



Chapter 4

Viet Nam: Transition to a Socialist-Oriented Market Economy

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This chapter should be cited as:
Vo, T.T. (2023), 'Viet Nam: Transition to a Socialist-Oriented Market Economy', in Kimura, F. et al (eds.), *Viet Nam 2045: Development Issues and Challenges*, Jakarta: ERIA, pp. 99-121.



Introduction

To have a deep and thorough understanding of development is always a challenge to economists. While competition and efficiency are essential for development, 'market failure' is just as common as 'state failure.' That is why economists and other social researchers have worked to explain economic reform and development using institutional economics and generalised models.

The centrally planned economies (CPEs) have been facing serious problems in transition, in particular, dealing with three sets of reforms: liberalisation and stabilisation; institutional changes that support market exchange and shape ownership; and the establishment of social programmes to ease the pain of transition (World Bank, 1996). This does not, however, reflect the complexity of the transition process, as showed by the experience of several transition economies. Jeffries (1993) mentioned, 'The rejection of central planning by so many countries in 1989 represents one of the truly extraordinary events in the history of economics. But the transition to the market also presents economists with formidable challenges because the path has never been trod before.'

The 35 years of Viet Nam's Doi Moi (Renovation) that started in 1986 have been bumpy, with successes and failures that have marked its transition to becoming a more prosperous country. Viet Nam's inherent political, social and economic characteristics have made it a potential model for transitional and developing economies to reach their development goals.

This chapter attempts to explore the transition of Viet Nam to the so-called socialist-oriented market economy (SOME). The first section describes the performance of Viet Nam's economy since Doi Moi and the reforms that have characterised it. The second section answers two questions: What lessons can be learned from the Doi Moi process and is there really a 'Viet Nam model'? The latter will be reviewed from both official and more practical angles. The last section looks at the challenges for Viet Nam to go develop further. Several necessary policies and reforms are also recommended.

1. Doi Moi: Development Achievements and Reform Milestones

1.1. Development Achievements

With Doi Moi, Viet Nam has seen four major transformations in its economic development.

First, from a poor and low-income country, Viet Nam emerged to be a middle-income country in 2009. It is also amongst the top countries in implementing the United Nations' Millennium Development Goals of hunger eradication and poverty reduction. The middle class in Viet Nam over the last 10 years has developed rapidly, spurring consumption and national economic development. Viet Nam has also set targets of becoming a high middle-income country by 2030 and high-income by 2045.

Second, from having been an agriculture-based economy, Viet Nam became much more geared towards industry, especially manufacturing and services. In the late 1980s, agriculture contributed the most to the gross domestic product (GDP), at about 50%, but in 2021 the rate was just above 12%.

Third, from being a closed economy, Viet Nam has become one of the most open economies in the world in terms of trade and foreign direct investment (FDI). Currently, the value of total trade is about 200% of GDP, with FDI contributing about 20%, along with 20% of total annual investment, and 70% of merchandise exports.

Fourth, from being a CPE, Viet Nam has since adopted a market-oriented economy. The institutional changes in favour of market rules have been ongoing with the development of the private sector. At present, about 850,000 enterprises and nearly 5 million household businesses are operating. Several big corporations have also established brands in the country and reached the world stage.

Though Viet Nam's development achievements are impressive, it could not reach its target of becoming a modern industrialised country by 2020. More generally, the quality of growth in Viet Nam is still in question. Growth has been largely driven by comparative advantages but not by productivity gains and innovation. Inefficiency of the public investment and state-owned enterprise (SOE) sectors, high costs of doing business, existing distortions of production factor markets, limited spill-over from FDI, and a weak position in global supply/value chains (GSCs/GVCs) are all significant concerns.

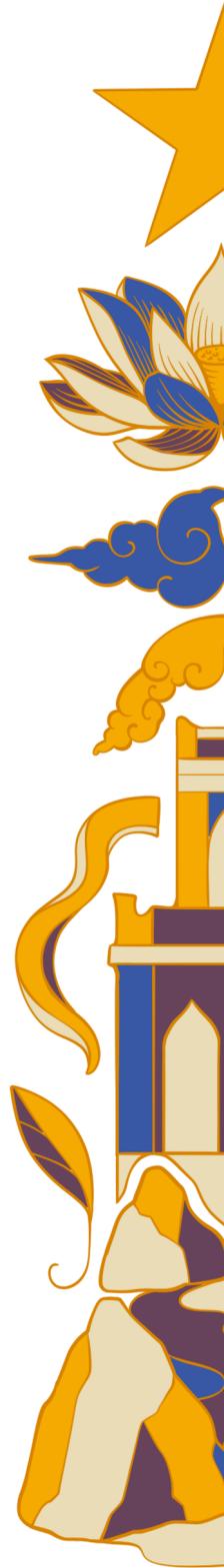
In general, the risk of falling into the 'middle-income trap' is still high. Moreover, the income/asset gap seems to be widening. Viet Nam has also paid an environmentally significant price for growth. Resource degradation, pollution, and deterioration, especially in big cities, has become much more serious. It is imperative to note that Viet Nam is amongst the top five countries most vulnerable to climate change.

1.2. Reform Milestones

Several studies have examined the economic development, policy changes, and reforms in Viet Nam since reunification in 1975 (see Fforde and De Vylder, 1988; Griffin, 1998; Riedel and Turley, 1999; Van Akardie and Mallon, 2003; Dapice, 2003; Vo Tri Thanh and Pham Hoang Ha, 2004; Vo Tri Thanh and Nguyen Anh Duong, 2010; Vo Tri Thanh, 2009, 2020; Vanham, 2018). These can be characterised by three periods. Prior to the 1980s, Viet Nam's economy was centrally planned. Between 1980 and 1987, the economy was a modified planned economy where some micro-reforms were undertaken, but without any significant changes in macroeconomic management. From 1988–89 onward, the economy has been in transition, striving for industrialisation and international integration.

Before the 1980s, Viet Nam was relatively autarkic, trading mostly only with the former socialist countries. With the poor incentives and restricted information flows characteristic of a CPE, resource allocation was heavily distorted. The problems were further compounded by an unfavourable geopolitical context because of the military conflict with Cambodia in 1978 and China in 1979. As a result, Viet Nam's economy suffered from persistent shortages, with low levels of per capita consumption; industrial production had stagnated; and food production had fallen to very low levels, forcing Viet Nam to import large amounts of rice, worsening its balance of payments position. The failure of the centrally planned system had become apparent and pressures for economic reforms increased substantially.

During 1980–87, the CPE was modified to respond to depletion of the economy. Fforde and De Vylder (1988) have described the reform process as 'bottom up'. It was first initiated through partial, unofficial relaxation of constraints on private activity and spontaneous moves towards production and trade outside of official channels (for example, 'illicit contracting' in agriculture and 'fence breaking' in the manufacturing sector), leading to eventual Party recognition of the role of the household sector in agriculture, handicrafts, and retail trading. In 1979, the Council of Ministers issued a decree providing scope for local state enterprises to operate outside the central plan once targets had been realised. In January 1981, a contract system was introduced in the agricultural sector, <http://epress.anu.edu.au/vietnam/ch4-notes.htm> and the government issued a decision providing limited autonomy to SOEs. The decision reduced the number of mandatory targets that enterprises had to meet and introduced the 'Three Plan System'. Under Plan One, both the input (at subsidised prices) and output (at set prices) were strictly determined by the State. Under Plan Two, the enterprises could produce beyond the amount specified in Plan One and use revenues to buy additional inputs. Plan Three allowed enterprises to engage in sideline activities on a free/parallel market basis. Up to 85% of the profits from activities outside Plan One could be retained by the enterprises, and some of this could be allocated to workers as bonuses.



These micro-reforms enhanced voluntary and decentralised interactions between individual agents and created new incentives for producers in raising outputs during 1982–85. The economy became more dynamic and, as a result, Viet Nam enjoyed a rather high rate of economic growth in the first half of the 1980s.

However, those micro-reforms in 1979–85 exhibited a trend towards liberalisation and an undermining of the state planning system, and were not a true transition. The Fifth Party Congress in 1982 attempted to recentralise the economy and, in 1983, administrative changes were made to control 'anarchy' in the market; the freedom of state enterprises to trade outside of official/plan channels was narrowed. These moves reflected considerable internal debate within the Party about future policy. Such an uncertain environment checked the growth of non-state economic activity as it discouraged long-term investments.

The improved economic growth was not sustainable. In September 1985, in an attempt to solve the problem of high free-market prices, the authorities increased state prices, and introduced a new currency and the so-called 'price-salary-money' reforms. These reforms were implemented without changing fundamental problems of resource misallocation, trade restrictions, and macroeconomic imbalances in the economy. As a result, these reforms failed to cut inflation. In the mid-1980s, the inflation rate accelerated to several hundred percent.

1986 is the beginning of the transition because it represented an irreversible change in ideology. The Sixth Party Congress in December 1986 publicly rejected the central planning model, and instead declared its intention to move towards some form of mixed market economy (a multi-ownership structure). This included agreements on the need for reducing macroeconomic instability and accelerating economic growth, and that all 'economic levers' (price, wages, fiscal and monetary policies) were to be used to achieve these objectives.

However, significant changes in this direction occurred only sometimes after the approval of the Doi Moi programme by the Congress. During 1988 and in early 1989, Viet Nam adopted a radical and comprehensive reform package aimed at stabilising and opening the economy, and enhancing freedom of choice for economic units and competition so as to change its economic management system. The reforms included:

- Almost complete price liberalisation;
- Large devaluation and unification of the exchange rate;
- Increases in interest rates to positive levels in real terms;
- Substantial reduction in subsidies to the SOE sector;
- Agricultural reforms through replacement of cooperatives by households as the basic decision-making unit in production and security of tenure for farm families;
- Encouragement of the domestic private sector and FDI; and
- Removal of domestic trade barriers and creation of a more open economy.

Macroeconomic stabilisation was successful in conjunction with price liberalisation, changes in the interest rate, and exchange rate policies, and, at the same time, the imposition of harder budget constraints on SOEs. The improvement of monetary policy and the better use of monetary instruments played a key role in cutting inflation.

Since 1989, structural reforms, such as the SOE and banking system reform and private sector promotion, have also been carried out, though the process has not been smooth.

In parallel with the domestic reforms, the acceleration of the opening of the economy and international economic integration has played a key role in enhancing efficiency and promoting economic growth. The trade regime has gradually liberalised (though it did not achieve neutrality in the incentive structure). In 1992, Viet Nam signed a trade agreement with the European Union (EVFTA), and in 1995, Viet Nam officially normalised relation with the United States (US) and joined the Association of Southeast Asian Nations (ASEAN). Viet Nam applied for World Trade Organization (WTO) membership in 1995. In 1998, Viet Nam became a member of Asia Pacific Economic Cooperation (APEC). In 2000, Viet Nam signed a bilateral trade agreement with the US (VN-US BTA) and the agreement became effective in December 2001.

Yet, after the Asian financial crisis in 1997, domestic reform slowed. However, the approval of the Law of Enterprises in 1999 and the realisation of VN-US BTA since 2001 became the catalyst and foundation for reforms and prompted more confidence in international economic integration. Since 2002, Viet Nam has also joined regional integration clubs such as ASEAN +1 free trade agreements (FTAs). 2006 marked Viet Nam becoming a WTO member and fulfilling its agreements under the ASEAN Free Trade Area. Through 2005, Viet Nam entered into 87 bilateral trade arrangements and 48 investment protection agreements, and had trade relations with 224 countries/territories. All these moves have required Viet Nam to change several laws and related legal frameworks in compliance with international commitments and market-oriented institutions. Because of macroeconomic instability in 2007–08 and in 2010–11 due to mismanagement, along with external shocks such as the Global Financial Crisis, domestic reforms have been unevenly implemented.

Since 2011, efforts have been aimed at macroeconomic stabilisation, further institutional reforms, economic restructuring, and comprehensive deepening of international integration (not just economic integration). Three pillars of Viet Nam's development strategy include institutional reform, infrastructure development, and improvement of human resource quality. The focus of economic restructuring has been not only on public investment, SOEs, and the banking-financial sector but also on development of the private sector and those areas in which Viet Nam has advantages, such as some industrial clusters, agriculture, and tourism. Viet Nam has joined many regional and bilateral FTAs (17 in total, including high-





quality ones such as Trans-Pacific Partnership [TPP]/ Comprehensive and Progressive Agreement for Trans-Pacific Partnership [CPTPP]; Vietnam-European Union FTA; and the Regional Comprehensive Economic Partnership [RCEP]). At the same time, Viet Nam has established comprehensive/strategic/comprehensive strategic partnerships with several countries, most of whom are also members of FTAs Viet Nam joined. Moreover, there has been a growing emphasis on the role of innovation, particularly in the context of the Fourth Industrial Revolution and digital transformation, since 2017. All dimensions of reforms were expressed clearly in the Eleventh Party Congress in 2011, the Twelfth Party Congress in 2016, and especially the Thirteenth Party Congress in 2021.

While some reforms were made, in general, the realisation of the three pillars and economic restructuring has not been as expected. The reforms increasingly became more comprehensive and complicated. Moreover, the economy needed time for stabilisation, and it has suffered from the various external shocks such as the US-China trade war, the global COVID-19 pandemic, and the Russia-Ukraine war.

1.3. Key Issues of Transition

With Doi Moi, Viet Nam substantially changed its way of thinking, and fundamental institutions for a market economy (prices, a legal framework for ownership and commercial transactions, a two-tier banking system, capital markets, a tax system, etc.) have been established. But Doi Moi has sometimes been characterised by inconsistency with market-oriented reforms and by 'stop-and-go' policies. Its complexity can be explained by several factors.

The effective reforms require political will, but decision-making is still somehow rooted in the legacy of the CPE, especially in ways of directing and controlling resources such as land and capital, and dealing with the SOE sector (see Box 4.1). The administrative way of managing the economy has created close, mutually beneficial connections between the line ministries and the SOE sector as a whole, and the State general corporations in particular. SOE reform is still far from completion.



Box 4.1. Pathway of the SOE Reform Process

- In the early 1990s: Harder budget constraints were imposed on SOEs. Several (small) SOEs were liquidated. During 1993–94, several State general corporations (17 in 1991 and about 70 in 1990) were established. In the second half of the 1990s, SOE reforms somehow stagnated.
- 1994–2001: Leasing/contracting/selling of (small) SOEs was realised, together with implementing pilots and then expanding SOE equitisation (not privatisation).
- 2002–06 (before WTO accession): Equitisation was accelerated and a list of SOE classifications was approved (100% state-owned; shareholding companies with more than 50% state-owned; ‘Rule of Law’; mergers and acquisitions; consolidations; bankruptcy, etc.).
- Since 2007: Reform has been basically dealing with the big SOEs: (i) to equitise large SOEs and some general corporations, including those in the financial and banking sector; (ii) to get strategic investors for SOEs in equitisation; (iii) to transform all SOEs to be Liability Limited firms, with a state owner or share-holding companies; (iv) to cement the equitisation of SOEs and to list them in stock market; (v) to ask them to apply the best practices of governance-OECD principles; (vi) to transform the large SOEs and State general corporations into the holding-subsiary, and to establish the State Business Groups (now Viet Nam has 19 State Business Groups and State General Corporations); and (vii) to separate the functions of the State as the owner of SOEs and as a manager and supervisor for the whole economy (establishment of State Capital Investment Corporation in 2005 and Commission for Management of State Capital at Enterprises in 2018).

Source: Compiled by the author.

The explanation can also be seen in other ideological, economic, and social factors. The Communist Party leadership has been considered the most decisive factor for guiding Doi Moi and ensuring its success. The Party has seen the need to have a new approach, so that its leadership can effectively adapt to a new environment of a more open-market economy. This could only evolve gradually and, naturally, has had a complex impact on the economic reform process. For instance, there has been a lot of debate about the concept of 'socialism orientation', 'a leading role of the state economy and/or SOE sector'.

Finally, there is the problem of asymmetry in incentives for those supporting or opposing reforms, depending on whether they will be winners or losers. For instance, in general, most people will benefit from the reduction of trade barriers, while inefficient and highly protected enterprises will have difficulties surviving in the new market environment. A complex package of reforms means the involvement of many participants with different motives. Benefits for the many are merely potential gains without certainty and, therefore, reactions might not be concerted and strong. By contrast, for those with vested interests, who are still able to influence the decision, the loss of benefits through reduced protection and limited public advantages is real. The problem of conflict of interests is difficult to attack since the vested groups can use the same political and social arguments just mentioned to justify the *de facto* status.



2. Lessons and the ‘Viet Nam Model’

2.1. Lessons Learned

Achievements from Doi Moi, though an important fulcrum, are not enough to ensure the success of Viet Nam’s development process in the future (Ministry of Planning and Investment [MPI] and World Bank, 2016). It is imperative for the country to accelerate reforms. To realise this, it is vital that the country learns from its past.

There are several interrelated lessons that can be drawn from Viet Nam’s experience:

- First, the effective reforms require both political will and changes in the way of thinking that reflects the dynamics of real life. As mentioned, the microeconomic reforms introduced in the early 1980s recognised and legalised people’s spontaneous measures to operate outside the plan. The failure of the efforts to stabilise the economy up until 1989 and of the last attempts to control the free market during 1985–88, as well as the drying up of aid from the former Soviet Union, created immense pressure on reform. The slogans ‘Let markets be untied’ and ‘Rescue yourself’ reflected the nature of the radical reform package in 1989.
- Second, since Viet Nam is an agrarian economy in transition, where economic policies and implementation procedures are still a legacy of the CPE, the approach to and way of reform implementation are essential for ensuring success, while keeping social and political stability. In general, economic reform in Viet Nam has been a process of learning by doing and characterised by gradualism. This approach has several advantages since it can avoid the crisis/collapse of the economy, while gradually gaining the confidence in and the support for reform as people see the successful outcomes.
- Third, pursuing gradualism does not mean that the focus should be, at first, solely on microeconomic reforms. Viet Nam’s experience has shown that the partial and sectoral reform measures could be good but are not good enough. They should be undertaken within more comprehensive reforms, especially in conjunction with macroeconomic reforms and the opening of the economy. Macroeconomic stability and ‘getting the prices right’ are as essential as ensuring ownership, the rights of doing business, and creating business opportunities. Equally important for development of an efficient private sector are administrative reforms, a level playing field that is closely associated with the structural reforms, and factor markets development. The government should not only prioritise hunger elimination and poverty reduction and support the most vulnerable groups, but also interact with the market and create a legal foundation to facilitate business operation.
- Fourth, Viet Nam could not succeed without having appropriate trade liberalisation and international integration (see Box 4.2). The pressure for more decisive and comprehensive reforms has been strengthened as Viet Nam’s process of international integration become more deeply embedded. The integration is, though essential, only a necessary condition for success. Opening the economy poses certain risks. Therefore, it should be undertaken within a comprehensive reform framework and in line with institutional reforms to provide an impetus for development, as well as to make the economy resilient to various kinds of risks.

Box 4.2. Features of Viet Nam's International Integration

- It is a continuous process and becomes more comprehensive over time (ASEAN; APEC; VN-US BTA; WTO; FTAs, etc.). Since 2013, the scope of international integration has covered all areas and dimensions, not just economic activities, though economic integration is at the centre.
- Viet Nam has strived to balance relations with the powers/partners and to be a proactive and responsible member of international institutions for peace, stability, and development.
 - To be a friend of all countries and territories for peace and sustainable development.
 - To respect and to support multilateral institutions and frameworks (United Nations, WTO, APEC, ASEAN, etc.).
 - To establish comprehensive/strategic/comprehensive strategic partnerships with several key partners.
- Viet Nam has built a security policy based on the 'four No's' principles: No military alliances; No aligning with one country against another; No foreign military bases on Vietnamese soil; and No using force or threatening to use force in international relations. The key policy objective is to ensure peace and a favourable environment for sustainable development. At the same time, Viet Nam has also extended security cooperation with partners to improve its defence capacity and address common security issues.

Source: Vo Tri Thanh and Nguyen Anh Duong (2021).

- Fifth, it is not possible to understand economic reform in Viet Nam without examining the 'turning points' associated with the significant institutional changes. Viet Nam's radical reform package, launched in 1989, was an exception within the context of gradualism, but its outcome was very impressive and different in comparison with the experiences of many transitional economies in Eastern Europe, although the liberalisation and stabilisation measures used were similar to these economies (Riedel and Comer, 1997). Although the reform package was implemented without the assistance of international institutions such as the IMF and World Bank, it is considered successful since the basic conditions were created for the transformation into a market-oriented economy.
- Sixth, as reform has deepened and living standards improved, the economic growth must increasingly go in hand with social stability, environmental protection, and quality development. The focus should be on policy harmony and that is also a challenge.

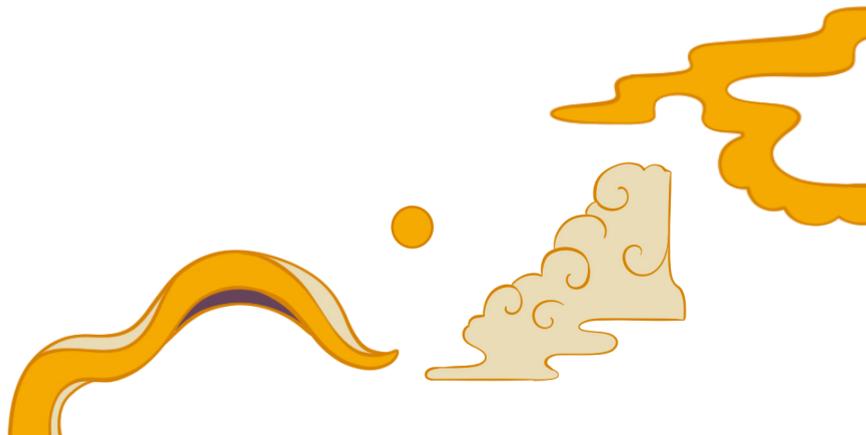
2.2. 'Viet Nam Model': Evolution of Official Opinions

Reforms are basically political economics that 'mirror' changes in the thoughts of policymakers, and which are embedded in the resolutions of the Party Congresses, especially from the Sixth in 1986 to the Thirteenth in 2021. There were several key terms characterising the economy that Viet Nam has recognised and/or would like to use moving towards.

Before Doi Moi, the economy was seen as a subsidised and bureaucratic CPE. In reality, during 1980–89, it became a modified CPE, with some notable microeconomic reforms. 'Building a multi-component commodity production economy', a form of economy with a multi-ownership structure, was laid down by the Sixth Party Congress in 1986. During 1990s, Viet Nam used the term 'market-oriented economy under state management' as a goal for its institutional reforms, emphasising both the importance of market mechanisms and the role of the SOE sector and the state as a whole. The term 'socialist-oriented market economy (SOME)' was officially announced by the Ninth Party Congress in 2001. It is considered a general economic model in transition to socialism and determined as 'a multi-component commodity production economy operated by market mechanisms under state management with a socialism orientation'. The content of a SOME has been developed in the following Party Congresses, from the Tenth in 2006 to the Thirteenth in 2021 (see, for example, Nguyen Minh Phong, 2021).

In particular, the model of Viet Nam's SOME was clarified in detail in the article on 'Some Theoretical and Practical Issues on Socialism and the Path towards Socialism in Viet Nam' by General Secretary of the Communist Party of Viet Nam (CPV) Nguyen Phu Trong (2021). The SOME concept is seen as 'a particularly fundamental and creative theoretical breakthrough of our Party'. It is a mode of economic organisation that abides by the laws of an open and market economy, but is also built on and guided by the principles and nature of socialism under the leadership of the CPV and by a rule-of-law socialist state.

The SOME recognises the central role of healthy competition and the importance of all sectors (state, collective, private, and FDI), while noting the key role of the state economy (a broader concept than the SOE sector). It should be for people-centred development in three aspects. The first is to ensure economic growth is wed with environmental protection, social progress, and equality in every stage, every policy, and throughout the development process. The second is to develop human resources in a close tie with technology cultivation and innovation. The last is about the political model and its mode of operation with the involvement of Party leadership, State management, and people's mastery (see Box 4.3).



Box 4.3. Major Characteristics of Viet Nam's SOME

- 'A SOME is a modern market economy well integrated with the world. It is an economy that operates fully and cohesively in line with the laws of a market economy. It is regulated by a rule-of-law socialist state under the leadership of the CPV.'
- 'A SOME encompasses multiple forms of ownership and multiple economic sectors. They are equal under the law in the interest of long-term development, cooperation and healthy competition. In this system, the state economy plays a key role; the collective economy is constantly consolidated and developed; the private sector is an important engine of the economy; the FDI sector is encouraged to develop consistently with the socio-economic development strategies and plans.'
- 'A fundamental characteristic and important feature of the socialist orientation ...is the combination of economics and society, the coordination of economic and social policies. It also ensures that economic growth would be accompanied by social progress and equality in every stage, every policy, and throughout the development process.'
- 'We place the people at the heart of our development strategies. Cultural and human development are both the target and the momentum of Doi Moi. Cultivation of education - training and science - technology constitute our top national policy. Environmental protection is an existential issue and a criterion for sustainable development.'
- 'Every Party guideline, every government policy, law and action, aims to serve the interest and happiness of the people. The political model and its overall mode of operation involves the leadership of the Party, the management by the State, and the mastery by the people. Democracy is the nature of the socialist regime.'

Source: Nguyen Phu Trong (2021)

2.3. Viet Nam Model: More Practical Views

Another interesting way to look at the Viet Nam model is with more practical views: (i) the goals of transition and reforms; (ii) the nature of economic reform and key directions; and (iii) the way of reform realisation/implementation.

Doi Moi and reform processes are not self-generated. Viet Nam's development objectives, for people, by people and serving people, are consistent with its sustainable, inclusive, and widely acknowledged goals. Moreover, for Viet Nam, '... we will not wait until the economy has reached a high level of development to begin exercising social progress and equality. We also shall certainly not 'sacrifice' social progress and equality in pursuit of mere economic growth' (Nguyen Phu Trong, 2021). Not surprisingly, Viet Nam is amongst the top countries in achieving United Nations Millennium Development Goals and is now strongly committed to implementation of the Sustainable Development Goals, as well as net-zero emissions by 2050.

The challenge is how Viet Nam can achieve its development goals. The most important is to grant rights and to enlarge opportunity spaces for people in choosing and deciding the directions and forms of their production and business activities. This is the nature of Doi Moi and economic reform in Viet Nam, and they have been realised thanks to four key directions:

- 1) Acknowledgment of the right of private business;
- 2) Market-oriented reforms;
- 3) Opening and integrating into the world economy; and
- 4) Keeping macroeconomic and social stability.

These directions have adopted 'traditional' approaches of the decisive role of the market (in efficient resource allocation) and the state (in macroeconomic management, formation of market institutions, and income distribution). Simultaneously, they have brought about a necessary interaction between domestic reform and international (economic) integration, while considering domestic resources as the most decisive and external resources as essential. They have motivated behaviour changes; once they are locked in, it is very difficult for the economy to return to the previous economic management system.

Ensuring rights of doing business and enlarging opportunities is essential, but not enough. Equally important is to have good people and institutional capability so the choices are right and the policy creation and implementation is effective and efficient. It is even now a big problem for Viet Nam, though the quality of human resources and institutions has been improving.

What is the way of reform? In the case of Viet Nam, the reform issues, problems, and lessons have showed that it is about the choice/decision between 'two sides of one coin':

- 1) **Between principles and flexibility.** A traditional Viet Nam slogan is to be 'firm in principles, flexible in response to the multi-unexpected changes (đĩ bất biến, ứng vạn biến).' Party leadership, the role of the state economy in the market, recognition of the role of all economic components, the way of integration, etc.: they all are of 'principle'. 'Flexibility' is more or less in compliance with gradualism, as is 'learning by doing', even 'trial and error.'
- 2) **Between gradualism and 'turning points'.** As mentioned, gradualism has several advantages. This approach is not only driven by the reform targets, but is also based on the structure of existing institutions, meaning that the changes can take time. Top-down approaches with gradualism can be also seen in Viet Nam's integration process (ASEAN, APEC, EVFTA, VN-US BTA, WTO, FTAs, and comprehensive/strategic/comprehensive strategic partnership). But gradualism also has some disadvantages that could lead to a 'stop and go' policy, and even the possibility of missing opportunities. Note again that the gradual approach did not work well until 1989. Radical reform packages in 1989 were one of the most successful reforms in Viet Nam.
- 3) **Between 'bottom up' and 'top down' approaches.** Microeconomic reforms, for example, by the end 1970s and early 1980s, in many ways have been introduced as recognition and legalisation of what already happened. International integration and several reforms require political will and decisions to overcome the inertia of a CPE legacy. But in any case, an appropriate combination of both approaches is needed. In Viet Nam, there have been regular dialogues between policymakers, leaders, and business community/people, and the role of the so-called 'grassroots democracy' has been strengthened.



Experience in Viet Nam shows that there are two important factors in a good policy- and regulation-making process. The first is the establishment of a reviewing body satisfying three principles: (i) regulatory independence and professionalism; (ii) overall vision of the economy; and (iii) transparency. The second is a compulsory regulatory impact statement.

Also, evolving public institutions, such as in transitional economies, work because they can achieve two objectives at the same time: improving economic efficiency, and making the reform a win-win game compatible for those in power. Balancing the benefits amongst three groups, i.e. people, entrepreneurs, and the state budget, is a requirement. However, having proper, transparent, and accountable incentives for public servants is also very important. In Viet Nam, this is still a big problem to be solved.

3. New Context and Challenges for the Way Forward

3.1. Viet Nam's Aspirations and Challenges

After more than 35 years of Doi Moi, Viet Nam is now at a decisive juncture for transforming development. Interaction between domestic reforms and international integration becomes much more profound. With the ambitious aspiration to become a high middle-income economy by 2030 and a developed country by 2045, Viet Nam is on the way to realising the objectives set out in its constitution: 'A prosperous people and a strong, democratic, equitable and civilized country'. Basically, Viet Nam needs to get out of the low-cost labour trap and simultaneously lay down foundations for overcoming the middle-income trap. In other words, Viet Nam needs to have a long-term high economic growth while ensuring social and environmental sustainability.

There are a lot of questions of how Viet Nam can not only improve economic growth, but also promote sustainable and inclusive development. Establishment of modern market mechanisms with transparent and accountable institutions in a rule-of-law socialist state is still pending. At the same time, the world has changed significantly with many new mega-trends (see Box 4.4), and many things, such as the digital economy, are not well understood. Another consequence is the shift of GSCs/GVCs that rely not only on comparative advantages, degrees of trade and investment liberalisation, and smart service-link optimisation, but also on the geo-political consideration and sovereign value of the core technologies/strategic products. In general, there are both opportunities and challenges in the new world context. Viet Nam is a very open economy; the challenge is to adapt to and cope with mega-trends so that it can leverage all they bring about, while minimising risk. Obviously, Viet Nam's achievements, although important, are not adequate to ensure further reform and development.

Box 4.4. New World Mega-trends

- Geo-political tension intensifies due to competition and power struggles amongst superpowers/big countries.
- Globalisation/Integration slows due to emerging protectionism and risks of geo-political and geo-economic fragmentation.
- The consumption revolution is driven by the behaviour of the middle class and the younger generation in favour of greener, safer, and more humane consumption.
- Technology progress and disruption (the Fourth Industrial Revolution; digital transformation; new energy technology) creates challenging breakthroughs for productive and smart production and all fields of human life.
- Finance innovations help to reduce business transaction costs and to improve efficiency of monetary and capital markets, while also imposing several problems vis-à-vis appropriate regulations and prudential supervision.
- Both uncertainty and risks (geo-political conflicts; trade and/or technology wars; financial crises, climate change and natural disasters; transnational disease) are on the rise in terms of frequency and intensity.

Source: Compiled by the author.



3.2. Policy Options and Recommendations

This is the time for Viet Nam to rethink, redesign, and rebuild in a changing world. The key is to realise Viet Nam's advantages, institutional reforms, and potentials. As underlined in MPI and World Bank (2016), 'procrastination and indecision in reforming will result in the fact that Viet Nam will not be able to capture the opportunities and overcome the challenges, and the risk of falling into low middle income trap and further lagging behind will be unavoidable'. Viet Nam must act, and it has a good foundation to do that.

Viet Nam's Socioeconomic Development Strategy 2021–30 sets out three strategic breakthroughs regarding institutional reforms, infrastructure, and human resource development and 10 major policy directions and tasks to be carried out.

MPI and World Bank (2016) emphasised six key breakthroughs for Viet Nam development, including: (i) enabling economic modernisation and private sector development; (ii) building national innovation capacity; (iii) managing urbanisations for greater efficiency; (iv) achieving sustainable and climate-resilient growth; (v) promoting equity and social inclusion; and (vi) building modern institutions for an effective state. Later on, the report on 'Vietnam 2035: from Strategy to Action' by Australia-World Bank Group (2020) showed a more practical way for Viet Nam to realise a productivity-focused development strategy, i.e. creation of dynamic firms, development of efficient infrastructure, enlargement of the pool of skilled workers as well as opportunities for all, promotion of green economy, and establishment of Government's new growth strategy.

The SOME can be considered both a goal to be achieved and a guide for continuous Doi Moi. In that sense, the policy recommendations and their implementation can be also seen as a way to improve Viet Nam's model of SOME. In light of this, we emphasise four interrelated policy actions.

The first policy action addresses strengthening public capacity. This is crucial as Nguyen Phu Trong (2021) noted: 'We pay special attention to party building and rectification. This task is critical to the survival of the Party and the socialist system'. It includes building a modern rule-of-law State and



adopting guiding principles for new governance. Inherent to building a modern rule-of-law State is developing a coherent, disciplined, and meritocratic bureaucracy that adheres to market rationality in policymaking. This shall be supported by the implementation of a more effective mechanism for coordinating, checking, and balancing the three branches of power, and a mechanism to ensure broad public participation in decision-making. Meanwhile, a core guiding principle is governance that is fast, agile, experimental, iterative, inclusive, and multistakeholder-based, as well as open to collaboration. This is quite different from traditional governance approaches, i.e. linear, time-consuming, and top-down.

The second policy action relates to the improvement of the legal framework where innovation and green growth promotion are added to the current agenda that focuses on efficient resource allocation. The former includes laws needing revision such as the Land Law, laws on financial markets, the law on property taxes, the labour code, etc. The new agenda could comprise frameworks related to intellectual property rights and data, high-skill labour movements, startups ('sandboxes'), standards and circular economies for green growth, etc. Most important is to create an environment to nurture and develop innovation. The government's policies should focus on building the national innovation system, cultivating debate, establishing merit-based mechanisms, renovating education, and attracting talent (MPI and World Bank, 2016).

Also, central to the second policy pillar is ensuring equity and social inclusion. This can be achieved by continuing the implementation of programmes that support equal opportunities for everyone irrespective of age, disability, gender and other categories previously seen as impediments for people's participation. It can also be achieved via the implementation of the agenda on aging populations and the middle class through expansion of pension systems, establishment of effective representative organisations for workers, and universal health care.

The third policy action suggests that Viet Nam accelerate its structural reforms in compliance with new development trends and the shifts in GSCs/GVCs, as well as take advantage of the FTAs. In this regard, all policy and reform directions were already set out during 2011–22 (see Box 4.5). Again, Viet Nam needs more decisive actions. It is also crucial for Viet Nam to pay attention to risks and uncertainties in order to ensure economic resilience.



Box 4.5. Policy and Reform Directions Set Out during 2011–22

- Macroeconomic stabilisation and consolidation (since 2011) while ensuring resilience of the economy.
- Business environment improvement and administrative reforms (esp. since 2014), and building e-government/digital government (since 2018).
- Restructuring of the economy, especially SOEs, financial and banking sector, and public investment (since 2012). The focus is also on private sector development and restructuring of the agricultural sector, tourism, and some industrial clusters.
- Deeper international integration (TPP/CPTPP, EVFTA, APEC, RCEP, some bilateral FTAs, etc.); a more effective realisation of FTAs (CPTPP since January 2019; EVFTA since August 2020; RCEP since January 2022); and attraction of quality FDI, especially the leading firms, thanks to the shifts of GSCs/GVCs.
- Promotion of productivity and innovation/startups (e.g. mobile money, fintech, etc.); approval of the Program of National Digital Transformation (2020) and the Artificial Intelligence Strategy (2021); establishment of new innovation centres and possibly international financial centres.
- Approval of the new green growth strategy (2021), the circular economy strategy (2022) and starting implementation.

Source: Compiled by the author.



The fourth policy action emphasises human resources development. The main road towards Viet Nam's prosperity is to change its institutions into efficiency-enhancing ones. This shall involve ensuring universal upper secondary education, radical reform of the vocational and training system, and higher education system. To catch up with the knowledge frontier, Viet Nam should also seek to have its universities be amongst the top 500 or even top 200 in the world. Improvement of business environments and ecosystems for startups, alongside the effort to reinforce intellectual property rights, will also contribute greatly to the development of human resources. Finally, strengthening the National Innovation System is also important so that enterprises can become a focal point, and approaches that put focus on merit-based, idea-exchange, and renovation of educational system can take centre stage.

Conclusion

Viet Nam has recorded impressive development achievements since Doi Moi launched in 1986. The major challenge for Viet Nam now is how it can escape the middle-income trap to achieve its ambition of becoming a developed and high-income country by 2045. Viet Nam has no choice but to continue Doi Moi.

Viet Nam's SOME model has been formed with various political, economic, and social dimensions. The model of SOME can be seen as a goal to be achieved and also as a guide for continuous Doi Moi. It has been the outcome of a whole process of changing mindsets and reforming experiences in a transitional economy increasingly integrated in the world. It is not complete and requires further reforms.

Realisation of SOME for development and prosperity centres around strengthening Party leadership, public capacity, and public capability. Successful reforms are dependent on the will, determination, and accountability of the party/government's leaders and policymakers who need to recognise trends and know-how to combine resources and manage risks and take aggressive action. Moreover, the economic, administrative, and political reforms need to be implemented in a synchronous manner, with a wider participation of people and relevant stakeholders.

The SOME itself may have some certain incompatible aspects (e.g. the role of SOE/state economy, public land ownership, and market mechanisms); therefore, improvement of legal frameworks and structural reforms are crucial. They are becoming increasingly essential in a rapidly changing world, where Viet Nam must align with various mega-trends. In any case, the reforms should be consistent with the process of building a market economy and international integration.

By pursuing a path of reform implementation characterised by adherence to principles while maintaining flexibility, following a step-by-step approach with the determination to make decisive changes when necessary, and employing a combination of both bottom-up and top-down approaches, Viet Nam can make significant strides in enhancing its socio-economic development and expediting reforms. These efforts are in line with the nation's ambitious development objectives and Ho Chi Minh's vision of Viet Nam as a nation capable of standing on equal footing with powerful nations across the five continents.

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