

Comment on “Has Nguyen Phu Trong’s Leadership Curbed Reform? Economic Reform Trends in Vietnam”

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Sakata (2020) explores the nexus between authoritarian political leadership and economic reforms in Vietnam during Nguyen Phu Trong’s second term as General Secretary of the Communist Party of Vietnam (CPV), which started in 2016 and will end in less than a year. Sakata’s paper is a timely contribution as it provides a concise and informative analysis of recent developments in Vietnam’s political economy and explores their broader implications. My comments in particular focus on the rise of large private enterprises which received particular attention in Sakata’s paper. This is a new development, which contrasts with the traditional structure of the Vietnamese economy, in which large enterprises in strategic sectors were predominantly state-owned. It is also significant because of the implications it might have for the evolving relationships between the party-state and businesses in Vietnam.

In an attempt to explain this development, Sakata (2020) presents the “pragmatic national champion strategy” argument, whereby preferential treatment, formerly provided by the Vietnamese government to a limited number of state-owned enterprises (SOEs) in key economic sectors, started to be applied to private enterprises selected by the CPV. To start with, whether the concept of “national champions,” which refers to a particular group of enterprises targeted by the government to lead the development of specific strategic industrial sectors, as was observed typically in Japan and Korea, is suitable for describing Vietnamese policies towards large state-owned conglomerates in the pre-2016 period may require deliberation. It is worth recalling that the roles that large state-owned conglomerates have been expected to serve in the Vietnamese economy were multifaceted. While a number of state-owned conglomerates, typically those in shipbuilding and textiles, provide examples of SOEs nurtured to lead the development of strategic industries, numerous other SOEs were expected to serve a range of other purposes such as the provision of essential goods, macroeconomic stabilization, social and regional development, and national security. Moreover, neither of the typical cases mentioned already ended up as “national champions” in practice because the party-state failed to exercise sufficient discipline over the enterprises.

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Another relevant issue that needs to be taken into account is the impact of international economic integration. Sakata (2020) presents two competing arguments, that is, one that asserts international commitments under the World Trade Organization (WTO) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) pushed reforms forward, and the other that emphasizes exceptions to international commitments. Nevertheless, what is more crucial is how Vietnam's participation in the WTO and CPTPP constrained the scope of the available policy options. While Vietnam had traditionally implemented industrial policies that targeted particular SOEs, Vietnam at least officially retreated from targeted industrial policies in order to comply with the national treatment rules. Although "loopholes" allowed continued support to be offered to particular enterprises, such support inevitably became indirect and/or implicit.

Finally, let us come back to the issue of how we should make sense of the rise of large private business groups. Apart from Vingroup, whose entry into the automobile industry has attracted considerable attention, a range of other diversified private business groups have emerged. Given that many of them developed with remarkable speed in sectors that are subject to state regulation such as real estate, it is difficult to imagine that they have developed purely by market forces. Nevertheless, because the ways the government supports enterprises have become increasingly implicit, it is difficult to confirm if they are in fact "national champions" that have been granted preferential treatment in terms of access to finance, land use, and tax exemptions. The evidence that Sakata (2020) offers on the government support to Vingroup is the restrictions on automobile imports, which not only benefit VinFast but also other foreign- and locally-owned producers operating in Vietnam (including Truong Hai Auto), and the "hint" that the company benefited from relationships with state cadres in relation to acquisition of land in the real estate sector.

Apart from the fact that state support has become increasingly difficult to identify, there is a question regarding why the support is provided. While Vietnam clearly regards the automobile industry as a strategic industry, does the same apply to private business groups in the airline and banking sectors, for instance? More fundamentally, is the party-state supporting private enterprises so that they would lead the development of particular strategic sectors, or is it more relevant to see the support within the context of widespread rent-seeking, as documented by Sakata (2020)? Recalling that one of the rationales behind Vietnam's attempts to nurture large state-owned conglomerates in key sectors has been the ideological orientation that the state sector should play the leading role in the economy, does the move to support private enterprises as the driver of economic development – if this is indeed the case – signify a departure from the past orientation? Sakata (2020) provokes these and other important questions which will be the agenda for further research in the future.

Reference

Sakata S. (2020). Has Nguyen Phu Trong's leadership curbed economic reform? Economic reform trends in Vietnam. *Asian Economic Policy Review*, 1–18. <https://doi.org/10.1111/aepr.12301>