degree from a Western University? | |
| Has a university degree from a non-Western (Soviet Bloc, China) University? | |
| Has a science-based university degree? | |
| Has a Vietnamese university degree or equivalent? | |
| Has an MBA from a foreign business school? | |
| Has an MBA from a VN business school? | |
| Has experience working in an FIE? | |
| Has experience working abroad? | |
| Can communicate directly with foreign counterparts in English? | |

4. What percentage of skilled workers of the head office with a science degree (graduate or post-graduate):

   a. Has experience working in an FIE in the same field_____

   b. Was trained in a foreign University______

5. Please complete the following table for the head office (Please tick box):

| **Category** | **Average wage (percentage of staff in each category)** | | | |
|---|---|---|---|---|
| | **<2mil VND** | **2-5mil VND** | **5-10mil VND** | **>10mil VND** |
| Board of Management | | | | |
| Board of Directors | | | | |
| Line Managers | | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | | |
| Workers (non-management) with non-science based university degrees. | | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | | |
| Unskilled workers | | | | |
| Administrative staff | | | | |
| Other | | | | |

6. Please record percentage of training budget for the head office spent on following categories:

| Category | In firm | Outside of firm in Vietnam | Training courses/ Study Tours in foreign country |
|---|---|---|---|
| Board of Management | | | |
| Board of Directors | | | |
| Line Managers | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | |
| Workers (non-management) with non-science based university degrees. | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | |
| Unskilled workers | | | |
| Administrative staff | | | |
| Other | | | |

7. Please indicate the importance of training for the following (1 – Very important, 5 – Not important)

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Bring new staff to required level | | | | | |
| Raising standard of existing skill sets | | | | | |
| Learning to use new equipment | | | | | |
| Learning new business processes | | | | | |
| Other ___________________________ | | | | | |

8. Please indicate the availability of the following for the head office (Please tick box):

| **Category** | **Readily Available** | **Available but expensive** | **Not Available** |
|---|---|---|---|
| Board of Directors | | | |
| Line Managers | | | |
| Workers (non-management) with science based university degrees (e.g. Engineer) | | | |
| Workers (non-management) with non-science based university degrees. | | | |
| Skilled non-graduate workers (with relevant experience or qualifications) | | | |
| Unskilled workers | | | |
| Administrative Staff | | | |
| Other | | | |

## Section 7: Relationship between state institutions and the corporation, and the head office and independent accounting member companies

1. Rate state involvement in the following ***corporation*** decisions (Please tick box):

| Decision | State Involvement | | | | |
|---|---|---|---|---|---|
| | **Very High** | **High** | **Medium** | **Low** | **None** |
| Business plan and strategies | | | | | |
| Investment | | | | | |
| Hiring senior management | | | | | |
| Hiring new staff | | | | | |
| Firing existing staff | | | | | |
| Determining staff wages | | | | | |
| Product diversification | | | | | |
| Business Diversification | | | | | |
| Sourcing raw materials and inputs | | | | | |
| Price paid for raw materials and inputs | | | | | |
| Importing | | | | | |
| Exporting | | | | | |
| Determining prices of products | | | | | |

2. Please indicate state involvement in the following ***corporation*** activities and if involved, which state institution(s) (Please tick box):

| | **Very High** | **High** | **Medium** | **Low** | **None** | **State institution(s)** |
|---|---|---|---|---|---|---|
| Provide brand name | | | | | | |
| Find business partners | | | | | | |
| Assist in exporting | | | | | | |
| Assist in importing | | | | | | |
| Provide financing | | | | | | |
| Guarantee firm loans from banks | | | | | | |
| Provide land | | | | | | |
| Guarantee buyers of firm output | | | | | | |
| Assist in acquisition of new technology | | | | | | |

3. Rate ***head office*** involvement in the following independent accounting member company decisions (Please tick box):

| Decision | Head Office Involvement | | | | |
|---|---|---|---|---|---|
| | **Very High** | **High** | **Medium** | **Low** | **None** |
| Business plan and strategies | | | | | |
| Investment | | | | | |
| Hiring senior management | | | | | |
| Hiring new staff | | | | | |
| Firing existing staff | | | | | |
| Determining staff wages | | | | | |
| Product diversification | | | | | |
| Business Diversification | | | | | |
| Sourcing raw materials and inputs | | | | | |
| Price paid for raw materials and inputs | | | | | |
| Importing | | | | | |
| Exporting | | | | | |
| Determining prices of products | | | | | |

4. Please indicate ***head office*** involvement in the following independent accounting member company activities (Please tick box):

| | **Very High** | **High** | **Medium** | **Low** | **None** |
|---|---|---|---|---|---|
| Provide brand name | | | | | |
| Find business partners | | | | | |
| Assist in exporting | | | | | |
| Assist in importing | | | | | |
| Provide financing | | | | | |
| Guarantee firm loans from banks | | | | | |
| Provide land | | | | | |
| Guarantee buyers of firm output | | | | | |
| Assist in acquisition of new technology | | | | | |

**Section 8: Finances**

1. Does the ***corporation*** maintain consolidated accounts for the entire corporation?

   Yes ___ No ___

2. Does the ***corporation*** have a financial member company(s)? Yes __ No ___
3. Please complete the following table for the ***head office and dependent accounting units***: (million VND)

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| **Total Revenues** | | | |
| **Total Assets** | | | |
| **Turnover from sales, service** | | | |
| *of which:* | | | |
| Domestic sales, service | | | |
| International sales, service | | | |

4. Please complete the following table for the ***corporation***: (million VND)

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| **Total Revenues** | | | |
| **Total Assets** | | | |
| **Turnover from sales, service** | | | |
| *of which:* | | | |
| Domestic sales, service | | | |
| International sales, service | | | |

5. How much did the ***head office and dependent accounting units*** remit to the state (taxes, returns to state capital, other) in: (million VND)

   2003 _______________, 2004_______________ and 2005 ______________?

6. How much did the ***corporation*** remit to the state (taxes, returns to state capital, other) in:

   2003 _______________, 2004_______________ and 2005 ______________?

7. Did the ***corporation*** benefit from any tax incentives in (Yes/No):

   2003 _______________, 2004_______________ and 2005_______________?

8. If the ***head office and dependent accounting units*** did not pay Corporate Income Tax (CIT) in the following years, please indicate why not:

| Year | Reason | | | |
|---|---|---|---|---|
| | **Made a loss** | **Broke even** | **Tax incentive** | **Other** |
| 2003 | | | | |
| 2004 | | | | |
| 2005 | | | | |

9. Please complete the following table for the ***corporation***:

| **Share of Total Debt (Short and Long should equal 100%)** | **Percent** |
|---|---|
| **Short term** | |
| % short term debt secured by government | |
| **Long term** | |
| % long term debt secured by government | |

10. Is securing a loan easier ____ or more difficult ____ now than five years ago?

11. Please indicate for the ***corporation*** how the importance of the following when securing credit has changed over the last five years (Please tick box):

| | **Never Required** | **Unchanged** | **Less frequently required** | **More frequently required** |
|---|---|---|---|---|
| Collateral | | | | |
| Financial statements | | | | |
| Feasibility study | | | | |
| Company audit | | | | |

12. Please rank the following in order of importance for sourcing funds for ***capital investments*** for the ***corporation*** (1 – Most Important, 11 – Least Important):

| **Source** | **5 Years Ago** | **Now** | **In 5 Years** |
|---|---|---|---|
| Retained earnings | | | |
| Central State budget | | | |
| Local State budget | | | |
| SOCB loan | | | |
| JSC bank loan | | | |
| Foreign bank loan | | | |
| DAF (VDB) | | | |
| Sale of assets | | | |
| Equity offerings | | | |
| Bonds | | | |
| Transfers from member companies | | | |

13. Please provide ***corporation*** debt/asset ratio for: 1995 ____, 2000 ____, 2005 ____

14. Please indicate the percentage of state capital in the total capital of the ***corporation***

    ___________________________________________

15. Does the ***corporation*** plan to list on the stock market? Yes ___, No ___

    If the firm is already listed, please provide the code: _______

    a. *If not plan to list, why not?*

16. Does the ***head office*** have investments in other companies outside of the corporation?

    Yes ___ No ___

17. Please complete for the ***head office and dependent accounting units***:

| **Revenue Source** | **Percentage of total revenues** | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| Sales | | | |
| Remittances from members | | | |
| Other financial investments | | | |
| Renting, leasing land | | | |
| Other _______________________ | | | |
| **Total (should equal 100%)** | | | |

18. Please complete for the ***corporation***:

| **Revenue Source** | **Percentage of total revenues** | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| Sales | | | |
| Contribution from members | | | |
| Financial investments | | | |
| Renting, leasing land | | | |
| Other ______________________ | | | |
| **Total (should equal 100%)** | | | |

19. Please complete for the ***head office and dependent accounting units***:

| **Expenditures** | **Percentage of total expenditure** | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| Wages | | | |
| Staff training | | | |
| Research and development | | | |
| Marketing | | | |
| Product distribution | | | |
| Market research | | | |
| Other _________________ | | | |
| **Total (should equal 100%)** | | | |