

# Has Nguyen Phu Trong's Leadership Curbed Economic Reform? Economic Reform Trends in Vietnam

Shozo SAKATA†

Institute of Developing Economies-Japan External Trade Organization (IDE-JETRO)

This paper argues how the features of Vietnam's political-administrative system and their recent changes have affected economic reform, particularly reform of state-owned enterprises. After the 12th Party Congress in 2016, the Party Secretary General Nguyen Phu Trong's administration has seemed to exaggerate its conservative and totalitarian-looking rule in the political arena. In contrast, the economic reform policies introduced by Trong's administration seem more transformative and progressive. This paper suggests that this contradiction must indicate changes in the policies relating to the state management of economic entities and/or a disguised form of reform to retain state influence over economic management, both of which tend to end up with pervasive rent-seeking practices.

**Key words:** national champion, reform, rent-seeking, state-owned enterprises, Vietnam

**JEL codes:** P31, P48, D72, D73, O14, O43

**Accepted:** 11 December 2019

## 1. Introduction

It is generally agreed that the introduction of the reform orientation called *Doi Moi*, proposed in the 6th Party Congress in 1986, put Vietnam on the right track for economic development. However, Vietnam neither initiated many drastic reform policies at one time nor achieved rapid economic growth immediately after it declared the onset of this reform. Vietnam has gradually transformed its economy from a planned to a market-oriented type, undertaking various restructurings, reorganizations, and amendments over the last 30 years or more. Once facing a severely stagnant economy with a gross domestic product (GDP) per capita of less than \$US 100 at the end of the planning era, Vietnam became a so-called middle-income country in 2010. *Doi Moi* has been an ongoing process, and at least according to the Communist Party of Vietnam (CPV), Vietnam is still engaging in continuous reform efforts. Nonetheless, Vietnam has actively advanced economic reform, particularly in participating in the global economy since the middle of the 1990s. It has concluded many bilateral and multilateral free trade agreements (FTAs).

---

†Correspondence: Shozo Sakata, Institute of Developing Economies-Japan External Trade Organization (IDE-JETRO), 3-2-2 Wakaba, Mihama-ku, Chiba-shi, Chiba 261-8545, Japan. Email: shozo\_sakata@ide.go.jp

The remaining challenge for reform relates to state-owned enterprises (SOEs). Whereas many SOEs have been privatized or *equitized* (the term used by Vietnamese political leaders), the government still announces its target numbers for equitized and listed SOEs at the beginning of each year, but is disappointed at the end of each year.

Vietnam's political and administrative reforms have occurred at a much slower pace. One-party rule has been maintained, national elections are still under the screening and the supervision of the Vietnam Fatherland Front (the aligned organization of the CPV), and the successive constitutions since Vietnam gained its independence as the Democratic Republic of Vietnam have conferred a special status to the CPV (or the Labor Party of Vietnam from 1951 to 1976) as the leading political institution of the state. Furthermore, recent events in the political arena, including a harsh anti-corruption campaign, the concentration of power in the CPV's Secretary General Nguyen Phu Trong, and the increasing repression of press freedom, represent the Party's efforts to work against political-administrative reforms, strengthening (or even reviving) the Leninist-style central state control.

Political scientist Jonathan London (2009, 2017) depicts Vietnam as a country under "market-Leninism."<sup>1</sup> London claims that in Vietnam, a "specific combination of market economic institutions and Leninist power relations" exists, and contrary to conventional assumptions, "market-based growth is not intrinsically incompatible with Leninism" (2017, p. 389). However, this sophisticated terminology does not reveal the CPV's motivation or rationale for adopting economic reforms, which inevitably lessen state control over the economy. The open question is whether the CPV's recent excessively authoritarian rules signal its intention to curb economic reform.

In an attempt to answer this question, the present paper provides a discussion of the progression of economic reforms in Vietnam under the recent political-administrative changes through a presentation of various views on Vietnam's reform. In Section 2 recent political-administrative statuses and their underlying reform policy issues under the new leadership since 2016 are introduced, followed by the review of Vietnam's recent economic performance in Section 3. These sections represent the situation as the progressive reform taking place under the increasingly authoritarian-looking polity. In Section 4, an analysis of the mechanism that has caused such a situation is presented. The present paper concludes that the CPV's seemingly intensifying state control has not devastated much of the reform policy formulation. However, the CPV's strengthened authoritarian surveillance over society has not curbed much pervasive rent-seeking practices either, which disables real reform.

## 2. Political-Economic Changes after 2016

Vietnam's political-administrative systems have been governed by the CPV's Leninist elites who enjoy monopolistic power to "subordinate powerful bureaucracy, control civil society through repression, and prioritize state economic interests over non-state interests" (London, 2017, p. 417). This section provides an overview of the recent situation, particularly after 2016, in which the CPV has seemingly intensified its control

over state institutions and economic entities, while the reform policies adopted by Trong's administration appeared progressive.

## 2.1 Tightening CPV control after the 12th Party Congress

One of the major events in Vietnam's recent political arena was the CPV's decision to re-elect 71-year-old Nguyen Phu Trong for a second term as the Party Secretary General and the rather surprising withdrawal of former Prime Minister Nguyen Tan Dung from the Party Central Committee at the 12th Party Congress held in January 2016. Dung, who was appraised as a "reformist" but was rumored to be highly corrupt, started to adopt populist measures in the second term of his prime ministership to regain popularity and to legitimize his policies by appealing to the anti-Chinese nationalistic sentiments of the citizens. Thus looked to be successful until the last minute of his power struggle with Trong.<sup>2</sup>

That event and the subsequent political disturbances have spurred speculation that Trong would assume a totalitarian stance over state management and curb the reform policies. First, at the onset of his second term, Trong intensified an anti-corruption campaign, which he fully used to remove the remaining influences of Dung. The foremost achievement was the elimination of Dinh La Thang who was dismissed from the Party Politburo, the institution with the highest power in the country,<sup>3</sup> and from his position as the Secretary of Ho Chi Minh City. Thang was then prosecuted for allegedly causing damage amounting to 900 billion VND to Petro Vietnam when he was its president. Thang's removal was followed by the dismissal of some other high-ranking Party cadres who had been assigned important management posts in large SOEs during Dung's administration.

Additionally, the CPV has accelerated its Leninist-style rules by suppressing freedom of expression. The security authorities have fought for more than a decade against the so-called bloggers who have expressed their political voices to request democratization or a multiparty system. The authorities have arrested them and in many cases exiled them to countries with more liberal policies regarding freedom of expression such as the USA. Moreover, the official media has also been under mounting pressure. In July 2017, the most popular online newspaper *Tuoi Tre* was forced to suspend its operations for 3 months due to "delivering false information."<sup>4</sup> The National Assembly passed the Cyber Security Law in June 2018, which now enables the security authorities to remove what they deem "toxic" content from websites and social networking services (SNS), as well as to request foreign information service providers, such as Google and Facebook, to provide user information.<sup>5</sup>

Political power seems to be further concentrated on Trong personally after the sudden death of the Head of State (President), Tran Dai Quang, in September 2018. The National Assembly elected Trong, with 476 votes out of a total of 477, to succeed Quang.<sup>6</sup> Nevertheless, it is unlikely that this event indicates that the CPV has abandoned its tradition of collective leadership. Trong's way of governing the state may not simply mirror Xi Jinping's administration of China. Trong seems to have a strong

motivation to restore internal discipline and enhance the consolidation of the CPV which he believes was threatened by corrupt Dung and his cronies.

## 2.2 Shifts in economic management principles

Whereas the leadership of the CPV has adopted a conservative position in political control, at the policy level, the administration has offered several new directions on economic management after 2016. Those new directions include the “improvement of the business environment and enhancement of national competitiveness” which Nguyen Xuan Phuc has repeatedly referred to in his speeches on various occasions since he started his term as Prime Minister. The government announced the issuance of Resolution 19 (19-2016/NQ-CP) and Decree 35 (35/NQ-CP), which stipulate various measures to improve the business environment for the enterprises in all sectors.

On the one hand, Resolution 19 sets targets for improved business environments by using the indices of the World Bank’s “Doing Business” report and the World Business Forum’s “Global Competitiveness Report” scores as measurements.<sup>7</sup> Resolution 19, which has been issued every year with the same resolution number, targets better performance of microeconomic management, such as shortened time for enterprise registration procedures and tax payments. Resolution 19 aims to lift the scores of these indices up to the levels of Vietnam’s neighboring ASEAN member countries, especially Malaysia, Singapore, and Thailand. On the other hand, Decree 35, which specifies the government’s support for establishing new enterprises (e.g., through tax reduction and access to loans), sets an ambitious target for the number of new enterprises in Vietnam at one million by 2020, while the actual number in 2016 was about half of that (505,000).

Such government initiatives have then been reflected in the formulation of the official Party directions to the state management of the economic entities. In the 5th Plenum of the 12th Party Central Committee in June 2017, the CPV passed three consecutive resolutions as follows: Resolution 10 (10/NQ-TW) on the development of the private economy as an important driver of a socialist-oriented market economy, Resolution 11 (11/NQ-TW) on perfecting the market-oriented social economic institution, and Resolution 12 (12/NQ-TW) on continuing the restructuring, renewal, and improvement of the efficiency of SOEs.

Through these resolutions, the CPV has stressed that the development of the private sector in tandem with SOE reform is the means to further develop a “socialist-oriented market economy.” Since its introduction in the 9th Party Congress held in 2001, the term “socialist-oriented market economy” has referred to Vietnam’s “multi-sector economy,” with the state sector “playing leading roles.” In fact, the term has often been used in the context of SOE reform. In contrast, in these new resolutions, the “important roles” of the private sector are emphasized, and “the contributions to the national economy, particularly to the state budget, job creation, improvement of people’s lives, and social security” (article 1, Resolution 10), are positively evaluated.

### 2.3 Trajectories of recent SOE reform policies

Resolution 12 of 2017 basically affirms the basic principle of SOE reform described as “keeping the big and releasing the small” (Cheshier *et al.*, 2006, p. 6).<sup>8</sup> On the one hand, the government has dissolved, merged, or closed down small-scale underperforming SOEs since the beginning of the *Doi Moi* reform. The State Capital Investment Corporation (SCIC) was incorporated in 2005 in order to divest the capital of relatively smaller-scale SOEs. On the other hand, since the mid-1990s, the government has explored the reform orientation which aims to enhance the efficiency and the competitiveness of some selected SOEs which are regarded as strategically important for national economic development. Decisions 90 and 91 were issued in 1994, and directed the formation of enterprise groups called General Corporations (GCs).<sup>9</sup> Since 2005, the government started to convert some GCs into State Economic Groups (SEGs), powerful conglomerates consisting of enterprises in diversified economic areas.

At the stage of negotiating Vietnam’s accession to the World Trade Organization (WTO), Nguyen Tan Dung appealed to rather nationalistic sentiments, stirring up the fear that the national economy would be threatened by competition from the foreign-invested sector. Dung insisted on the necessity to enlarge the capacities of some selected large-scale SOEs. As a result, seven out of 13 SEGs in total were established under Dung’s administration. Dung also issued a number of Prime Ministerial Decisions which eased GSs and SEGs ability to invest in side businesses in wide a variety of sectors (typically joint stock banks). However, undisciplined management, overly ambitious business diversification, and wrongful spending led to the revelation of big losses by some leading SEG. The government finally decided to dissolve and reorganize some SEG and to close down their affiliates beginning in 2012.

At the same time, the government started to implement another reform direction which deliberately divests state capital from the enterprises in the areas where the state does not need to hold or contribute capital to. Resolution 12 in 2017 further proposed to increase such economic areas. To more effectively achieve the processes of state capital divestment, the State Capital Management Committee, the so-called “super committee” which was initially announced in 2016, was finally launched in September 2018.<sup>10</sup> The committee aims to consolidate the ownership of capital which used to be separately controlled by line ministries, Provincial People’s Committees, and SCIC, in order to accomplish efficient investment of this capital. The ownership of six SEGs and other large-scale SOEs has been transferred to the committee.

## 3. Recent Economic Performances

Since 2015, Vietnam’s macroeconomy has shown signs of recovery in the aftermath of the 2008 global economic crisis. The upturn in the economy in fact provided the political impetus for Nguyen Tan Dung’s ambition to become the Party Secretary General, which in the end turned out to be an unsuccessful attempt. Nonetheless, since then, Vietnam’s economy has grown steadily and achieved some structural changes, as will

be discussed later, although it still seems erroneous to conclude that such economic growth is attributable to the reform policies.

### 3.1 Economic growth and changes of actors

Although Trong's anti-corruption campaign has enormously squeezed, in some ways, the real estate market,<sup>11</sup> Vietnam has maintained a stable macroeconomic growth. A GDP growth rate of over 6% on average has been achieved since 2015, and it reached 7.08% in 2018, the highest since 2010, while a low level of inflation of under 5% on average has been maintained since 2014 (a 3.54% increase was recorded in 2018 according to the average consumer price index [CPI]). Export values and foreign direct investment (FDI) inflows have increased consistently; the value of exports and the total registered capital of FDI in 2018 were more than five times and 1.7 times higher than their levels 10 years previously, respectively.<sup>12</sup> Public debt which amounted to 63.7% of GDP in 2016, nearly reaching the "dangerous zone" of 65% of the GDP set by the International Monetary Fund (IMF) standard, decreased to 58.4% by the end of 2018.<sup>13</sup>

It is almost certain that the most important factors that have enormously boosted Vietnam's recent economic growth are foreign trade and inflows of FDI (especially by Korean mobile phone producers) since the beginning of the 2010s. Since Vietnam's admission to the WTO in 2007, Vietnam has actively signed bilateral as well as multi-lateral FTAs. Vietnam had signed 12 FTAs by the end of 2018. Moreover, in 2018, Vietnam concluded more comprehensive and high-standard economic agreements, namely, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and an FTA with the EU (EVFTA). Although some controversial non-tariff barriers still remain on some strategic commodities, like automobiles, the government's attitude to external trade can be regarded as being one of the most liberal in the region. The total value of Vietnam's trade (export and import) in 2018 was 196% of its GDP, the second highest level in Asia after Singapore. In 2018, 71.4% of the value of exports in Vietnam was produced by the FDI sector (GSO, 2019).

Furthermore, Vietnam has benefited largely from the unstable international political economic situation, that is, the trade war between the USA and China. Enterprises in both the USA and China, but especially in the USA, must seek to divert their orders to bypass higher tariffs, and indeed, the value of exports from Vietnam to the USA in the first half of 2019 increased by 30.42% compared to the same period of the previous year (according to Global Trade Atlas data).<sup>14</sup>

Another prominent phenomenon in the economy is the considerable growth of the private sector. The number of enterprises in operation, mostly private, has increased by 204,615 over the 3 year period since 2016 (Table 1) exceeding the increase of 180,386 in the previous 5-year period (2011–2016) (GSO, 2016, 2019). This rapid increase is possible partly due to the transformation of small-scale "individual business establishments" (*co so kinh doanh ca the*) into enterprises. There must also be many

**Table 1** Changes in number of enterprises

	Newly registered	Re-operation	Temporary ceased	Dissolved	Increase in those in operation
2016	110,100	26,689	60,667	10,468	65,654
2017	126,859	26,448	60,553	12,113	80,641
2018	131,275	34,010	90,651	16,314	58,320
Total	368,234	87,147	211,871	38,895	204,615

Source: General Statistics Office (Vietnam) website. Accessed 30 November 2019. Available from URL: [https://www.gso.gov.vn/Default\\_en.aspx?tabid=491](https://www.gso.gov.vn/Default_en.aspx?tabid=491).

†January to November.

newly established enterprises that are affiliates of SOE and equitized SOE, although it cannot be confirmed statistically with the data that is openly available.

It is not only the number but also the presence of large-scale private enterprises that have increased in Vietnam's economy. Vingroup, the largest private conglomerate in Vietnam, founded by a Vietnamese who achieved success by selling instant noodles in Ukraine, provides Vietnamese people with various goods and services for use in their daily life through their shopping malls, supermarkets, condominiums, hotels, schools, and hospitals.<sup>15</sup> Vingroup has even declared its intention to start the production of mobile phones and automobiles. In the aviation sector, Viet Jet Airlines,<sup>16</sup> Vietnam's first private airline flying across 35 cities including Tokyo and Osaka, was followed by Bamboo Airlines through the investment of the FLC Group,<sup>17</sup> the private real estate titan. Five Vietnamese founders or chairpersons of private enterprises (including equitized ex-SOEs) were included as billionaires in *Forbes* magazine's 2019 list.<sup>18</sup>

Regarding the SOE reform, if Vietnam's continuous effort (Vietnamese policymakers refer to this as a "step-by-step" approach) is valued, the significance of reform outcomes is reflected in the reduced number of SOEs from about 12,000 in 1986 to 2500 in 2017 (GSO, 2019). Furthermore, the events in 2017 in which some equitized (ex-) SOEs attracted significant foreign capital, such as the sell-off of Saigon Beer Alcohol Beverage Corporation (Sabeco) to Thai Beverage (Thailand) and the purchase of VINAMILK stocks by Singapore's Fraser and Neave (F&N), might have motivated other SOEs to hasten their equitization and the listing of their stocks. Large-scale SOEs, such as Vietnam Airlines and Petrolimex, listed their stocks in 2018.

### 3.2 Is Vietnam doing business better?

Recently, positive signs have indicated government efforts to improve the efficiency of the economic entities and of state capital investments. Still, Vietnam's economy has yet to demonstrate drastic structural changes in order to pursue improved economic efficiency and enhance the competitiveness of enterprises, which should be attributed, at

least partly, to slower-than-expected SOE reform. The level of the incremental capital output ratio (ICOR) remains high which Ohno (2009) warns is an indication of being caught in a possible “middle-income trap.”<sup>19</sup> Many other economic indicators reveal that Vietnam still cannot grow out of the “vent-for-surplus” development model based on the “millions of new employments created by agriculture and light manufacturing industries” (see Pincus, 2015, 2016). In 2018, the CPV admitted that it would unlikely achieve its long-standing target of becoming an “industrialized country by 2020,” which the CPV declared at the 7th Plenum of the 7th Party Central Committee in 1994.

The idea presented in Resolution 19 appears new because it requires the measurement of Vietnam’s institutional capacities which reflect the impact of policies with globally recognized indicators. Improving these indicators is logically easier to implement than complex enterprise reforms. However, Vietnam has not recorded tangible progress in improving the microbusiness environment. Table 2 shows the rankings and the scores for 10 topics and the overall ranking for the ease of doing business in Vietnam according to the World Bank’s *Doing Business* reports in 2016, the earliest report in which both rankings and scores are available, and 2019 (World Bank, 2016, 2019). In 3 years, Vietnam’s position in the overall ranking has advanced by nine places, but this is exclusively due to its better “access to electricity” (thanks largely to the Chinese power plant projects).

Likewise, Vietnam’s rankings in the 2013–2014 and 2019 editions of the World Business Forum’s *Global Competitiveness Report* indicated a minimal increase in the country’s competitiveness level in business (ranked 70th in 2013–2014 and 77th in 2018). The most appreciated items included in Vietnam’s national competitiveness was its population; “market size” ranked 29th out of 190 economies (Table 3).

**Table 2** Vietnam’s rankings and scores in the *Doing Business* reports

	2016		2019	
	Ranking	Score	Ranking	Score
Overall	90	62.1	69	68.4
Starting a business positive	119	81.3	104	84.8
Dealing with construction permits	12	82.2	21	79.1
Getting electricity	108	63.3	27	87.9
Registering property	58	70.6	60	71.1
Getting credit	28	70.0	32	75.0
Protecting minority investors	122	45.0	89	55.0
Paying taxes positive	168	45.4	131	62.9
Trading across borders	99	67.2	100	70.8
Enforcing contracts positive	74	60.2	62	62.1
Resolving insolvency	123	35.8	133	34.9

Source: World Bank (2016, 2019).

**Table 3** Vietnam's rankings and scores in the *Global Competitiveness Reports*

	2013–2014		2018		
	Ranking	Score (1–7)	Ranking	Score (0–100)	
Global competitiveness index	70	4.2	Global competitiveness index	77	58.1
Institutions	98	3.5	Institutions	94	49.5
Infrastructures	82	3.7	Infrastructures	75	65.4
Technological readiness	102	3.1	ICT adoption	95	43.3
Macroeconomic environment	87	4.4	Macroeconomic stability	64	75.0
Health and primary education	67	5.8	Health	68	81.0
Higher education and training	95	3.7	Skills	97	54.3
Goods market efficiency	74	4.3	Product market	102	52.1
Labor market efficiency	56	4.4	Labor market	90	55.6
Financial market development	93	3.8	Financial system	59	62.3
Market size	36	4.6	Market size	29	70.9
Business sophistication	98	3.7	Business dynamism	101	53.7
Innovation	76	3.1	Innovation capability	82	33.4

Source: Schwab (2013, 2018).

#### 4. How Can the Paradox Be Interpreted?

It appears contradictory that on the one hand, authoritarian state control has intensified in the political arena; while in contrast, reforms, especially SOE reform, which require a loosening of state control over economic entities have accelerated. How can this paradox be legitimized among the state leaders? Either one or a combination of the following factors lies behind this contradiction.

##### 4.1 Pragmatic national champion strategy?

One possible answer is that the CPV's "national champion" policy (Pincus, 2015, 2016) has shifted to a more pragmatic line, involving a few outstanding non-state sector enterprises as long as they are within reach of the CPV's control.<sup>20</sup> In the course of developments even after the *Doi Moi* reform started, Vietnam has sought a development model that relies on SOEs as national champions that play a leading role. Given that Vietnam's economy has been traditionally dominated by small-scale enterprises and individual economic entities, it should have been effective to adopt such a strategy. However, as some private sector entities grew larger, it seemed reasonable that the

government started to rely on them for the nation's effective economic development. Whereas the CPV and the government have repeatedly emphasized the important role of the private sector, they still seem to believe that the growth of private enterprises may not be brought about by the removal of discriminatory treatment or the provision of a level playing field to the private sector. Rather, Vietnam still seems to maintain its national champions policy in which the government provides preferential treatment—in terms of access to finance, land use, and tax exemptions—to a limited number of enterprises in key economic sectors, while is now applied to some private enterprises.

The new concept “development–facilitating government” (*chinh phu kien tao phat trien*) which Phuc has used on various occasions since the onset of his term as Prime Minister in 2016 might have been indicative of that shift, although many still argue about whether this new concept suggests the CPV's drastic change in ideological orientation relating to the “leading role” of the state sector (Resolution 10 in 2017 refers to the “important role” of private sector).<sup>21</sup> As Edwards and Phan (2013, p. 111) argue in a comparison with China, in Vietnam the “party-state has fulfilled the roles of both promoter and constrainer of market reform” to diminish poverty and to reinvest reform benefits in the state sector. Drawing the private sector enterprises as national champions into the elite circle of economic titans could eventually lead to a tightening state control over them for effective national development.

#### 4.2 A disguised form of reform?

Another interpretation of this contradiction is that reform has led to a disguised form in order to maintain and even strengthen the state intervention over SOEs. Whereas many SOEs have been equitized and the emergence of new private titans is conspicuous, the state's influence by means of capital ownership and institutional control is still significant. Whereas the number of SOEs has been reduced to 2486 (reduction roughly to 20% of that in 1989) which accounts for 0.4% of the total number of enterprises in 2017, SOEs owned 32.7% of the total fixed assets of enterprises (Table 4). The share of the value added generated by the state sector in 2017 remained as high as 28.6% of the GDP, a reduction of only by 0.7 percentage points since 2010.

Vietnam's commitments under international trade agreements is widely said to be used to usher in SOE reforms (e.g. see World Bank and Ministry of Planning and Investment, 2016, p. 6; Le Hong Hiep, 2015). On the contrary, critics assert that FTA negotiations are used to conceal resistance to SOE reforms. At the stage of negotiating Vietnam's WTO accession, Dung's government stirred up the fear that the national economy would be threatened by the competition in sectors with foreign investment. Dung used the WTO accession as the catalyst to establish the SEG-centered economic development model in Vietnam (Vu-Thanh, 2015, 2017). International pressure during the negotiations for the Trans-Pacific Partnership (TPP) was also claimed as not being helpful for SOE reform in Vietnam. As a concrete definition of SOE was not included in the TPP negotiations, SOE provisions in the 2014 Enterprise Law were “blurred” to deflect the pressure from the TPP negotiators in other countries (Le Thi Anh Nguyet,

**Table 4** Enterprise performance by ownership type

	Number of enterprise		Number of employees (1000)		Fixed assets %					
	2010	(%)	2017	(%)	2010	(%)	2017	(%)		
100% State owned	1,801	0.64	1,204	0.21	1,078	11.07	705	4.86	24.49	30.01
Over 50% state owned	1,480	0.54	1,282	0.23	525	5.38	497	3.43	13.26	2.7
Limited liability Co.	163,978	58.7	384,446	68.60	3,087	31.69	4,841	33.36	19.02	12.8
JSC with state capital	1,710	0.61	1,167	0.21	506	5.19	313	2.16	3.85	3.93
JSC without state capital	55,057	19.71	109,936	19.62	1,759	18.05	3,247	22.38	20.13	30.93
FDI	7,248	2.59	16,178	2.89	2,156	22.13	4,510	31.08	16.53	17.93

Source: GSO (2019).

2015). As a result, “a considerable number of exceptions” to exempt the SOE’s conditions and their activities were sought to be listed during the negotiations (Willemyns, 2016, p. 673). In fact, many of the exceptions were successfully listed in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Nonetheless, the international environment might not allow the continuation of such resistance by the Vietnamese government. One unforeseeable factor that might put constraints on Vietnam’s economy and economic reform is US trade policy under President Donald Trump’s administration. In the near future, Vietnam might be requested to make further commitments for domestic economic reforms as an important actor in the global trade. For the USA, Vietnam may not be a “fair” trade partner, accumulating \$US 42.6 billion trade deficit which ranks the seventh largest in 2018 (Global Trade Atlas data). Additionally, US trade authorities seem nervous with the illegal transfer of Chinese goods with fake product-origin certificates from Vietnam.<sup>22</sup> It would not be surprising if the USA, having decided not to participate in the TPP, would someday start to question Vietnam’s unfair production system where many exported products are produced by SOEs or subsidized “equitized” enterprises and require the imposition of more strict regulations to create a more open economy.

### 4.3 Pervasive rent-seeking practices

After the collapse of VINASHIN, an SEG whose core was the state shipbuilding company, in 2012 which was caused by Dung’s reform policies that aimed at a disorderly expansion of the scope and the business sphere of large-scale SOE, the CPV has tightened the surveillance of the corruption in large-scale (“keeping big” side of) SOEs. Furthermore, the anti-corruption campaign under Trong’s leadership has uncovered many of the past enormous corruption cases. Corruption in SOEs has also recently been under the pressure of exposure by SNS.

Nevertheless, the corruption is still pervasive in Vietnam because adopting the “national champion” policy and strengthening state influence by disguising the reform policy, by their nature, create state rents and rent-seeking practices. The literature on political economy reveals that state influence persists even in the equitized ex-SOEs. First of all, state institutions can influence decisions on when, how much, and to whom state capital should be sold. The reason why equitization usually proceeds slowly is either the resistance from the enterprises and the state (Fforde, 2004) or the struggle among the persons and the institutions concerned about the control over the assets of SOEs (Gainsborough, 2009). Equitized SOEs (even ex-SOEs where the state owns less than 50% of their shares) are often obliged to submit extensive regular reports to government authorities such as the audit board. Therefore, they need to maintain “friendly” relations and connections with the authorities for their smooth business operations (Gainsborough, 2009).

It is more likely that such spontaneous actions by enterprises to maintain relations with the authorities tend to create a “cover for rent-seeking and redistribution” of state capital (Ngo & Tarko, 2018, p. 482). State capital that will be equitized can be

effectively used for expanding the managers' network among central and local state officials who decide matters such as the allocation of party and government posts and the selection of government contractors (Pincus, 2015, p. 46). Problems with persisting rent-seeking, partly rooted in the old *xin-cho* (begging and giving) relationship between SOEs and controlling state institutions, are now said to be adopted in newly emerged large-scale private enterprises.<sup>23</sup> The recent, surprisingly rapid advancements of large-scale private enterprises, seemingly supported by state initiatives, may only suggest that Vietnam's state institutions have diversified rent-seeking systems, ranging from state capitalism to crony capitalism (Ngo & Tarko, 2018).

## 5. Conclusion

In the process of transforming its economy from a central planning to a market type, Vietnam has formulated a unique economic management system different from that of capitalist countries. Vietnam has adopted various forms of reform measures over the past 30-plus years of its transformation process. Despite these efforts, the outcomes of Vietnam's *Doi Moi* reform have been diversely evaluated; some people praise them, and others are frustrated with them.

The answer to the question posed in the title of this paper, "Has Nguyen Phu Trong's leadership curbed economic reform?" must be answered in the negative. Progressive reform policies, ambitious plans, and new organizations have been introduced under Trong's administration, although the orientation in SOE reform remains different from the ideal type (i.e., the full privatization of SOEs) supported by neo-classical economic theories. The administration has also allowed or even facilitated the emergence of new economic actors, such as large-scale private enterprises.

Nevertheless, the basic principle of and motivation for the economic management of the CPV and the government must be unchanged; the country's economy can only develop effectively when it is led by the national champions in the key economic sector selected by the Vanguard Party. Dung attempted strategically to nurture competitive SOEs as national champions, while the current Trong administration has assumed a pragmatic approach by inviting some selected capable (and probably obedient to the Party) private enterprises into elite circles. This principle may also be unchanged no matter who is to be elected as the next Party leader at the next Party Congress to be held in early 2020 since this constitutes the substantial meaning of the market-Leninism of Vietnam.

As argued in this paper, one of the strongest motivations for the leaders to maintain market-Leninism could be the pervasive rent-seeking practices of the economic entities and the state authorities. In a Leninist state with a top-down planning system, such as Vietnam's, state rents have easily been created and distributed effectively among the limited rent seekers because state authorities have restricted access to economic opportunities. In the transitional stage from a planned to a market economy, as the state power and capacity to manage the economy were weak, such rent-seeking mechanisms might have helped to create economic efficiency at local levels, which

Fforde (2009) calls the “auto-reform” of the economy, with spontaneous and endogenous actions of stakeholders.

As Vietnam’s economy grows, it has become obvious that such an autonomous mechanism does not function well at the national level, and that the state must take action to suppress them because there must be a limit to growth based on a rent-seeking distribution system. Instead, for further growth, although it may require considerable time as the CPV must maintain its “step-by-step” reform principle, Vietnam needs to establish an economic management mechanism based on a universal rule of law, for example, protection of property rights and freedom of expression.

## Notes

- 1 Market-Leninism is not London’s original term. He admits that the term was first used in Nicholas Kristof’s column in the *New York Times*, 6 September 1993, analyzing China’s Communist Party rule (Available from URL: <https://www.nytimes.com/1993/09/06/world/china-sees-market-leninism-as-way-to-future.html> Accessed 30 November 2019).
- 2 Dung outspokenly criticized China’s military expansion in the South China Sea, particularly after the incident where China deployed an oil rig (accompanied by armed vessels) in disputed waters near Vietnam in 2014. His accusation against China during the plenary session of the ASEAN Summit held a week after the oil rig incident and his short message sent to citizens via state-owned mobile phone service providers helped the resurgence of his political popularity which had declined since 2012 when he was condemned during the National Assembly for his misconduct related to SOE management.
- 3 When the 12th Party Congress was held, 19 Politburo members were elected. As of the end of 2018, the number of Politburo members was reduced to 17 due to Dinh La Thang’s withdrawal and the death of former President Tran Dai Quang.
- 4 *Tuoi Tre* reported that President Tran Dai Quang agreed on the need to issue the Demonstration Law. This article was then revised, and there were no longer any statements by Quang relating to the Demonstration Law in the revised version. This incident provoked speculation in the online media (BBC Vietnamese, 19 June 2018, Available from URL: <https://www.bbc.com/vietnamese/vietnam-44187458>).
- 5 *Straits Times*, 2 January 2019 (Available from URL: <https://www.straitstimes.com/asia/vietnams-cyber-security-law-takes-effect-amid-criticism> Accessed 30 November 2019)
- 6 Trong became the third person who served as Party Secretary General to become the President in Vietnam’s history, after Ho Chi Minh and Truong Chinh.
- 7 In fact, the government has issued Resolution 19 since 2014. In that sense, Resolution 19 was not Phuc’s original initiative. However, the issuance of Resolution 19 in 2016 was a symbolic event to show Phuc’s zeal for economic management. Since then, “improvement of the business environment and national competitiveness” has become a frequently used important slogan of the government.
- 8 This concept in the United Nations Development Programme’s report was borrowed from the Chinese slogan “grasp the large, let go of the small” which was first adopted by the Chinese Communist Party in 1996 (Ho *et al.*, 2003).

- 9 Enterprise groups that were categorized as “GC 91” consisted of larger-scale SOEs in key economic areas and were supposed to report to the Prime Minister, while groups under “GC90” were smaller-scale, specialized SOEs reporting to line Ministries or Provincial People’s Committees (Ishida, 2013, p. 23; Fujita, 2017, p. 4).
- 10 Government Decree 131 (131/2018/ND-CP), issued on 29 September 2018, stipulates the committee’s functions, tasks, and powers.
- 11 The real estate sector has been the main target of anti-corruption investigations as many development projects involve public land or SOE land, usually with undisciplined management. The licensing processes for many property projects have been delayed due to stricter investigations, and property transactions have become slack. As a result, the price of luxury and high-end condos in Ho Chi Minh City increased by 15% in 2018 because of short supply (Le Hong Hiep, 2019a).
- 12 The value of exports increased from \$US 48.6 billion in 2007 to \$US 243.7 billion in 2018 (preliminary data). The total registered capital (newly registered and additional investment) of FDI in 2018 amounted to \$US 36.4 billion (preliminary data), in contrast to \$US 21.3 billion in 2007 (General Statistics Office (GSO) website, Available from URL: [https://www.gso.gov.vn/Default\\_en.aspx?tabid=491](https://www.gso.gov.vn/Default_en.aspx?tabid=491) Accessed 30 November 2019).
- 13 *VN Express*, 21 May 2019 (Available from URL: <https://e.vnexpress.net/news/business/data-speaks/vietnam-public-debt-at-lowest-level-since-2015-3926167.html> Accessed 30 November 2019).
- 14 Bloomberg introduced a study by Nomura Holdings Inc. that described Vietnam as the “top winner” of the US-China trade war because Vietnam gained orders from the trade diversion on goods with increased tariffs equal to 7.9% of its GDP in the first quarter of 2019, followed by Taiwan at a distant second, with a gain equivalent to 2.1% of its GDP. See Bloomberg online news, 3 June 2019 (Available from URL: <https://www.bloomberg.com/news/articles/2019-06-03/vietnam-tops-list-of-biggest-winners-from-u-s-china-trade-war>, Accessed 30 November 2019).
- 15 Details available from URL: <http://vingroup.net/>, Accessed 30 November 2019.
- 16 Details available from URL: <https://www.vietjetair.com/Sites/Web/vi-VN/Home>, Accessed 30 November 2019.
- 17 Details available from URL: <https://www.flc.vn/>, Accessed 30 November 2019.
- 18 The list included Pham Nhat Vuong of Vingroup, Nguyen Thi Phuong Thao of Viet Jet Airlines, Nguyen Dang Quang of Masan Group (food and beverages), Tran Ba Duong of THACO automobile, and Ho Hung Anh of Techcombank (*Viet Nam News*, 6 March 2019, Available from URL: <https://vietnamnews.vn/economy/506592/five-from-viet-nam-included-in-forbes-billionaires-list.html#0gIEG7ktW63ymSkX.97>, Accessed 30 November 2019).
- 19 The higher the ICOR the more capital formation that is required to achieve an extra unit of output. The ICOR (preliminary score) was 6.0 in 2018, dropping for some years after the global economic crisis in 2008 (the highest level was 7.35 in 2009), but it has yet to drop to the pre-2008 level, 5.36 in 2007 (GSO website, Available from URL: [https://www.gso.gov.vn/Default\\_en.aspx?tabid=491](https://www.gso.gov.vn/Default_en.aspx?tabid=491), Accessed 30 November 2019).
- 20 “National champions” are often referred to when arguing for the legitimacy of industrial policies including those experienced in Japan and Korea where, in the processes of developing certain industrial sectors, the government picks favored enterprises to provide advantageous

- conditions in such areas as investment, procurement, and technology development (Ades & Di Tella, 1997). National champions are also referred to when analyzing development policies that create state monopolies by large-scale SOEs in Russia (Aslund, 2007, p. 254) and China (Nolan, 2001; Wilson, 2007).
- 21 For example, a BBC News article introduced various interpretations of the term “development-facilitating government” by scholars even in September 2018 (Available from URL: <https://www.bbc.com/vietnamese/vietnam-45539820>, Accessed 30 November 2019).
  - 22 Bloomberg online news, 10 June 2019 (Available from URL: <https://www.bloomberg.com/news/articles/2019-06-10/vietnam-cracks-down-on-chinese-made-goods-being-shipped-to-us>, Accessed 30 November 2019)
  - 23 John Reed’s long column in the *Financial Times* in June 2019 suggests that government policy supports Vingroup, including strict restrictions on automobile imports from the beginning of 2017 to help in the inception of automobile production by VinFast, the automobile-producing company under Vingroup. The column also hints at the existing special relations with state cadres behind Vingroup’s acquisition of land in the center of Hanoi as part of the equitization of an SOE (*Financial Times*, 27 June 2019, Available from URL: <https://www.ft.com/content/84323c32-9799-11e9-9573-ee5cbb98ed36>, Accessed 30 November 2019). Le Hong Hiep (2019b) also asserts that Vietnamese government has provided preferential treatments to VinFast in the automotive industry. Le Hong Hiep (2019b) even hints that the protectionist policy measures to eliminate imported cars such as the government Decree 116 of 2007 (116/2017/ND-CP), which requires vehicle warranty and maintenance services, was aimed to protect VinFast.

## References

- Ades A. & Di Tella R. (1997). National champions and corruption: Some unpleasant interventionist arithmetic. *Economic Journal*, **107** (443), 1023–1042.
- Aslund A. (2007). *Russia’s Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed*. Washington: Peterson Institute for International Economics.
- Cheshier S., Penrose J. & Nga N.T.T. (2006). The state as investor: Equitisation, privatisation and the transformation of SOEs in Vietnam. UNDP Vietnam Policy Dialogue Paper no. 2006/3, United Nations Development Programme (UNDP).
- Edwards V. & Phan A. (2013). *Managers and Management in Vietnam: 25 Years of Economic Renovation (doi moi)*. London and New York: Routledge.
- Fforde A. (2004). Vietnamese state-owned enterprises: “Real property,” commercial performance and political economy. Working Paper no. 69, City University of Hong Kong.
- Fforde A. (2009). Policy ethnography and conservative transition from plan to market. *International Journal of Social Economics*, **36** (6), 659–678.
- Fujita M. (2017). Vietnamese state-owned enterprise under international economic integration. RIETI Discussion Paper no. 17-E-121. Research Institute of Economy, Trade and Industry (RIETI).
- Gainsborough M. (2009). Privatization as state advance: Private indirect government in Vietnam. *New Political Economy*, **14** (2), 257–274.
- General Statistics Office (GSO) (2016). *Statistical Yearbook of Vietnam 2015*. Hanoi: Statistical Publishing House.

- General Statistics Office (GSO) (2019). *Statistical Yearbook of Vietnam 2018*. Hanoi: Statistical Publishing House.
- Ho S.P.S., Bowles P. & Dong X. (2003). "Letting go of the small": An analysis of the privatisation of rural enterprises in Jiangsu and Shandong. *Journal of Development Studies*, **39** (4), 1–26.
- Ishida A. (2013). State enterprise group in Vietnam following accession to the WTO. In: Sakata S. (ed.), *Vietnam's Economic Entities in Transition*. Basingstoke: Palgrave Macmillan, 23–58.
- Le Hong Hiep (2015). The TPP's impact on Vietnam: A preliminary assessment. *ISEAS Perspective*, Issue 2015. No. 63.
- Le Hong Hiep (2019a). The impact of Vietnam's anti-corruption campaign on the real estate sector. *ISEAS Perspective*, Issue 2019. No.46.
- Le Hong Hiep (2019b). Vietnam's industrialization ambitions: The case of Vingroup and the automotive industry. *Trends in Southeast Asia*, **2019** (2), 46.
- Le Thi Anh Nguyet (2015). State-owned enterprise reforms in the TPP negotiation: Is it a win-win for Vietnam? RIETI Discussion Paper no. 15-E-092, The Research Institute of Economy, Trade and Industry (RIETI).
- London J. (2009). Vietnam and the making of market Leninism. *Pacific Review*, **22** (3), 373–397.
- London J. (2017). Varieties of states, varieties of political economy: China, Vietnam and the making of market-Leninism. In: Carroll T. & Jarvis D.S.L. (eds.), *Asia after the Developmental State: Disembedding Autonomy*. Cambridge: Cambridge University Press.
- Ngo C. & Tarko V. (2018). Economic development in a rent-seeking society: Socialism, state capitalism and crony capitalism in Vietnam. *Canadian Journal of Development Studies*, **39** (4), 481–499.
- Nolan P. (2001). *China and the Global Economy: National Champions, Industrial Policy and the Big Business Revolution*. Basingstoke, Hampshire and New York: Palgrave.
- Ohno K. (2009). Avoiding the middle-income trap: Renovating industrial policy formation in Vietnam. *ASEAN Economic Bulletin*, **26** (1), 25–43.
- Pincus J. (2015). Why doesn't Vietnam grow faster? State fragmentation and the limits of vent for surplus growth. *Journal of Southeast Asian Economies*, **32** (1), 26–51.
- Pincus J. (2016). Vietnam: In search of a new growth model. In: Cook M. & Singh D. (eds.), *Southeast Asian Affairs 2016*. Singapore: ISEAS, 379–397.
- Schwab K. (2013). *The Global Competitiveness Report 2013–2014*. Geneva: World Economic Forum.
- Schwab K. (2018). *The Global Competitiveness Report 2018*. Geneva: World Economic Forum.
- Vu-Thanh T.A. (2015). The Political Economy of industrial development in Vietnam: Impact of state business relationship on industrial performance, 1986–2012. GEG Working Paper no. 2015/107. Global Economic Governance Programme (GEG). University of Oxford.
- Vu-Thanh T.A. (2017). Does WTO accession help domestic reform? The political economy of SOE reform backsliding in Vietnam. *World Trade Review*, **16** (1), 85–109.
- Willemyns I. (2016). Disciplines on state-owned enterprises in international economic law: Are we moving in the right direction? *Journal of International Economic Law*, **2016** (19), 657–680.
- Wilson J. (2007). China's transformation towards capitalism. In: Lane D. & Myant M. (eds.), *Varieties of Capitalism in Post-Communist Countries*. Basingstoke: Palgrave Macmillan, 239–257.

World Bank (2016). *Doing Business 2019: Measuring Regulatory Quality and Efficiency*. World Bank: Washington.

World Bank (2019). *Doing Business 2019: Training for Reform*. World Bank: Washington.

World Bank and Ministry of Planning and Investment (2016). *Vietnam 2035: Towards Prosperity, Creativity, Equity, and Democracy*. World Bank: Washington.