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* 'Asia Pacific region' as used here includes East Asia, Southeast Asia, South Asia, Oceania, and the Russian Far East.

Economic Reform in Vietnam: Challenges, Successes, and Suggestions for the Future Economic Situation Prior to Reform

by Susan Parini

ABSTRACT
This paper presents an analysis of economic reform in Vietnam. From the end of the Vietnam War and the reunification of the country in 1975, Vietnam has shown remarkable resilience in its transition to an open-market economy. Despite the state's centrally planned, one-party political and economic system, the government recognized that immediate action was necessary to pull the country out of its downward spiral. The article emphasizes the successes and shortcomings of state-owned enterprise reform and offers recommendations to expand the process. To conclude, the paper poses several social and political issues facing Vietnam today that—if resolved—will improve the quality of life for many Vietnamese citizens.

It is nearly impossible to discuss Vietnam's past or current economic situation without mentioning the Vietnam War, which had a direct and lasting impact. The war squandered valuable resources such as coal, and American bombs and defoliants destroyed prized forests and agricultural land. Hundreds of unexploded landmines riddled the landscape and are still a problem today. The toll on one of Vietnam's largest assets—its human capital—was also high, with over three million Vietnamese killed and incalculable civilians wounded.

The Vietnam War was only one of several tumultuous periods for this region. Beginning with French colonial rule in the mid-to-late 1800s, it has endured social and economic strife and violent conflict which lasted over seventy years. As French colonization ended, Vietnam engaged in a series of wars from the 1940s to the 1980s, with the country's reunification as the primary issue. This single-minded desire to unify the country is understandable when one considers that Vietnam is unique among its Asian neighbors for its existence as a distinct political unit for over one thousand years (Heenan and Lamontagne 2001, 123).

Vietnam has made rapid advances in the past twenty years toward social and economic recovery and growth. With plans to become fully industrialized by 2020, Vietnam has actively developed reform policies to facilitate its progress. This paper begins with an analysis of conditions in the country prior to reform, the circumstances that triggered economic reform, and the barriers to reform implementation. The second part includes an examination of the successes and challenges of state-owned enterprise reform and suggestions to improve the process. It concludes with a summary of unresolved social and political stumbling blocks that should be addressed to ensure Vietnam's successful integration into the global economy.

As Vietnam unified in 1975, the North (formerly known as the Democratic Republic of Vietnam, or DRV) imposed its state-controlled organizational model on the South (formerly known as the Republic of Vietnam) (Ibid., 125), forming the present Socialist Republic of Vietnam in 1976. The Communist Party of Vietnam (CPV) controls the country in conjunction with the Political Bureau (Politburo), a small, powerful group of Central Committee members (Ibid,126). The Politburo has remained largely intact for the majority of Vietnam's post-war history. Douglas Pike illustrates the potency of their authority by stating "the Hanoi Politburo is probably the longest-lived ruling group in the world" (Jackson and Soesastro 1984, 229).

The CPV was originally structured in a fashion similar to the defunct Communist Party of the Soviet Union and the current Chinese Communist Party (Heenan and Lamontagne 2001, 126). It therefore followed similar economic concepts and policies. Prior to unification, the North strictly controlled all aspects of the DRV's economy—from agriculture to industry—while the South followed a more capitalist, open-market style. The DRV gradually instituted the cooperative farm model that Mao Zedong implemented in China, collectivizing agriculture in the North. There was limited private land ownership, and the state directed the type and quantity of each collective's crops. Industry followed suit, as the state nationalized its factories. As stated in The Political Economy of South-East Asia, "Output targets and prices, input supplies, domestic wholesale and retail trade, and imports and exports were determined by central government…Individual production units had no commercial contact with each other, exchanging goods only with higher levels which…distributed them according to plan" (Rodan et al. 2001, 209). Industry was heavily subsidized by the government and, according to Richard Vokes and Ingrid Palmer, the state made no consideration with respect to "…market demand, profitabilities…or any rational form of valuing resources" (Dixon and Drakakis-Smith 1993, 171). The state's monopolistic control of the markets hindered their development (Harvie and Van Hoa 1997, 33).

Because of the North's extreme control and lack of consideration regarding market demand, there were virtually no free market exchanges outside of the black markets in smuggled goods and U.S. dollars. The country was isolated, trade was limited to countries in the Soviet bloc, and no foreign direct investment (FDI) was permitted (Heenan and Lamontagne 2001, 125). Economic growth prior to and during the war was negligible. In the North—the center of most industry—per capita Gross Domestic Product (GDP) growth averaged 3%. The South's GDP growth averaged 0.8%, plummeting to negative numbers during the war despite U.S. aid—resources were simply stretched too thin (Tran-Nam and Do Pham 2003, 16). From 1950 to 1973, Vietnam's GDP growth was nearly the lowest in the region, second only to the Philippines (Ibid., 17).

In the early 1960s, the North attempted to stimulate its economy by implementing a reform plan known as the First Five Year Plan (FYP). The FYP's premise was to use the state's power to focus on rapid industrialization—emphasizing heavy industry such as coal and steel—to strengthen the economy. However, due in part to resources diverted towards the impending conflict with the South, this state-controlled plan was not successful. Vietnam's Reforms and Economic Growth reinforces this by stating, "Both human, fixed, and institutional capital was poorly utilized and misallocated, preventing the country from realizing its growth potential" (Harvie and Van Hoa 1997, 33).

Meanwhile, the South's service-based economy and focus on light industry developed a very different, open-market style. The South—due in part to heavy U.S. intervention—had better infrastructure and organized labor unions, and was able to advance their manufacturing, construction, and consumer goods sectors. The South supported both foreign trade and entrepreneurialism (Ibid., 33), and their garment manufacturing and food processing industries better utilized the region's skilled and educated workforce than the North's heavy industry (Van Arkadie and Mallon 2003, 42).

Catalyst for Pursuing Reforms

Tensions mounted in 1975 after the Vietnam War's end as the country unified and the state imposed the North's centrally planned economy on the economically liberal South. Many factors combined to cause the Vietnamese economy's rapid downward turn. Certainly one of the most immediate and devastating impacts was the loss of Western and Chinese financial aid around the same time. This economic assistance sustained both the North and the South, so its elimination by China in 1978 and the West in 1979 was a blow to the recovery efforts of a country ravaged by war (Dixon and Drakakis-Smith 1993, 172). Although Hanoi's call for war reparations from the U.S. was not fruitful, France did provide annual monetary support as a means of colonial restitution after its withdrawal in 1954 (Engelberg 1993, p. 20). Vietnam's dismal economic growth and large unemployment rate contributed to increasing poverty across the nation. The standard of living fell and inflation soon spiraled out of control—from an annual inflation rate of 34.9% in 1981 (Alpert 2005, 36) to 1,000% by 1987 (Heenan and Lamontagne 2001, 129).

Agriculture—one of Vietnam's most important industries—also endured many setbacks. In an essay written near the peak of Vietnam's postwar crisis, Pike stated that "…in Vietnam the 'economy' and the 'agricultural sector' are virtually synonymous" (Jackson and Soesastro 1984, 231). The cooperative production system, natural events, and the consequences of war battered Vietnam's vital agricultural industry.

First, the cooperatives initially established by the DRV did not encourage farmers to produce higher yields, since there was no economic incentive (Heenan and Lamontagne 2001, 127). Farmers could neither keep for themselves nor benefit financially from any surplus food they produced; government demands only increased to feed growing numbers of urban cadres. Interestingly, Pike also stated with regard to Vietnam: "…no socialist country has ever been able to solve the agricultural production problem and…those which have come the closest have done so by embracing capitalist devices and incentives (while labeling them something else)" (Jackson and Soesastro 1984, 233).

Second, several years of harsh weather damaged crops in the late 1970s. By the middle 1980s, the country was unable to produce enough rice to feed its population and food shortages were common (Heenan and Lamontagne 2001, 128). The problem escalated to the point that by 1989 nearly one million Vietnamese did not have enough to eat (Jones 1989, 3). Food scarcity, combined with reduced food aid imports, resulted in rising food prices (Dixon and Drakakis-Smith 1993, 173) which, in turn, contributed to Vietnam's skyrocketing inflation.

Finally, in the agricultural zones, bomb-damaged infrastructure hindered food transport. Roads, streets, bridges, canals, ferry stations, and irrigation systems were common targets during the Vietnam War in an attempt to incapacitate food production and shipping (Weiss 1969, 25). Toxic herbicide sprays destroyed thousands of acres of crops—as well as the environment—and caused a prolonged cycle of birth defects and disease (Van Arkadie and Mallon 2003, 43).

An abundance of social problems contributed to pressure for reform. Nearly every Vietnamese family felt the effects of years of war. The urban areas—packed with displaced rural citizens escaping the bombing—rapidly became slums. Drug abuse and prostitution were common (Ibid., 43). People, particularly soldiers, were disillusioned; they had won the war but victory did not bring the sustained peace and prosperity that they expected. It was during this time that refugees, or "boat people," who had nothing to lose began fleeing to nearby countries to escape the poverty, starvation, crime, and destruction.

Challenges in Implementing Reforms

As the county's crisis deepened, Vietnam had no alternative but to try to remedy its problems. Up to this point in Vietnam's history, its economic policies were largely based on ideology: closely following socialist principles as a rejection of everything capitalist (McCargo 2004, 199). In fact, there was a tendency for both Vietnamese citizens and politicians alike to believe that "socialism was entirely good and capitalism was bad" (Ibid., 199). This belief was a factor in their political isolation and economic stagnation. Changing this philosophy would involve a radical shift from the status quo.

In a state-controlled, socialist system such as Vietnam, however, it was difficult for the state to loosen its grip on the economy to allow the country to integrate into the global marketplace. Decades later, ambivalence towards globalization still exists among many government policymakers (The Asia Foundation, June 2001). As much as the government knew that immediate action was necessary, changes did not occur without tribulation. Vietnam's situation was an example of what is called "orthodox paradox" theory: even though politicians will be hurt by reforms, they are best able to—and should—implement reforms for the good of the state. Consider Stefan Haggard's comment: "…it is not only social interest groups that constitute barriers to reform but the state apparatus itself: the political leaders, bureaucrats, and party functionaries…" (Krueger 2000, 38). Here Haggard refers to an authoritarian regime that creates barriers to reform, as in Vietnam with its centrally planned, one-party political and economic system. Although the power held by government officials would weaken with the economic liberalization process, immediate action was necessary to pull the country out of its downward descent.

In 1986, Vietnam instituted its first round of policy reforms known as *Doi Moi* or "renovation" (Van Arkadie and Mallon 2003, 66). In a speech, Party Secretary General Truong Chinh acknowledged his party's errors of the past by stating, "…cadre and Party members have alienated themselves from the people…thinking that…in the struggle for socialism the people only have to obey them. Lenin said, 'The danger facing a party in power lies in severing ties with the masses'" (Ibid., 66). The government realized that their policies were not working. As they found themselves in the domain of losses, they became more willing to take risks (Weyland 2002, 38–39). The state moved forward, initially focusing on critical sectors to increase food production and generate revenue: agricultural development, consumer goods production, and trade and foreign investment expansion (Van Arkadie and Mallon 2003, 68). As diplomatic ties with China dissolved over the Vietnamese invasion of Cambodia, Vietnam—spurred by economic necessity—reassessed its bilateral relationships. As part of its *Doi Moi* development plan, Vietnam withdrew from Cambodia in 1988 and set a course to resolve conflicts through peaceful means (McCargo 2004, 199).

Certain special interest groups assisted the reform process. For example, some Party officials left the government to support pro-democracy movements. One such man, a poet named Le Dat, was expelled for his inconsistent views with the Party line. He summarized the conflict by stating, "…To survive, the Party must change. That's all." (Mallet 1999, 248). Haggard confirms that in the post-communist world, "…the extent of democratization [proves to be the] single most important determinant of subsequent propensity to reform" (Krueger 2000, 39). As stated previously, Haggard believes that authoritarian regimes hinder the reform process. The openness of democracies runs counter to the closed, obstructive characteristics of a state-controlled economy, such as directing consumer product production and consumption.

Prior to Vietnam's initial *Doi Moi* development, the country aligned itself with politically like-minded countries—primarily China and the Union of Soviet Socialist Republics (USSR). With the USSR's collapse in the late 1980s, the Russians dramatically cut financial assistance to Vietnam, stopping entirely by 1991 (Rodan et al. 2001, 216). Despite the state's initial attempt at reform, the loss of Soviet monetary support was the last straw for Vietnam's flailing economy. The state became more convinced that radical reform was the only option (Ibid., 216). It was time to make drastic revisions to the state's *Doi Moi* plan.

In 1988–89, the government implemented additional *Doi Moi* reforms designed to accelerate the state's transition to a market economy. These changes allowed for 100% foreign enterprise ownership, decollectivized agriculture, cut subsidies to state-owned enterprises (SOEs), and established interest rates to encourage saving (Ibid., 217–218). The effects of these modifications were dramatic—inflation was reduced to 36% in 1990, and the country's GDP rose to an average of over 8% annually between 1992–97 (Ibid., 218). Vietnam's economy was on the rebound.

However, in 1997–98, unexpected disaster struck: the Asian financial crisis. Vietnam was primarily hard-hit in the area of FDI, as investors withdrew funds to protect their assets. Vietnam's foreign investment commitments decreased by 46% in 1998 (O'Rourke 2004, 116). Export growth was also reduced, as Vietnam had to compete against its trading partners' depreciating currency and weaker purchasing power (McCargo 2004, 76). As a result, growth slowed significantly.

In response to this decline in growth, nervous politicos started to question the capitalist transition. Vietnam began to backtrack on the progress that it had made to date. The country experienced a conservative backlash in 1997 as Communist Party hardliner Lt. General Le Kha Phieu was appointed to Vietnam's most powerful position—Secretary General (Lamb 1998, A.14). Phieu and other Party traditionalists believed that the state's loss of control over economics, politics, and the people themselves somehow contributed to the sudden and dramatic economic downturn. Phieu—famous for stating, "Capitalism will definitely be replaced, as it is backward in satisfying the people's desire for happiness"—wanted to slow down the pace of change (Ibid., A.14). Probably more than coincidentally, Phieu was forced to resign in 2001 as Vietnam's economy began to show signs of recovery. He was replaced by political moderate Nong Duc Manh, who today—as Secretary General—serves as the head of the Politburo. Manh was likely selected due to his reputation as an uncorrupt consensus-seeker who was expected to advocate bureaucratic reforms (BBC News, April 19, 2001).

After his election in 2001, Secretary General Manh vowed to ramp up the decades-long battle against corruption in Vietnam (BBC News, April 7, 2006). While there may not be an abundance of proof to suggest that the state is a hindrance to reform, the state's continuing struggle with corruption is clearly evident. In 2001, Vietnam was rated the 15th most corrupt government in the world by Transparency International, trailing behind only Indonesia and Bangladesh in Asia (O'Rourke 2004, 32). In Transparency International's 2004 Annual Report regarding perceptions of the level of corruption as seen by business people and country analysts, Vietnam received a discouraging score of 2.6 out of 10 possible points (Kotalik et al. 2004, 9).

Political corruption in Vietnam is found in many forms, from abuse of public roles to using resources for private benefit (Ibid., 32). In Vietnam, government inspectors are widely believed to accept bribes to supplement their salaries (Ibid., 167). Accepting bribes to win contracts—a common form of corruption found in nearly every country—is particularly prevalent in Vietnam. An Asian Development Bank employee stated in 1998 that "…up to 30% of project budgets can disappear in kickbacks for employees and contractors" (Ibid., 168). When dishonesty like this becomes standard operating procedure, it becomes more and more difficult to eradicate.

Rates of corruption are nearly impossible to report in a command economy—where government dictates everything from resource allocation to production and consumption rates—because the Party's strict control facilitates the suppression of the news media. Essentially, Vietnam's politicians are corrupt because they are unlikely to be caught and punished. According to a recent report by The Asia Foundation, "…the essential connection between corruption and a highly regulated economy…is not clear to many, even though some have pointed it out" (Dalpino 2005, 38). The connection is probably unclear to the politicians themselves, who are likely living in denial that their actions are wrong. Occasionally, lower-ranking crooked politicians are "discovered" and disciplined. However, in these cases, the state is not actually clamping down on corruption. It is more likely that certain Party members are using dispensable politicians to set an example of how a particular reform that they oppose—such as decentralization—is not effective (McCargo 2004, 49–50).

Not surprisingly, a "culture of secrecy" has developed hand-in-hand with corruption in Vietnam's command economy. Even though this lack of transparency has hindered Vietnam's reform progress, the state has proven to be reluctant to change. For example, in 2003 the International Monetary Fund (IMF) delayed implementation of a $400 million reform package for nearly a year because Vietnam would not submit to an independent audit of the central bank. Such an audit was illegal under state law, under punishment of death (Economist Intelligence Unit 2003). The habit of concealment is emerging in the developing private sector as well, where "…entrepreneurs' lack of openness is hampering their ability to develop businesses" (Ibid.). The high level of secrecy is certainly a contributing factor to the country's poor rating in the World Bank's Doing Business in 2006 report, where Vietnam ranks a disheartening 99th place out of 155 countries regarding the ease of conducting business (World Bank 2006, 92).

Today, as Vietnam attempts to complete its accession to the World Trade Organization (WTO) by 2006, it is under pressure to make its operations more transparent. Once reforms have been established, executing the new policies can be a challenge due to the lack of local government staff to support them. For example, Vietnam's government instituted policies to grant more decision-making power to local governments and to inform citizens of their rights under Vietnamese law. Yet according to The Asia Foundation, People's Inspection Boards—created to "act as government watchdog agencies"—lack staff and resources to fulfill their role (The Asia Foundation, February 2006). In an environment of rapid changes, it can be difficult to coordinate and transmit information from the top down, so that everyone involved is informed and enabled to execute new policies and procedures.

Analysis of State-Owned Enterprise Reform

While some reforms were rapidly implemented, the government employed others—such as state-owned enterprise reform—at a cautious pace. This was due in part to the Vietnamese authorities' unwillingness to take any action that would weaken Party members' privileges (Alpert 2005, 39). SOEs were (and still are) a source of power to the Party because of the capital that they generate, especially for the Politburo. Once that power is gone, the Party will not be able to reclaim it. Because there was a general reluctance within the state to restructure SOEs, their reform began with a slow start.

To assess Vietnam's SOE reform process, it is worthwhile to define the terms "equitization" versus "privatization." Many publications use the terms synonymously. However, there is an essential difference. Equitization is the common process of SOE reform, which is more ideologically palatable to the state. In equitization, an enterprise is converted into a joint-stock corporation (JSC) in which the state, employees, and private investors all own and control share capital (McCargo 2004, 94). In a JSC, the state can still legally own and control a majority of the enterprise. This differs from full privatization, in which state majority ownership would not be allowed. The government actively encourages equitization over privatization, stating that while the private sector "could contribute to national reconstruction," the process should be "assisted and safeguarded"—i.e., closely controlled (Heberer 2003, 32). For this analysis, I will use the more accurate term, "equitization."

Since farming, forestry, and fishing are so vital to the Vietnamese way of life as well as their economy, it made sense to focus initially on the agricultural sector. The first non–state-controlled markets naturally developed in the agricultural sector, as the Party restructured cooperative farming ventures in one of its first *Doi Moi* efforts. Private agricultural markets flourished after 1987 with the reduction of domestic trade barriers (Van Arkadie 2003, 68). For the first time, Vietnamese food exports increased—more than 16 times from 1988 to 1990 (Nørlund et al. 1995, 119).

Additional enterprise reforms followed that were designed to increase the independence of SOEs. A positive outcome was the disassembling of a large portion of the central planning structure (Alpert 2005, 39). Progress continued until late 1989 when the impending Soviet crisis forced a reduction in aid to Vietnamese SOEs. Immediate action was necessary to prevent the collapse of SOEs that had been receiving substantial Soviet support (Van Arkadie 2003, 99). Contrary to the experience of other transitioning Asian economies after initial reform implementation, however, Vietnam's state-sector output growth equaled or exceeded private-sector growth in the years prior to the end of Soviet assistance (Ibid., 113). Data indicates that the state's portion of GDP actually increased overall throughout most of the reform period, despite reduced barriers to private investment and increased competition (Ibid., 115). Vietnam was able to avoid some of the common negative impacts of equitization. Several reasons account for this, including encouragement of

FDI to increase capital and technology skills in the SOE sector, initial reforms designed to liberalize trade and end state price control, and the fact that Vietnamese SOEs were not a primary employer (Ibid., 122–123).

At the time *Doi Moi* was implemented in 1986, SOEs accounted for only 15% of the total workforce, compared to more than 75% in other communist states (McCargo 2004, 92). Vietnam's reliance on agriculture—more so than China or the USSR—served to benefit the transition of SOEs by cushioning the overall impact of job losses (Ibid., 92). One downside of equitization is high levels of unemployment as the state closes underperforming enterprises and eliminates redundant positions. However, Vietnam fared better in this respect than many transitioning economies. For example, nearly 800,000 Vietnamese SOE workers lost their jobs between 1989 and 1992 (Ibid., 96). Yet despite this loss, Vietnam's total labor force increased by six million from 1991 to 1997 (Ibid., 84). The new jobs were largely created in the private small and medium enterprise (SME) sector.

As in many transitioning economies, SMEs—from "mom and pop" shops that sell goods in local market stalls to light household industries such as garment production—play an important economic role in Vietnam. Not only do they provide a significant source of employment opportunities, but they have proven to equitize more easily than larger SOEs. In 1998 the Mekong Project Development Facility conducted a survey of 14 small and medium SOEs that had completed the equitization process into JSCs. The general results indicated that the equitized firms were performing well. The survey report's analysis identified both positive aspects of business development as well as areas for improvement. The most promising sign of progress was the employees' increased concern with company performance once they had ownership in the organization. In one instance, employees agreed to a pay cut to sustain profits during a slow period (Webster and Amin 1998, 13). This demonstrates that when employees have a stake in their company, they are more likely to want to improve their company's bottom line, whether through pay cuts or increased productivity. It is an indicator of equitization's success.

Regardless of this achievement, the Mekong Project report indicated deficiencies in the equitization process. The main constraints included lack of capital financing, bureaucratic red tape regarding the transition process, and discriminatory business practices that favor SOEs, particularly with respect to long-term, local bank loans (Ibid., xi). These conditions are not irresolvable and could be remedied in the future through further reform.

Regrettably, growing gender inequity in the workforce is one indicator of failure of the equitization process. During the Vietnam War—similar to what happened in the U.S. during World War II—women entered the workforce in large numbers as men entered military service. As the war ended and *Doi Moi* reforms were implemented, women were laid off in disproportionate numbers (McCargo 2004, 101). As SOE reforms were applied, women tended to be employed on fixed-term contracts, while the majority of men received permanent contracts (Ibid., 101). Fixed-term contracts made the women more vulnerable to layoffs, and they were not eligible for social security benefits or redundancy pay regardless of their length of employment (Ibid., 101&105). This trend is of special concern in Vietnam's growing textile industry. The textile and garment industries are among the most important business sectors in Vietnam, and young women constitute the majority of these sectors' labor force. According to Gerard Clarke, Vietnamese women in the garment industry "…suffer significant gender discrimination and stand to lose significantly from the SOE reform process" (Ibid., 105).

Prior to passing the Law on State Enterprises in 1995, the number of Vietnamese SOEs was cut in half from approximately 12,000 to 6,000 (Webster and Amin 1998, 1). The number has been reduced to about 4,000 today to increase Vietnamese business competition and to prepare for accession to the WTO (Hien, 2005). Brian Van Arkadie illustrates the evolution of SOE reform with the following analogy. In the late 1980s, a tourist in Vietnam would have stayed in a state-run hotel, eaten at a state-run restaurant, and rented a car from a state-owned agency. Merely ten years later, a visitor would likely attain the same services from a combination of JSCs and foreign-invested enterprises (Van Arkadie 2003, 112). In 2001 there were nearly 32,000 non-state enterprises, including private companies, JSCs, and enterprises with foreign capital (Heberer 2003, 45). The state has set an ambitious goal of having a mixture of 500,000 established JSCs, limited liability companies, partnerships, and private enterprise firms by 2010 (Quynh, 2006). This can be achieved only if Vietnam improves its business climate and moves forward with further reforms in the legal and banking sectors.

Vietnam's initial Law on State Enterprises and its subsequent incarnations after 1995 have facilitated growth of the non-SOE sector. In particular, the Enterprise Law implemented in 2000—in combination with other reforms such as liberalized trade laws for private firms—sparked a surge of entrepreneurial start-ups (McCargo 2004, 50). The 2000 Enterprise Law converted the system of business licensing to business registration, thereby eliminating licenses that restricted entry into various industrial sectors (Ibid., 87). This revised registration system reform eased the entry requirements for emerging SMEs into the business arena. These laws have provided confidence to entrepreneurs who benefit with the knowledge that the state is supporting their business development efforts. The most recent version of the Enterprise Law, passed in December 2005, reduces restrictions on foreign investors to increase FDI levels.

SOE Reform: Strategies for Success

To date, Vietnam's SOE reform process has shown both positive and negative results. The process may be slow-going, but the government is evidently making efforts to change. As reforms progressed, several winners quickly emerged: SMEs and individual entrepreneurs.

Once the state removed initial barriers to private businesses and later implemented the Enterprise Law, SME development thrived. In 1995 the majority of Vietnamese companies—over 66%—had 10 or fewer employees (Heberer 2003, 41). According to the United Nations Development Program, 95% of Vietnamese companies today are SMEs. Many of these people are self-employed entrepreneurs, conducting agricultural, service, and light industrial businesses out of their homes. For example, one Vietnamese textile worker voluntarily quit her factory job to open a small production shop in her home. Not only did she earn more money being self-employed, she was able to care for her young child (Nørlund et al. 1995, 146). Household economies like hers account for a majority of current and future job growth in the country. There are several ways that these workers can mobilize to streamline their efforts and become a more united front to help implement favorable changes to their businesses.

There is a significant lack of business organizations and associations in Vietnam—especially for entrepreneurs—and participation is low in the few that exist. As of 2003, fewer than 23% of entrepreneurs were members in the most prominent organization, the Vietnam Central Council for Cooperative Union and Small and Medium Enterprises (now known as the Vietnam Cooperative Association) (Ibid., 218). Although there are no restrictions barring such associations, the state—having had control over industries for years—is clearly wary of organizations in which they are not involved. Consequently, small business owners are disjointed from other business owners in similar industries. Because they are not able to learn from one another, their fragmentation weakens them all. It would benefit SME owners to form their own associations, perhaps organized by industry. The familiar expression "there is strength in numbers" is particularly applicable in this case. Better organized SMEs could lobby together for reforms that would help their establishments, as well as defend themselves better against changes that could hurt their businesses.

In many Confucian-influenced Asian countries such as Vietnam, business is facilitated through guanxi, the development of personal relationships. Vietnam's communist roots that emphasize the significance of groups over individuality further increase the importance of being aligned with a group through a social connection. Whomever a business owner knows can be as important to one's success as basic knowledge of business tactics. It can be advantageous to know certain influential people such as policy makers and business leaders who support the small business owner. Building social guanxi networks among business owners could enhance business opportunities and help protect a business owner's interests.

Once business groups have unified, they would have more power to encourage reform-minded politicians like Secretary General Manh to improve Vietnam's business climate. As stated previously, the World Bank ranks Vietnam in 99th place out of 155 countries regarding the ease of conducting business. This is due in part to an inordinate amount of administrative and bureaucratic procedures. For instance, it takes 11 procedures and 50 days to start a business in Vietnam, compared to 5 procedures and 5 days in the U.S. (World Bank 2006, 97). The World Bank estimates that it takes an average of 1,050 hours a year for a Vietnamese business enterprise to prepare and file the requisite business tax payments (Ibid., 46). These cumbersome policies are hampering SME development, Vietnam's most promising source of future employment opportunities. Business groups should urge politicians to decrease red tape and simplify tax laws to promote new enterprises, which would help Vietnam reach its goal of 500,000 established firms by 2010.

Business organizations should also work with politicians to decrease corruption from the top down. Recently, several senior Vietnamese officials resigned after being accused of embezzling millions of dollars from construction projects and using it to buy houses, cars, and the services of prostitutes, as well as to gamble on sporting events. Secretary General Manh said in response that corruption is threatening the very survival of the Party's regime (*BBC News*, April 18, 2006). Business groups should persuade like-minded politicians such as Manh that high-level corruption could damage foreign investor confidence, which could in turn impact new and existing enterprises that rely on foreign financing. The government needs to make a commitment to fellow politicians and citizens alike that they are not going to tolerate corruption of any form.

The state should launch a public awareness campaign that not only details their zero-tolerance policy towards corruption, but also promotes the benefits of equitization. Workers in JSCs might not realize the advantages of purchasing shares in their company. Many citizens over 18 are not aware that they are eligible to buy shares. Not only would an outreach campaign inform the public, but it would inspire more confidence in the state's reforms.

There is a large income discrepancy between urban areas, where the majority of industry is located, and rural regions that primarily subsist through agricultural endeavors. Several methods could help balance income between the sectors by promoting private entrepreneurship in less developed regions: improved educational and vocational training opportunities, less state-controlled media, and encouragement of FDI to fund these endeavors.

Education is a priority to the Vietnamese, and their comparative advantage is certainly their sizeable, educated workforce. Per the *CIA World Factbook*, Vietnam's literacy rate rivals China's at 90.3% of the total population, and exceeds China regarding women's literacy rates. According to Dr. Hien Duc Do, Associate Professor at San Jose State University, there is presently a huge demand for education in Vietnam, particularly English language and business skills training in Microsoft Office software. There are many more students than there are schools to teach them. Dr. Do said that even though these schools are expensive, the Vietnamese are so anxious to develop a middle-class lifestyle that they feel the investment is worth the cost. To maximize benefits for both the Vietnamese and foreign investors, the state should actively encourage foreign investors to open such schools in Vietnam, particularly in less urban areas. To promote this plan, the state could offer to partner financially with a foreign investment firm. Not only would this increase the investor's confidence, but it would guarantee an excellent return on the state's investment in the country's human capital. A skilled workforce brings money to the state and helps raise the overall standard of living.

To enhance the citizens' burgeoning education, the state should ease its restrictions on the media. Television, newspapers, books, movies, and the Internet are all subject to government oversight. The state retains a controlling interest in enterprises that publish academic textbooks, political papers, and current event and documentary films (Van Arkadie and Mallon 2003, 141). These limitations are detrimental to developing an innovative population because they stifle creativity. For example, if someone has an inventive business idea to explore, one's access to quality market research is questionable. State-controlled textbooks are especially egregious if they provide a limited, incomplete view of social and historical events. The state should desire well-informed citizens and should provide increased access to materials that will allow them to expand their knowledge.

Establishing and implementing legal reforms would further cultivate the private sector. As of 2005, Vietnam has no legally established system of property rights, and private land ownership is not recognized by the Constitution (Alpert 2005, 128). In 2006 the *Heritage Foundation Index of Economic Freedom* gave Vietnam a "repressed" score of 5 points—the lowest possible rating—with regards to property rights. This score has remained unchanged throughout the Foundation's eleven years of records. In addition, the judiciary members are all Party members, which reinforces a general bias towards the state. The country has made some progress by building courthouses and establishing standards for lawyers and judges, but they lack a systematic plan to overhaul the legal system. Vietnam's current legal and judicial systems are impeding its efforts to develop the private sector. The government needs to implement laws that demonstrate that their pledge to develop a free market system is more than just lip service. These reforms should be a high priority to the state, regardless of the fact that they are necessary for Vietnam to complete its WTO accession in 2006.

To complement legal reforms, the government should also execute banking system reforms to make business practices between state-owned and non–state-owned enterprises more equitable. Current banking systems favor lending money to SOEs over private enterprises, but it is often private enterprises that are in the most need of funding. Private and equitized enterprises are discriminated against, as they are not allowed to receive domestic, long-term (more than one year) bank loans (Webster and Amin 1998, 19). Local banks should be allowed to provide loans to any viable business, regardless of its organizational makeup. Improved reliability of banking systems would also encourage citizens to reinvest in their country, which is not presently a priority to the Vietnamese.

Conclusions: Remaining Issues

Vietnam has come a long way towards industrialization since the state implemented initial Doi Moi reforms in the 1980s. Currently the second fastest growing country among its Southeast Asian neighbors, the country's GDP has ranged between 7 to 8% since 2002, earning it 17th place out of 214 countries with the highest estimated GDP growth rate for 2005 (*CIA World Factbook*, 2006). Not only has Vietnam set its sights on capturing a piece of China's manufacturing industry, but it is looking at India's technology sector as well. At the invitation of Prime Minister Phan Van Khai, Microsoft founder Bill Gates visited Hanoi in April 2006, promoting the Internet and the advantages of participating in the global economy. Gates encouraged Vietnamese leaders to consider not only manufacturing, but software development and outsourcing opportunities as well (Tran 2006, A14).

Aside from its robust growth, there are several lingering issues to address to complete Vietnam's successful incorporation into the global economy. Poverty is an ongoing problem. According to the current *CIA World Factbook*, an estimated 19.5% of Vietnamese live below the poverty line. The large income gap that exists between the urban and rural areas is particularly concerning because most of the population lives in rural areas. The rural population—primarily agricultural workers—needs improved higher education and health care, as well as better infrastructure to facilitate their mobility to access these services.

Vietnam's roads, railways, sanitation, and irrigation systems require further development. Enhanced infrastructure would attract more foreign investment, as it would allow goods to be transported more easily. It would also enable rural workers to travel longer distances for higher paying jobs.

In the rural areas, U.S. landmines and artillery shells left over from the Vietnam War continue to harm people daily, killing approximately 38,000 people and wounding 100,000 since 1975. The victims are mainly farmers and children. The government is working with U.S. war veterans to conduct a survey of the remaining devices, which need to be located and safely detonated to prevent future accidental injuries and deaths (*BBC News*, February 25, 2004).

Vietnam is facing several human rights issues including freedom of religion, human trafficking, prostitution, and child exploitation. For example, in 2004 Vietnam was declared a Country of Particular Concern by the U.S. Department of State for its severe violations of religious freedom. The nongovernmental organization Human Rights Watch is monitoring the situation. They are concerned about reports of security forces beating citizens to death to disperse protests regarding the right to religious freedom (*BBC News*, April 14, 2004).

According to a World Bank report, the Vietnam Youth Association estimates that up to 50,000 children live and work on the streets of Vietnam today. A 2001 UNICEF presentation at Vietnam's National Conference on Programs of Action for Children reported that increasing numbers of such children are victimized by prostitution and sexual trafficking. Many are from troubled, impoverished families who cannot afford to keep them in school (UNICEF, February 2001). Unfortunately, in indigent areas, these types of crimes are common as people struggle to survive. Balancing Vietnam's income disparity would help alleviate these problems, as would tougher penalties for ringleaders who profit from the industry.

With all of the changes that have occurred in the country over the past twenty years, Vietnam has shown remarkable resilience. Its economic progress to date—from SOE reform to liberalized trade laws to steady GDP growth—has attracted the attention of global corporations like Intel, which announced plans in 2006 to build a production facility in Ho Chi Minh City. As Vietnam enters the final phase of its accession to the WTO, the country will focus on issues of particular interest to the WTO—such as legal and judicial reforms—to bring Vietnam into compliance with other WTO members. However, the Vietnamese continue to grapple with ongoing social and political problems that they must address in order to complete their industrialization process. As its market economy evolves, the hope is that Vietnam's growth will benefit all of its citizens and provide them with happier, healthier, and more productive lives.

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