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The Political Economy of Vietnam's Industrial Transformation

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Chapter 1

Introduction



Vietnam is undergoing a process of rapid societal and economic transformation as it is moving from a centralized to an increasingly market-based economic model. As a result, Vietnam recently left its low-income status and joined the middle-income countries. It will attempt, in the future, to try to achieve high income status. This is a process through which a number of other East and Southeast Asian states have already passed.

Yet Vietnam's path must necessarily diverge from the earlier examples because of the increasing importance of multilateralism in economic decision-making, the global environmental crisis and the emergence of the fourth industrial revolution. This book explores the political economy of these changes in Vietnam from several perspectives with a view to trying to understand how such changes might be incorporated into future practice.

1.1 Political Economy

The political economy, according to Mill (1844), refers to the 'Consumption of the Community, and that Supply upon which the consumption depends.' Those aspects of consumption and supply which do not require the intervention of human labour (i.e. 'the air, the light of the sun, water') need, he thought, be included in this consideration. From this, Mill argues, it is possible to derive and examine four sets of laws: those which regulate the production of commodities; those according to which the commodities, produced by the labour of the community, are distributed; those according to which commodities are exchanged for one another and those which regulate consumption (Mill 1844). These are the issues which affect and are affected by the relationships between the individual, the state and the market. These relationships vary in place and time—that is, solutions that appear rational and obvious in one place may not appear to be so in another place and those solutions might require to be

replaced by others as circumstances change and as the external environment changes. For example, the banking crisis of 2008 and the subsequent crisis of austerity meant that the ability of the state to conduct various operations was greatly reduced because of the money that was spent to bail out the banks and because of the diminution of tax returns afterwards. The current coronavirus pandemic is equally, perhaps even more disruptive and its effects may persist for decades to come. Further, technology makes changes to what different institutions can do: the creation of the internet meant that, among other things, it was possible for government agencies to provide services at a distance, while offering individuals the opportunity to become directly connected to either state or market agencies. Since changes are now occurring at an unprecedented rate, the nature and number of possible arrangements is so great that it is impossible for any institution to be able to determine immediately what is the most effective way to respond to any particular situation. As a result, it has become necessary increasingly to debate what should be done in response to different situations and to conduct experiments in order to collect evidence for future practice. This means that issues within political economy tend not to be determined and fixed once and for all but are subject to regular review and reconsideration.

While Mill considered that issues related to the natural environment need not be included as part of political economy, the emergence of various elements of environmental crises has made them central elements of the political economy:

So many causes of the environmental crisis are structural, with roots in social institutions and economic relationships, that anything other than a political treatment of the environment lacks credibility (Redclift 2014:2).

The political element of the consideration relates directly to Mill's series of laws and their concern with the relationship between consumption and production. As it has become increasingly evident that the environment is infinite neither in its bounty nor its resilience, then it is necessary to consider the role of people in consuming nature and in reproducing it for the future. In the UK, for example, the production of chemicals from industrial activities led to smog which killed hundreds of people at home and acid rain which had serious impacts in Scandinavia (Barnaby 1988). Consequently, individuals and communities in the UK and Scandinavia looked to their state agencies to bring about change to market activities to protect them and their families. Owing to the regular occurrence of market imperfections with respect to negative externalities such as pollution and accident (e.g., Bhopal, Shirtwaist, Exxon Valdez), it is only through state action that appropriate responses can be found.

The environmental angle helps to make it clear that there are venues or sites where political economy contestation can take place: collective action; institutions and political market¹ imperfections (Keefer 2004). Together, these three sites represent the opportunity for multi-stakeholder interactions to take place to determine and define potential solutions to existing or emergent problems on a joint basis. This represents the situation in Vietnam today, as it is in many other countries. New problems and issues have emerged into the field of public discourse where they have

¹ 'Political market imperfections' is read as 'market and political market imperfections'.

begun to compete with the already existing wicked problems that have continued from the past to affect the present. Wicked problems are those which are "... complex, involving multiple possible causes and internal dynamics that could not be assumed to be linear and have very negative consequences for society if not addressed properly (Peters 2017)" and include inequality, drug use and environmental degradation.

It is a suitable moment, therefore, to take stock of the political economy of Vietnam, examining the different pillars of that political economy and the means by which they interact through examination of the history of the country's rapid development and the specific issues through which the future of the country's development will take place (e.g. special economic zones and the environment). The purpose of this examination is to locate Vietnam's political economy within the spectrum of possible political economies that might exist and to try to identify possible areas of improvement.

1.2 Very Late Industrialization

Starting with Japan in the years following WWII, East Asian countries have in turn passed through processes of rapid industrial transformation. Although specific circumstances have varied, the model of development adopted has tended to have the same basic characteristics of import-substituting, export-oriented intensive manufacturing based on low labour costs. The export element of the model has been greatly facilitated by the willingness of western countries to open their markets to goods as part of the effort to restrain Communism in the Cold War period. It has also been possible for corporations of one country to benefit from wars taking place in another regional neighbour: Japanese corporations benefited from the Korean Civil War, for example, while Korean corporations subsequently profited from the Second Indochina War.

Perhaps the most notable and most studied episode of East Asian industrial transformation was that of the four Tigers of South Korea, Taiwan, Hong Kong and Singapore. In addition to pursuing a similar economic model, these states also shared in facing common existential threats affecting them at the time of transformation and which heightened the need for swift empowerment. South Korea was threatened by a resumption of hostilities in the Civil War, Hong Kong and Taiwan might have been subject to reunification attempts by China, while Singapore was facing a confrontation with Malaysia. Irrespective of the potency of the economic model that they employed; these states certainly had strong incentives to postpone immediate consumption for the sake of a better chance of survival in the long run.

Controversy has accompanied the analysis of East Asian rapid industrialisation and became particularly notable in the early 1990s, when the World Bank was leading the attempt to try to determine the critical drivers of economic growth through a series of cross-country multiple regressions, which centred on the concept of total factor

productivity (TFP).² The controversy surrounding the analysis centred, then as now, on the role of the state in facilitating growth. It has become generally accepted that governments had a role in promoting growth through the provision of industry policy of some sort, yet the term industry policy is vague and almost all-encompassing in describing the wide range of activities that governments might pursue in seeking to enhance economic growth. It is a form of development strategy, which involves “... such wide-ranging areas as the establishment of long-term targets for growth and structural change, investments in productive facilities and infrastructure, the supply of an adequate labour force with industrial competence and discipline, and technological catching up and development (Chang 2006:100-1).”

To some extent, this can be seen, which is the line followed by the economist Krugman (1994), as primarily the result of putting to work resources which were otherwise being left unused—i.e. through unemployment or under-employment or through structural societal issues such as preventing women from entering the labour force or a caste system. This is also a variant of Kaoru Sugihara’s thesis that the industrial revolution in the west was matched by the industrious revolution of the east:

... in the eighteenth and early nineteenth centuries China experienced an ‘industrious revolution’ that established a distinctive East Asian technological and institutional path. Particularly significant in this respect was the development of a labour-absorbing institutional framework centred on the household and, to a lesser extent, the village community (Arrigi 2009).

This argument is based on the need to circumvent resource constraints through the application of human labour to sustain and increase output: “The development of labour-intensive technology centring on rice cultivation enabled small-scale production labour-intensive and efficient, while the identification of the peasant family as a production unit made labour absorption easier and the incentive to work greater. It also encouraged the peasant’s will to develop managerial and interpersonal skills, and anticipate and prevent potential problems. Commercialisation of agriculture and proto-industrialisation reinforced this path (Sugihara 2004).” In general, the East Asian period of rapid industrial transformation has often seen states achieve the transition from low income to medium income or medium-high income through the application of some form of the East Asian Economic Model (EAEM): import-substituting, export-oriented intensive manufacturing based on low labour cost competitiveness. However, a number of states have become stuck at that point of transformation, since they are unable to move to high income status. This is generally a result of the Middle-Income Trap (MIT): that is, the means by which it is possible to transition to middle income status are not the same means by which it is possible to transition to high income status. Malaysia and Thailand are examples of states which have not been able to reach high income status because of the unwillingness to trust the people with freedom of speech and association. In the case of Malaysia, this has been because of the threat of inter-ethnic violence that might

²Somewhat ironically, perhaps, a recent paper has made the claim that the search for TFP was something of a chimera, since the central variables concerned were related definitionally, thereby rendering the analysis fruitless (Felipe and McCombie 2017).

follow weakening of the state's hand on society and, in the case of Thailand, it has been because of the unwillingness of the palace-military complex to yield the power and privilege it has accumulated over the course of decades. The one state that does seem to have achieved high income status without granting personal freedoms is Singapore, yet it is argued that the balance of control, wealth and economic innovation that is possible at the limited scale of a city state is not scalable to a medium-sized state or larger. Looming on the horizon is the rival paradigm of the China model: the EAEM is reinvented with special economic zones and extensive development of physical infrastructure which has so far proved successful in marrying economic growth with the maintenance of monolithic political control. Understandably, many people in mainland Southeast Asia look at these options askance and prefer instead the example of Korea. As will be shown below, Vietnam has now passed from low income to middle income status as a result of the application of its version of the EAEM and must begin to think of means of circumventing the MIT. The issue of public administration reform, which began at the outset of the *Đổi Mới* period, is one which continues to be considerable significance in hoping to facilitate necessary changes to bring about state-level developmental goals.

1.3 Vietnam

Vietnam is the largest (310,070 km²) and most populous (c.97 million) member of the Greater Mekong Subregion (GMS), which is a region proposed by the Asian Development Bank (ADB) to be a coherent territory for the purpose of economic development because of the long history of cultural and social congruity, together with frequent two-way border crossings of labour and capital and the sharing of some important societal institutions. The other GMS members are Cambodia, Lao PDR, Myanmar, Thailand, Yunnan Province of China and Guangxi Zhuang Autonomous Region. The ADB has begun numerous projects aimed at enhancing growth in the GMS as a whole and increasing integration among the various states within it, so as to take advantage of regional and global value chains in a period in which purely national development is no longer widely considered to be a viable approach. The most prominent of these projects is the Asian Highway Network (AHN), which aims, at considerable expense, to link by road and rail all the principal places of production and consumption not just in the GMS but the whole of Asia. Together with the signing of bilateral and multilateral free trade agreements (FTAs), the AHN has helped to transform trade and the distribution of goods regionally and led to some significant changes in the architecture of comparative and competitive advantages.

Vietnam's history with respect to transnational organizations has been very complex, owing to lengthy periods of colonisation and the struggles necessary to achieve independence. The reunification of the country at the end of the Second Indochina War (1955–75) was followed by an international economic boycott of the country led by the USA and additional fighting following the occupation of Cambodia (1975–89) and the Sino-Vietnamese War of 1979. This period of conflict was ended