

The Capitalist Experiment of One-Party Socialist Regimes:
Exploring the Political Economy of Economic Liberalization in China and Vietnam

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1. Introduction

This research seeks to identify the factors that triggered the introduction of liberal economic policies in China and Vietnam, and critically compare how the two cases of market experimentation differ from each other. When compared with other instances of economic transition such as those in Eastern Europe, the process of opening up in these two Asian economies has been usually described as incremental, sequential and experimental; thus, avoiding the pitfall of drastic restructuring seen in many erstwhile Soviet states.¹ However, lumping together the process of economic transformation in China and Vietnam under the all-catching category of “gradualist” liberalization ignores the nuances that underpinned economic change in these societies. The dichotomization of economic change as either radical or gradualist shifts caricaturizes the dynamic, convoluted, and often contested process of economic restructuring in socialist regimes. This paper intends to move beyond descriptive approach by offering a more historically grounded perspective by analytically situating the liberalization process as an outcome of elite strategic decision-making and the subterranean dynamics of structural factors.

This paper works on the following hypotheses: (a) the shift in economic outlook of the political elites had been essential in the introduction of more liberal economic policies, which has since served as the launch pad for more comprehensive economic restructuring in the two countries; (b) the shift in economic outlook of the party leadership was triggered by the past failure of the central planning strategy, and the emergence of a new generation of party leaders with strong pragmatic background compared with the more conservative leanings of older party vanguards; (c) certain social structures, values and relations that were supportive of capitalist relations in the past have managed to persist despite the presence of a command economy; (d) the schism within the socialist bloc (e.g. Sino-Soviet split and China-Vietnam split) provided added external pressure to China and Vietnam to find alternative sources of wealth creation outside of the socialist bloc; and (e) the decline of Cold War politics and the pressure from increasingly integrating regional and global economies have a profound impact on the decision to continue and perhaps accelerate the economic reforms.

The objectives of this research are (a) to provide a background on the Chinese and Vietnamese economy before the introduction of economic reform process, and discuss the substance of the reform and the dynamics of its emergence; (b) to identify the factors that initiated and sustained the process of economic opening-up in China and Vietnam, and establish whether this process was a deliberate outcome of political decision-making by the ruling socialist regime, or a product of deeper structural changes unfolding in Chinese and Vietnamese societies; and (c) to situate the process of economic liberalization in these one-party polities within the broader interplay of domestic and external forces.

2. Theoretical Framework: Combining Agential and Structural Explanations

This research intends to employ a combination of *elite theory* and *structural explanatory framework* as a way to interpret the causes for the advent of the reform process in both countries. This paper uses two levels of analysis: *internal factors* which are consist of the shift in the outlook of the political elites as well as the degree of fragmentation among the ruling political factions in the two countries, and the hold-over social structures that manage to persist during the planned economy years; and *external factors* related to the broader geopolitical and economic environment where the two countries are situated and to which they are responding.

The rationale for utilizing *elite theorizing* over others stems from the recognition that, in one-party polities such as China and Vietnam, inter-elite relations and the centrality of leadership decision-making

¹ For an instructive comparison, see Wing Thye Woo, “The Art of Reforming Centrally Planned Economies: Comparing China, Poland and Russia,” *Journal of Comparative Politics*, 18 (3), 1994, pp. 276-308.

are essential in galvanizing state processes in the pursuit of national objectives. As used in this research, the term “elite” refers to the country’s political class who possesses a disproportionate share of social power in mobilizing resources and relations for directing the state and the economy toward a particular direction. The importance of elite in moving the economy toward a certain direction is recognized by Guo when he argues that, given the unique circumstances of transitioning economies in one-party polities, the dynamics of how reforms are pursued is directly related to the strategic choices of the elite.² In this light, while structures and conditions provide the context of *why* reforms are pursued, elite choices explain *how* they are pursued.

Such thinking harps the crux of the argument made by William Case in his work *Politics in Southeast Asia* (2002) in explaining political transition or non-transition in the region.³ Extending the argument further, it is assumed that the form of inter-elite relations at the level of the state determines the possibility whether or not the momentum of economic (as well as political) transformation can set in and proceed. Such explanatory framework sees political and economic change as emanating from the top down to the bottom. This perspective is likewise echoed by other writers such as Harold Crouch and

James Morley who argued that longstanding elite cohesion can obstruct political change.⁴ Conversely, political fragmentation, while it in itself may not directly result in reformist pressures, can provide the necessary environment for non-orthodox approaches to be tried. In short, the deeper the fissure in inter-elite relations, the greater the chances are that transformation can occur whether in the political or economic front (*Figure 1*).

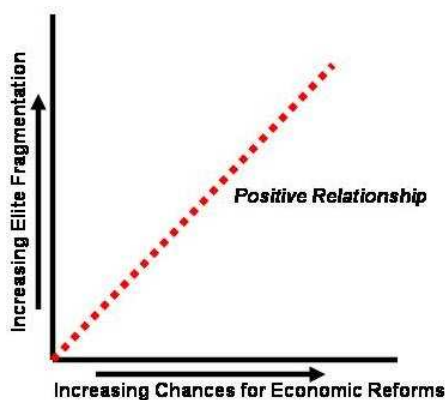


Figure 1. Relationship between Elite Fragmentation and Economic Reform

Some elements of this view are obviously borrowed from what has been labeled as “democratic elite theory” in explaining the transition of authoritarian polities to democratic ones, but only this time being applied to explain economic transformation in socialist states.⁵ Substituting “authoritarianism” with “command economy,” one can make the argument that the less cohesive the political and policy elites are, the less stable the command economy becomes, and the more likely that alternative economic approaches would be tried. This is especially true when elites are grappling with left-over social problems and economic difficulties stemming from years of failed central planning policies as in the case of China and to a lesser extent Vietnam.

Against the backdrop of the failure of central planning, counter-elite factions politically maneuver by exploiting this failure as a way to distance themselves from the opposing bloc and subsequently achieve political dominance. Hence, the battle regarding which economic paradigm is to be embraced – whether the continuance of central planning or the adoption of a new approach – becomes the surrogate competition among rival elite factions wanting political control, especially in the context of a brewing contest for political succession. In another words, the dynamics of economic reform could actually be seen as a continuation of political struggle by another means.

² Sujian Guo, “Economic Transition in China and Vietnam: A Comparative Perspective,” *Asian Profile* 32 (5), October 2004, pp. 393-410.

³ William Case, *Politics in Southeast Asia* (London: RoutledgeCurzon, 2002), pp. 20-25.

⁴ Harold Crouch and James Morley, “The Dynamics of Political Change,” in J. Morley (ed.), *Driven by Growth: Political Change in the Asia-Pacific Region* (Armonk, NY: Sharpe, 1993).

⁵ Eva Etzioni-Halevy, *The Elite Connection: Problems and Potential of Western Democracy* (Cambridge: Polity Press, 1993), Chapter 3.

The stake is particularly high for would-be reformers because their promise for economic transformation is usually the only available means for them in challenging the old vanguards. These incipient reformer cliques do not have the claim to ideological purity or legitimacy to succeed as they are seen as threats to the old order. Hence, the reformers would try to veil their desire for political confrontation in the language of the reform agenda and broad economic issues. The reformers would subsequently capitalize on the success of their policies in generating growth as the basis for their political control.

However, as mentioned earlier, explaining complex social changes through mere strategic choices of the political class can only provide so much. Elite decisions do not arise from a vacuum, but are responding to external signals and stimuli coming from changing socioeconomic environment. Hence, the “top-heavy” explanatory framework of elite theorizing should be balanced by an understanding that economic change would not be sustained without the presence of supportive structures. Generally, the idea of structures relates to the process of achieving regularity in social life. More specifically, structures have the function of aligning “social events and circumstances into particular patterns, establishing a general ordering framework for the actions of and interdependencies between persons in society. Due to structures social activities do not proceed completely at random.”⁶

Two levels of structures are important in understanding the process of economic liberalization in the two countries. Internally, one has to look to the persistence of values and relations that are supportive of capitalist system; while externally, it is necessary to consider the impact of changing geopolitical environment such as the decline of Cold War politics and the emergence of new economic imperatives related to regional and global integration on the decision to continue with the reformist path. It is not the purpose of this paper to exhaustively discuss these structural factors. What this present piece intends to do is only to provide some initial discussion on how these factors had structured the perception of the respective political leaderships in the two countries, and the kind of options available to them, which ultimately led to the market economic reforms and the subsequent unraveling of the command economy.

3. The Advent of State Socialism in China and Vietnam

Upon achieving political power, the communist parties in both China and Vietnam embarked on a massive overhauling of their respective economies. Both regimes saw economic salvation in collectivizing their agriculture and accelerating the pace of industrialization. For very long in their history, both countries suffered extreme economic marginalization as a result of external intervention either in the form of proxy trade wars in the case of China⁷ or colonialism as in Vietnam. As a consequence, these negative experiences embedded a particularly hostile outlook regarding external economic exchanges especially with the West, thus resulting in an economy that was jealously inward-looking and *dirigiste* (state-led).

3.1 Comparison of Agricultural Policies

When the communists took over in 1949, the revolutionary government led by Mao Zedong inherited a devastated economy resulting from years of civil war and the occupation of Japanese forces during Second World War. The communists embarked not just to rebuild the economy, but also to radically transform Chinese society in the process. In the words of Chen Yung-fa, the Maoists tore down the “dichotomy between state and society” wherein “every Chinese belonged to a basic geographical unit,

⁶ Jan Aart Scholte, *International Relations of Social Change* (Buckingham: Open University Press, 1993), p. 81.

⁷ Western countries and Japan raced to impose their hegemony over China described as “the greatest of world markets” in a bid to outmaneuver their trade competitors and political rivals; see Richard Van Alstyne, *The United States and East Asia* (New York: W.W. Norton & Company, 1973), p. 73.

be it commune and production brigade in rural areas or street office and neighborhood committees in urban areas.”⁸ As early as 1947, the communists implemented radical land reform in areas they controlled. This entailed land redistribution and elimination of large land holdings as a way to consolidate the power of the party among its peasant supporters. By the mid-1950s, the Chinese Communist Party embarked on a massive collectivization of agriculture that included the abolition of individual property rights to land and other means of production, the formation of communes or collectives, and the strengthening of state ownership.⁹ The central government even reserved the right to decide on economic decisions down to the choice of crops to be planted by each collective.

Like in China, the Vietnamese communists upon achieving political power promptly introduced a Soviet-style planned economy first in the North in 1954 with the expulsion of the French, and then in the South after reunification in 1975.¹⁰ Nationalization of economic assets took place, and petty traders and artisans were organized into cooperatives. Radical land reform immediately followed as a way to consolidate political power of the Vietnamese Communist Party. By 1959 to 1960, the introduction of rural collectivization came as part of the so-called ‘socialist transformation’ as an attack against free market and private capital.¹¹

Agricultural collectivization was particularly costly for Vietnam, as output declined substantially by over 1 million tons of food.¹² Part of the problem was the distorted incentive structure brought about by the state’s policy of prioritizing urban industrial production. In order to maintain low wages in urban factories and industries, food and other agricultural inputs were kept artificially low, but the low prices of commodities only encouraged farm workers to shun agricultural work. This might explain the drop in the number of peasant families belonging to cooperatives during the early 1960s.¹³ In the context of enforced egalitarian policies, this plunging production led to a case of “shared poverty” and declining living standards for many Vietnamese.

3.2 Comparison of Industrial Policies

The prioritization of industrial production over agriculture was a hallmark of Chinese economic strategy based on heavy industry.¹⁴ Under the leadership of Mao, China strove to accelerate industrialization by using its massive rural population as a substitute for an industrial base that China did not have at that time.¹⁵ This was the heart of Mao’s socioeconomic project called ‘the Great Leap Forward’ (1958 to 1961).

⁸ Chen Yung-fa, “New Perspective on the Study of Chinese Culture and Society,” paper presented during the *Chiang Ching-kuo Foundation for International Scholarly Exchange*, March 24-26, 2003, Princeton University.

⁹ Mark Seldan, *The Political Economy of Chinese Development* (New York: East Gate, 1993), pp. 186-187.

¹⁰ Melanie Beresford “Economic Transition, Uneven Development, and the Impact of Reform on Regional Stability,” in Hy Luong (ed.), *Postwar Vietnam: Dynamics of a Transforming Society* (Singapore: Institute of Southeast Asian Studies, 2003), pp. 55-80.

¹¹ Adam Fforde, “The Institutions of Transition from Central Planning: The Case of Vietnam,” in Colin Barlow (ed.), *Institutions and Economic Change in Southeast Asia* (Cheltenham: Edward Elgar, 1999), pp. 118-131.

¹² Pham Xuan Nam, et. al, “Rural Development in Vietnam: The Search for Sustainable Livelihoods,” in Pham Xuan Nam and Geoffrey Hainsworth (eds.), *Socioeconomic Renovation in Vietnam* (Singapore: Institute of Southeast Asian Studies, 2000). Food stock declined from 5.7 million tons in 1959 to just 4.69 million tons in 1960.

¹³ Beresford, “Economic Transition,” p. 57.

¹⁴ Justin Yifu Lin, Fang Cai, and Zhou Li, “The Lessons of China’s Transition to Market Economy,” *The CATO Journal* 16 (2), 1996.

¹⁵ Suzanne Ogden, *Global Studies Series: China* (Guilford: McGraw-Hill/Dushkin, 2002), p. 10.

The program envisaged an accelerated tempo of industrialization that the communist party boasted would overtake Britain in 15 years and the United States in 20 years.¹⁶ Central to the plan was intense mass mobilization and incorporation of the rural population into the industrial workforce. Despite lacking in experience in industrial work, peasants were compelled to leave their farm duties and help in the production of primary industrial commodities in a strictly regulated quota system. Communes were required to have “backyard furnaces” to produce iron ingots notwithstanding the fact that not all areas in China have iron ore and mineral deposits. Thus, many commune members ended up melting their farming implements and kitchen utensils in an effort to comply with their quotas. As a result of both neglect and misguided party policies on agriculture, output plummeted fast.¹⁷ Because peasants were taken away from their primary task of producing agricultural outputs, grain production during this period drastically fell.

The introduction of populist social policies only exacerbated the already precarious food situation. One good example was the policy of having “dining halls” in each commune. In 1958, Mao announced that these halls should be indiscriminately open to anyone who wished to eat and as often as one desired. However, in light of the progressively declining harvest due to poor agricultural policies, food stock that should last for six months was often consumed in just twenty (20) days or less.¹⁸ Furthermore, these dining halls encouraged a free riding mindset since these feeding stations would serve anyone regardless of his or her contribution in the production. The combination of poor agricultural production and rapid depletion of supply resulted in massive famine. According to some estimates, total death toll in the three years that this policy was in place was between 16.5 million¹⁹ to 30 million²⁰ people, making it the worst famine in recorded history.

Ma Hong who once served as adviser to the State Planning Commission explained the failure as the result of the following misguided policies under Mao:²¹ (1) one-sided emphasis on production target and approach while neglecting outcomes; (2) undue focus on heavy industries at the expense of agriculture; (3) too much concentration on new construction projects while neglecting maintenance of existing ones; (4) misguided emphasis on primary and intermediate products while neglecting consumer goods; (5) high state accumulation in the context of declining private consumption; (6) increasing population; (7) closing of international trade; and (8) over-collectivization that gave little attention to the individual, cities and towns. Ultimately, these failures fuelled the desire of a new generation of party leaders to find some sense of balance and pragmatism in the way social and economic policies are formulated and pursued. These new leaders have understood that the survival of China’s communist regime would ultimately depend on how effective it is in bringing the benefits of growth to its ever-expanding population.

On the other hand, the Vietnamese also planned to hasten industrialization by focusing on the development of its heavy industry. But this approach like in the Chinese only resulted in the distortion the economic distribution and allocation in the country. This rigid focus diverted resources away from other sectors, ultimately resulting in an economy that was characterized by imbalances in terms of underutilized

¹⁶ Dennis Yang, “China’s Agricultural Crisis and Famine of 1959-1961: A Survey of Comparison to Soviet Famines,” *Comparative Economic Studies* 50, 2008, pp. 1-29.

¹⁷ Sulamith Heins Potter and Jack Potter, *China’s Peasants: The anthropology of a revolution* (Cambridge: Cambridge University Press, 1990), p. 72. In areas where agricultural activities continued, farming methods were subjected to the overbearing control of party bureaucrats who would often impose their own policies over the time-tested farming practices of peasants. This lack of knowledge of local conditions would, later on, create grievances and resentment among the people, as farmers would call these party impositions as “blind orders from above.”

¹⁸ Potter and Potter, *China’s Peasants, op. cit.*, p. 73-74.

¹⁹ J.A. Coale, “Population trends, population policy, and population studies in China,” *Population and Development Review* 7, 1981, pp. 261-297.

²⁰ J. Banister, *China’s changing population* (Stanford: Stanford university Press, 1987).

²¹ Ma Hong, *New Strategy for China’s Economy* (Beijing: New World Press, 1983), p. 23.

sectoral capacities.²² Moreover, this strategy bred an adverse political complication in the long-run when a tightly-knitted network of well-connected bureaucrats began to develop. They benefited from the persistence of inefficiencies in the economy by skimming off public resources from large-scale national infrastructure projects and major economic development programs. Eventually, these heavy industry bureaucrats became a powerful interest group that thrived on existing economic inefficiencies.

Following the reunification, Vietnam sought a more aggressive transformation of the country's economy toward the socialist path. Crackdown on private enterprises ensued in the South, creating tension with ethnic Chinese minority that previously dominated trade.²³ Public subsidy became the foundation of state enterprises, however costly it became with the added strain coming from newly nationalized southern enterprises. A combination of dwindling external assistance from the socialist bloc and other donor countries and the onset of natural calamities in 1978 brought a record drop in food supply, triggering another round of mass exodus since the fall of Saigon in 1975.²⁴

4. Initiating the Reform and its Key Elements

The process of adjusting certain economic policies in China and Vietnam started before the formal onset of the reform agenda. Initially, these microeconomic adjustments were experimental efforts to stabilize the economy in light of the deleterious effects of their rigid central planning strategy. However, these early changes were discontinued when it became clear to the ruling regime that these efforts were undermining the legitimacy of the command economy, and by extension, the authority of the dominant political faction in the two countries.

In China, early attempts in moving the economy from the radical prescriptions of Maoist collectivism were met with stiff resistance from Mao himself, prompting a massive political purging which culminated in the "Cultural Revolution." Similarly, Vietnam introduced some modifications in its economic policies as a response to external and unforeseen external shocks. But unlike in China, the reversal back to central planning did not result in widespread political persecution.

4.1 Early Attempts at Reform

One can make the argument that the reform agenda in China happened way before the consolidation of political power by the reformers in 1978. The first phase of socioeconomic "restructuring" corresponded to a period of self-criticism and evaluation following the enormous debacle of the Great Leap Forward. It was a period when Maoism moved in retreat, but not totally in defeat. More "moderate" socialist policies were implemented in place of the radical approach preferred by Mao and his followers. In view of the failure of the Maoist economic paradigm, Mao lost some of his power and influence in favor of more orthodox central planning party leaders like Liu Shaoqi who replaced the former as head of state in 1959.

During this brief interregnum, relaxation of agricultural collectivization was implemented, and communes were given greater leeway to make economic decisions independent of the central party leadership. Crop choice was devolved, and peasants were allowed to farm not just for subsistence but also for small profit. Under the new system, farm collectives were now allowed to retain some of their surplus

²² Melanie Beresford, *Vietnam – Politics, Economics and Society* (London: Pinter, 1988), p. 164.

²³ Brian Van Arkadie and Raymond Mallon, *Vietnam: A Transition Tiger?* (Canberra: Australian National University Press, 2003), p. 45; also in Tetsusaburo Kimura, *The Vietnamese Economy, 1975-1986* (Tokyo: Institute of Developing Economies, 1989), pp. 34-35. Particularly hit hard were the Chinese in Cho Lon Area. The treatment of Chinese minority added to the deterioration of relations between Vietnam and China.

²⁴ Beresford, *Vietnam, op. cit.*

produce. Peasant families were also permitted to undertake some economic activities outside of agriculture. This period saw the emergence of an *ad hoc*, grassroots practice called “household responsibility system,” which was a form of land contracting to households.²⁵

This practice – encouraged by pragmatic local party leaders (many of whom would serve as important policymakers in the reform years) – would act as the catalyst of the reform agenda, eventually preparing the way for more comprehensive and systematic changes in China’s economy. However, this temporary stabilization of the economy would end when Maoists successfully wrestled control of policymaking from the pragmatists led by Liu, culminating in the Cultural Revolution from 1966 to 1976.²⁶ Liu’s economic changes were subsequently branded as “capitalist road” policies; and thus, strongly denounced.²⁷ This period saw the crackdown against Mao’s political rivals, both real and imagined.

In comparison, political rivalry figured less in the decision to institute changes in the economic policies of Vietnam than it did in China. A combination of external shocks and internal problems forced the Vietnamese regime to relax its central planning strategy as a way to keep its population fed and its economy afloat. In fact as early as September 1979, the government relaxed restrictions on agricultural and light industrial production. Idle lands were allowed to be contracted to households in a scheme called “*khoan san pham*” (product contracting system), which was similar to the household responsibility system practiced in China.²⁸ Economic transactions unhampered by state monitoring were allowed (for instance, sourcing raw materials from suppliers other than state enterprises and surplus outputs being sold and bought in open markets). Artificial barriers to trade such as military checkpoints were likewise stopped to facilitate the flow of goods partly as a response to the previous clamping down on trade in the Mekong area during the 1978 flooding, which caused food shortages in cities.

From 1979 to 1981, a package of economic adjustments followed including: (a) the partial decentralization of foreign trade, which allowed local authorities to engage in commerce on their own thus effectively initiating the process of integration with the Asian regional economy; (b) the so-called “Three Plan System” in industry which, from 1981, sanctioned some production for the market by state enterprises; and (c) price reform in the late 1981 that brought official prices and wages closer to market prices and removed all but a handful of consumer goods from the centralized rationing system.²⁹

While greatly bolstering economic production, these market reforms created what some sectors in the Vietnamese leadership called “negative phenomenon,” particularly in Ho Chi Minh City (formerly Saigon) where there were widespread cases of speculation, smuggling, illegal business practices and counterfeiting.³⁰ The conservatives in the party capitalized on these report to attack the budding reform process as a nothing more than a reinstatement of capitalism in the country.³¹ As a consequence, intense ideological debates and intra-party power struggle ensued between 1982 and 1983, resulting in the expulsion of reform-minded party leaders especially those from Southern Vietnam. Ho Chi Minh City

²⁵ Potter and Potter, *China’s Peasants*, *op. cit.*, p. 82.

²⁶ Liu Shaoqi was stripped of his state power and party membership, and left to die by being refused medical assistance. The luckier ones like Deng Xiaoping were brought to work in labor camps, in the case of Deng in an engine factory. For a biography of Deng, see David Goodman, *Deng Xiaoping and the Chinese Revolution: A Political Biography* (New York: Routledge, 1994).

²⁷ Potter and Potter, *op. cit.*, pp. 88-89. Liu’s “Four Freedom” policies were condemned as a reversion back to capitalism. These reformist policies were freedom to buy and sell land, freedom to hire laborers, freedom to issue loans, and freedom to engage in business enterprises. Liu emphasized market incentives over mere ideological rewards on production.

²⁸ Beresford, *Vietnam*, *op. cit.*

²⁹ Beresford, “Economic Transition,” p. 60.

³⁰ Kimura, *The Vietnamese Economy*, *op. cit.*, pp. 46-50.

³¹ Guo, “Economic Transition in China and Vietnam,” *op. cit.*

party leader Nguyen Van Linh was singled out and stripped of his position as party leader in the city. Other known reformers like Vo Nguyen Giap were likewise dismissed. Like in China, conservatives waged a spirited campaign to put a brake to the reforms as a way of undermining the reformers inside the party.

However, unlike in China, the political power play between the two factions in Vietnam never reached a boiling point similar to the mass purging during the Chinese Cultural Revolution. This might be because, after the death of Ho Chi Minh in 1969, no Vietnamese leader had since assumed a comparable stature as the dominant political figure. Hence, the political order in Vietnam was based on a balance of power, albeit unsteady, among different cliques that were hesitant to risk everything in waging a war of political extermination. Moreover, the war for reunification had the effect of solidifying the party as a more cohesive political bloc precisely because Vietnamese cadres fought against a foreign military force unlike the Chinese who largely fought each other during the civil war period. In China, on the other hand, Mao's godlike stature as an authority above party politics enabled him to persecute his opponents while remaining in absolute control, something that was impossible to do in Vietnam. While some form of political persecution happened during the early 1980s, compromises and negotiations marked the intra-party politics in Vietnam unlike that in China, which was driven by a strong single personality.

Given these circumstances, one can make the argument that the early Vietnamese experience with reform, although piecemeal in its implementation, actually coincided closely with the Chinese. Hence, the usual observation that Vietnam only copied what the Chinese had done with its economy should be placed within historical facts. Whereas China has been relatively consistent and systematic in following the reformist path, Vietnam's case showed that the initial problems it encountered caused the political establishment to waver in its embrace of the market. Whereas the 1980s marked the decisive solidification of China's thrust towards the market approach, this period in Vietnam showed a contested image of a country wanting to solve its internal economic problems – but uneasy, and even unwilling, to leave behind what it believed as the intrinsic ideological purity of a command economy. This stance would change radically in 1986 when the policy of *doi moi* was finally inaugurated.

4.2 *China's Socialist Market Economy and Vietnam's Doi Moi: The Market Reform Process in Comparative Perspective*

In China, the reform process gathered steam after the death of Mao in 1976. After a brief power struggle with remaining Maoist conservatives, reformers led by Deng Xiaoping established their position during the 3rd Plenary Session of the 11th Central Committee of the Chinese Communist Party in December 1978. The new leadership moved quickly to rectify what had been termed as “leftist mistakes” in guiding economic policies, particularly those pertaining to the agricultural sector.³² Chang identified three main periods of reform initiatives in post-Mao China: (a) the implementation of rural management and production changes from 1979 to 1982; (b) the introduction of urban factory management autonomy to improve production efficiency and profit-sharing between 1980 and 1984; and (c) the adoption of broader macroeconomic reforms including changes in price and wage, currency, trade and taxation since 1984.³³

Reforms in the agricultural sector centered on the expansion of the “household responsibility system” that allowed substantial transfer of organizational and management control from the state to households and lower level production units.³⁴ Local party leaders and formerly persecuted ranking

³² Wang Guichen, *et al.*, *Smashing the Communal Pot: Formulation and Development of China's Rural Responsibility System* (Beijing: New World Press, 1985), p. 7.

³³ David Wen-Wei Chang, *China Under Deng Xiaoping* (London: MacMillan, 1988), p. xviii.

³⁴ Seldan, *The Political Economy*, *op. cit.*, p. 191.

officials who made a comeback after the end of the Maoist era spearheaded this transformation. For instance, Zhao Ziyang who would later become Chinese premier and secretary general of the party led the de-collectivization efforts in Sichuan where he was provincial party boss. In Anhui province, Wan Li also actively worked for the introduction of market mechanisms in agriculture, encouraged “sideline” economic activities, and even went as far as restoring private plots.³⁵

While land ownership remained tightly in state control, leasing became a trend and families were permitted to cultivate crops they deemed more profitable in the market. Labor policies were also relaxed and farming families were allowed to hire laborers. Ultimately, this policy led to the dismantlement of agricultural collectivism, which had produced economic stagnation and declining productivity in agriculture during the Mao era. This relaxation of economic controls naturally led to the diversification of the rural economy and the transfer of surplus and underutilized labor to more productive and lucrative sectors like commercial and industrial activities. As a consequence, there was considerable growth and expansion of production in rural economies across China.³⁶

In the case of Vietnam, the main turning point in its economic transformation came during the 6th Party Congress of the Vietnamese Communist Party in December 1986. During the party congress, a new set of goals was inaugurated to move the economy toward a new direction: (a) to produce enough for consumption and accumulation; (b) to readjust the national economic structure, and consequently, the investment structure; (c) to build and perfect new relations of production in accordance with the character and level of productive forces, and develop all economic sectors including non-socialist ones; and (d) to bring about significant social changes particularly in employment, income distribution and others.³⁷

Preceding this watershed event was a string of positive signals, pointing to the continuance of the aborted reform agenda. The last salvo of efforts to salvage the whole central planning paradigm fell by September 1985 when monetary changes such as the introduction of a new currency failed to rein in hyperinflation.³⁸ By the mid-1980s, centralized planning had its lost luster and the ruling political elites lost interest in its continuance. Even the resistance of formerly powerful network of functionaries in state-owned industries was overridden, particularly when high inflation reduced real wages among state workers thus losing its constituency of support.³⁹ More importantly, in June 1985, reformist leaders such as Nguyen Van Linh were taken out of the political cold storage and rehabilitated to assume membership to the Secretariat of the Central Committee and, after awhile, his position as a standing member of the Secretariat.⁴⁰ He later assumed as Secretary General of the Communist Party of Vietnam.

Meanwhile, the new policy of “doi moi” (renovation) was announced by Truong Chinh who succeeded Le Duan as the party secretary general upon the latter’s death. In a speech delivered in October 1986, he emphasized the necessity of trying a new approach in the economy:

“For the community of socialist countries, renovation (doi moi) is the only way to surge forward... For our country, renovation is all the more necessary: it is a matter of life and death... Only by renovating our way of thinking and acting – renovating our thinking, especially economic thinking,

³⁵ Joseph Fewsmith, *Dilemmas of Reform in China* (Armonk: Sharpe, 1994), p. 22.

³⁶ Seldan, *op. cit.*, p. 209.

³⁷ Vo Nhan Tri, *Vietnam’s Economic Policy Since 1975* (Singapore: Institute of Southeast Asian Studies, 1990), pp. 182-183.

³⁸ The new *dong*, Vietnam’s currency, replaced the old *dong* on a one-to-ten basis; see Le Khuong Ninh, *Investment of rice mills in Vietnam*, PhD Dissertation, University of Groningen, 2003, p. 11.

³⁹ Beresford, “Economic Transition,” p. 61.

⁴⁰ The political rehabilitation of reformers like Nguyen Van Linh signaled a change in the position of the party regarding the market reforms; see Tetsusaburo Kimura, *The Vietnamese Economy 1975-1986* (Tokyo: Institute of Developing Economies, 1989), pp. 50-53.

renovating our style of work, our organization and our cadres – will we be able to extricate ourselves from the current very difficult situation.”⁴¹

A dramatic shift in the economic thinking marked the formalization of “doi moi,” which recognized the importance of private business and industries to the development of the country, and the necessity of participating in the global economy to develop Vietnam’s own productive capacities.⁴² Mio identified four (4) “mistakes” in the previous economic paradigm: first, the ideological belief that socialism could be achieved by a backward agricultural country through bypassing capitalism; second, the excessive focus on heavy industry; third, dependence on external economic assistance and aid; and fourth, the failure of the northerners after reunification to capitalize on the expertise of southerners (particularly the ethnic Chinese Hoa people) in managing the economy.⁴³

In the area of agriculture, Vietnam had earlier relaxed restrictions in the production of farm goods, raised state purchase prices, and expanded land contract schemes with cooperatives and households. Although the first half of the 1980s was marked by poor weather conditions and natural disasters ultimately resulting in a momentary food shortage in 1987, there was upswing in rice and agricultural production during the period.⁴⁴ Such outcome could be attributed to the deliberate increase in the allocation of investment and inputs to the paddy-growing areas of the country (e.g. Mekong River delta, Red River delta and others).⁴⁵ The land contracting system was formally legalized with the passage of the “Law on Land” by the National Assembly on December 1987, which allowed not only the leasing of land by Vietnamese, but also by foreign businesses and investors. The government also parcelized large but unproductive cooperatives, and in many cases, went as far as abolishing inefficient ones in favor of private holdings. Within the party, the Politburo passed Resolution Number 10 entitled “Renovation of economic management in agriculture,” which practically recognized the pivotal role being played by the private sector in agricultural production. This was a clear ideological leap for the Vietnamese leadership toward what it envisioned as a “socialist-community production” in agriculture.

In contrast with the progress made in agriculture, the industrial sector particularly state enterprises proved harder to reform. This difficulty could be attributed to the fear among party leaders that changes in the industrial sector would have to entail corresponding modifications in finance and organizational process of the state, which many felt were too threatening to the political supremacy of the party. For one, it had been a practice to reward party faithful with positions in state enterprises. Equally important as a source of patronage, a state-controlled industrial sector presented the ideological realization of the central planning orthodoxy, which many in both countries saw as the core of their socialist credo.⁴⁶

In China, the technocrats took the lead in initiating reforms in the industrial sector by spearheading a new form of economic discourse based on the supposed “objectivity” of economic laws and the need to limit the role of ideology in economic planning.⁴⁷ Perhaps as a direct result of the new

⁴¹ Quoted in Vo Nhan Tri, *Vietnam’s Economic Policy Since 1975* (Singapore: Institute of Southeast Asian Studies, 1990), p. 182.

⁴² Motoo Furuta, “The 6th Congress of the Communist Party of Vietnam: A Turning Point in the History of the Vietnamese Communists,” in Tadashi Mio (ed.), *Indochina in Transition: Confrontation or Co-prosperity* (Tokyo: Japan Institute of International Affairs, 1989), pp. 12-16.

⁴³ Tadashi Mio, “Vietnamese Economic Reforms: A Period of Trial and Error and the Present Situation,” in T. Mio (ed.), *Indochina, op. cit.*, pp. 21-22.

⁴⁴ *Ibid.*, p. 29.

⁴⁵ Vo Nhan Tri, *Vietnam’s Economic Policy Since 1975, op. cit.*, pp. 187-198.

⁴⁶ Fewsmith, *Dilemmas, op. cit.*

⁴⁷ Fewsmith, *Dilemmas, op. cit.*, p. 61. Deng Xiaoping served as the premier patron of technocrats in the post-Mao period. Even during Mao’s time, Deng showed his maverick streak by publishing a paper called “Twenty Points” that attacked centralized industrial policies. Among Deng’s criticisms were excessive reliance on domestic market and rejection of foreign trade and technology, too much role of ideology, lack of incentives to workers, emphasis on “redness” over “expertise” as a

atmosphere of openness at least on the economic front, several policy papers and influential studies were published, making the case for a greater role of market mechanism in the economy. For instance, there was the work of Xue Muqiao who was an adviser to the State Planning Commission titled “Studies on China’s Socialist Economy” in 1979, which served as the “bible” for Dengist reformers. Muqiao’s work basically argued that China was in a state of “underdeveloped socialism;” thus, requiring a more pragmatic approach in productive processes. In April of the same year, the party sponsored a high profile gathering of economists and planners in what has since been called as the “Wuxi Conference” to map out the strategy of the Chinese in the post-Mao period. Similarly, Hu Quiaomo who was also a key technocratic figure in the Deng period published an even earlier policy critique of the Maoist economic strategy called “Act in Accordance with Economic Laws, Step Up the Four Modernizations” in 1978, which elaborated Deng’s “Four Modernization” framework.

In practical sense, the reformers consolidated their reform efforts in introducing changes in moribund state-owned enterprises under the principle of “*gaizhi*” or transforming the system.⁴⁸ Their initiatives concentrated on introducing internal governance changes, reorganization, ownership diversification, and employee equity sharing, among others. Inspired by the dynamism brought about by the household responsibility system in agriculture, the government started to lease enterprises to homegrown capitalists. For example in 1986, the state granted lease contract for the Wuhan Motor Engine Factory to a private group of entrepreneurs. Succeeding promulgation of a formal guideline by the State Council resulted in the de facto privatization of several “township and village enterprises” (TVEs) across China.⁴⁹

As in the previous shift in rural policies, changes in the urban economy particularly for the state-owned enterprises emerged out of the experimentation of local leaders on how to best exploit the newfound economic breathing space. Local leaders and enterprising individuals led the way, and when these free market approaches proved productive, the central government would then move to formalize such initiative in a policy statement. Between 1979 and 1980, industrial reform spread rapidly, affecting more than 6,000 state enterprises. These enterprises now enjoyed greater profit retention and decentralized decision-making, especially in the areas of marketing and investment.⁵⁰ Likewise, macroeconomic and trade reforms occurred side by side with these adjustments. As early 1979, the government inaugurated four (4) special economic zones (SEZs) in the provinces of Guangdong and Fujian. In succeeding years, other cities and areas in China followed suit in opening up their economies to international trade and capital.⁵¹ As years went by, these special economic zones have grown more integrated with and reliant on overseas markets for their expansion than with the domestic economy.⁵²

Despite a momentary moratorium on reforms during the first half of the 1980s, new round of industrial and trade reforms were inaugurated by the second half and by the 1990s more comprehensive and systematic restructurings had been introduced. These restructurings were spearheaded by Deng Xiaoping himself, culminating in the affirmation of a new developmental model called “socialist market

basis for promotion especially for managers and engineers; see Gautam Jaggi, et al., “China’s Economic Reforms,” *Institute for International Economics Working Paper 96-5*, 1996, p. 4. Two important figures in the “technocratization” movement were Hu Quiaomo who authored a policy paper in 1978 attacking the previous Maoist policies, and Xue Muqiao who served as the adviser to the State Planning Commission implementing the reforms.

⁴⁸ Ross Garnaut, et al., *China’s Ownership Transformation* (Washington DC: International Financial Corporation, 2005).

⁴⁹ *Ibid.*, p. 2.

⁵⁰ Nina Halpern, “Economic Reform, Social Mobilization, and Democratization in Post-Mao China,” in Richard Baum (ed.), *Reform and Reaction in Post-Mao China* (London: Routledge, 1991).

⁵¹ Guo, “Economic Transition,” p. 397.

⁵² Goodman, “The Politics of Regionalism,” *op. cit.*, p. 12.

economy” by the 14th National Congress of the party’s central committee in 1992.⁵³ While the reform efforts have admittedly produced unwanted socioeconomic by-products,⁵⁴ no one could reject that the overall result of the Chinese reforms has been phenomenal. The Chinese economic miracle remains by far the most spectacular example of a sustained growth in contemporary times.⁵⁵ In fact, some observers would even suggest that the most dramatic rise in living condition that ever happened in recorded history could be found in China’s economic modernization where some 210 million people have been lifted out of absolute poverty in just two decades between 1979 and 2000.⁵⁶

Initially, the industrial reform in China was marked by some degree of caution due to the outgrowth of negative socioeconomic effects. The aftermath of the 1989 Tiananmen protests only bolstered the fear of some in the Chinese leadership that the economic reforms could lead to the unraveling of the party’s political control. Hence, a brief slowdown in reform marked this period. Yet this deceleration in the reform process was short-lived, especially when the government realized that the slowdown in market adjustment also corresponded with a conspicuous slowdown in economic growth.⁵⁷ Hence, upon the rise of the next generation of leaders led by Jiang Xemin, the reform gathered even stronger momentum to sustain the country’s double-digit growth.

Compared with the Chinese, the case of industrial reform in Vietnam, on the other hand, was more aggressively driven at first before coming to a virtual standstill when the Asian financial crisis broke out in 1997. The cause of reform in non-agricultural sectors gained enormous strength after the consolidation of political control by the reformer Nguyen Van Linh and his supporters from 1987 onwards. For one, Van Linh was working on a shorter time horizon and facing greater economic shocks both internal and external. Hence, the Vietnamese leaders adopted a number of measures in quick succession including economic governance changes, strengthening of enterprise autonomy, promotion of family-based and private businesses, and the introduction of structural reforms related to tax, trade and land ownership.⁵⁸

In addition to formalizing the existing private sector activities and approaches in the domestic economy, other policy changes followed suit.⁵⁹ The Foreign Investment Law was passed in December 1987, allowing for 100 percent foreign ownership (more liberal than China’s initial version of investment reform) and profit repatriation, significant tax holiday, concessions for enterprises to invest in priority areas such as export, technology, commercial goods and manufacturing. In March 1988, Resolution Number 10 was passed, which decollectivized agriculture in rural Vietnam. Land was distributed to households for a period of fifteen years to undertake production; thus, practically rendering cooperatives superfluous. Mandatory sale of produce to the state was also abolished, and outputs were now allowed to be openly bought and sold in the market. And finally, a set of macroeconomic changes was introduced in 1989 including the abolition of official prices, the floating of the exchange rate, and banking reform. In reaction to the economic turmoil in Eastern Europe, Vietnam ended its direct subsidies of state enterprises due to the imminent termination of Soviet aid.

⁵³ Guo, “Economic Transition,” p. 406. In 1992, although officially retired from politics, Deng embarked on a speaking tour of major Chinese cities where he continued to re-assert the importance of continuing the economic reform process. Politically, this effort by Deng was aimed at raising the prominence of his allies in the run-up to the 14th National Congress.

⁵⁴ Seldan, “The Political Economy,” *op. cit.*, pp. 219-220.

⁵⁵ Weiye Li and Louis Putterman, “Reforming China’s SOEs: An Overview,” *Comparative Economic Studies* 50, 2008, pp. 353-380. Chinese gross domestic product (GDP) leapfrogged by a factor of 12 and its GDP per capita by a factor of nine in just under-three decades starting 1979.

⁵⁶ “Now Comes the Hard Part,” *The Economist*, 08 April 2000.

⁵⁷ N. Lardy, “China’s worsening debts,” *Brookings Working Paper*, 22 June 2001.

⁵⁸ Mio, “Vietnamese Economic Reforms,” *op. cit.*, p. 45.

⁵⁹ This following discussion was made in Beresford, “Economic Transition,” pp. 62-64.

Despite Nguyen Van Linh's effort to allay fear about "becoming bourgeois,"⁶⁰ resistance remained in some leaders of the party like Defense Minister General Le Duc Anh who remained convinced about the hostility of the West toward Vietnam and the corrupting influence of its economic paradigm on the country.⁶¹ While the government had basically committed itself to the process up to the early 1990s, some degree of skepticism began to emerge when the reform produced adverse outcomes as in the case of China. Beresford, for instance, cautions about the possible rise of cronyism (and in fact, rent-seeking and corruption are already widely prevalent) as a result of liberalization in the context of a donor-induced state's inability to institute a coordinated industrial policy.⁶² The onset of the Asian financial crisis in 1997 only galvanized the more conservative party leaders to oppose further opening up.⁶³

5. Understanding the Factors in the Reform Process in China

What then could account for the introduction of these reforms in China and Vietnam? This research would dwell on three (3) main factors: (a) the role of elites; (b) dynamics of social structures and relations; and (c) the pressure from external factors stemming from changes in the geopolitical and economic environment.

5.1 *Inter-Elite Dynamics, Intra-Party Politics and the Reform Process*

The long reign of a single-personality politics in China during the time of Mao resulted in an unprecedented instability in the succession among factional contenders. The Maoist cult of personality prevented the institutionalization of a formal, process-driven politics.⁶⁴ This was so because this political arrangement was absolutely based on clientelism where appointment, promotion and survival in the party were solely determined by the degree of perceived loyalty to Mao. Party and state processes were secondary to the informal web of relationships centered on Mao. This arrangement, therefore, encouraged competing elite groups to vie for favor and good graces from the Paramount Leader. Hence, the degree of factionalism and favoritism was high since political groups would often gain favor at the expense of others. Furthermore, Mao encouraged this kind of factionalism as a way to prevent any potential challenger to threaten his position and authority. This explained the rationale behind the purging of several high ranking leaders such as Liu Shaoqi, culminating in the mass purge of alleged "enemies of the regime" during the Cultural Revolution.

Ultimately, the party was reduced as a mere adjunct instrument of Mao who was supported by his cabal of loyal followers such as the "Gang of Four" and Hua Goufeng.⁶⁵ Party principles like democratic centralism were lost, as the figure of Mao became synonymous with godlike infallibility. The confluence of Mao's cult of personality, ideological excess and anti-intellectualism ultimately diminished the quality and effectiveness of the economic policies pursued during Maoist era.

Interestingly, however, the absolute dominance of Mao created the pressure for the counter-elites to challenge the status quo. To begin with, reformers did not have the favor of Mao since they represented an alternative vision of what China should become. And because reformers could not possibly challenge

⁶⁰ This speech was delivered in Hanoi on Van Linh's visit to private-public partnership enterprises in February 1989; see Mio, "Vietnamese Economic Reforms," p. 47.

⁶¹ See David Wurfel, "Perestroika, Vietnamese Style: Problems and Prospects," in David Stubb (ed.), *Vietnam: Facing the 1990s* (Toronto: Joint Centre for Asia Pacific Studies, 1989), pp. 31-32.

⁶² Melanie Beresford, "Doi Moi In Review," *Journal of Contemporary Asia* 38 (2), May 2008, pp. 221-243.

⁶³ Carlyle Thayer, "Doi Moi 2? Vietnam After the Asian Financial Crisis," *Harvard Asia Quarterly* 4 (1), Winter 2000.

⁶⁴ This view is expanded from the discussion of Zang, "Institutionalization," *op. cit.*

⁶⁵ The Gang of Four was an informal group of Maoist loyalists comprised of Jiang Qing (Mao's wife), Zhang Chunqiao, Yao Wenyan, and Wang Hongwen. The Gang was like a 'party within a party'. They practically controlled the state during the Cultural Revolution and deliberately eliminated Mao's rivals to ensure their power. See Ogden, *Global Studies, op. cit.*, p. 12.

Mao by attacking him openly, the reformist clique utilized the economic reform agenda as a proxy to undermine the established thinking without appearing directly opposing Mao and his cohorts. As Fewsmith argued, “Deng and his allies did not first defeat [*Maoist loyalists*] politically and then sit down and think about economic reform but rather formulated an approach to the economy as part of the attack on [*these Maoist loyalists*].”⁶⁶

The purging of Mao’s rival – while had been brutal for some⁶⁷ – provided an opportunity for victimized party cadres to see for themselves the results of Maoist policies in rural areas. In re-education camps, many Chinese leaders saw the ill effect of ideologically driven populist policies and how these exacerbated the uncertain living conditions in rural communities. As Chang argued, this political expulsion stirred an understanding that the “the ignorance of the leadership on incentives for production efficiency, its blindness toward a sophisticated use of the theory of price, theory of taxation, a socialist commodity economy, flexible currency management, etc., were fundamental causes of China’s failure in economic constructions between 1949 and 1979.”⁶⁸ Thus, the primacy of politics actually drove the initial momentum of reform forward since the reformers knew that the successful delivery of more economic rewards would be the key in cementing their position in the state.⁶⁹ They were conscious of the trauma brought about by years of failed Maoist development strategy, and deliberately exploited that episode to marginalize their political opponents.

Playing side by side with this political power play, the failure of past economic programs such as the Great Leap Forward also forced local leaders to find alternative ways to achieve production gains as a means for physical survival of their communities. For instance in the village of Zengbu, the party’s local secretary Lu Zhongzhu, who anticipated the imminent food shortage, furtively defied central party directive by ordering commune members to plant root crops such as potatoes and cassavas in highland plots⁷⁰. These vital supplies later cushioned what could have been a major famine experience in that particular area. The same was also true in the case of Anhui, which had always been a hotbed for pragmatic economic thinkers.⁷¹

For other local party leaders, their approach had been more political and systematic than Lu’s pragmatism in that some party personalities used the reform agenda as a way to undermine the loyalist powerbase, especially after the death of Mao in 1976. They attacked what was then called as the “Dazhai model” in agriculture, which was based on collective production and emphasized ideological reward over material incentives.⁷² After Mao’s death, the successor Hua Goufeng continued with the Maoist development strategy despite its failure in the past. But by that time, the reform-minded new generation leaders began to gather around Deng Xiaoping who was then maneuvering his way to oust Hua from power. In effect, the support for a more market-oriented development model became a referendum on which side one would want to be identified with. This was clearly the case with Zhao Ziyang in Sichuan and Wan Li in Anhui. As early as 1975 before his second purging, Deng had been gathering support

⁶⁶ Fewsmith, *Dilemmas of Reform in China*, *op. cit.*, p. 60.

⁶⁷ For instance, the wife of Liu Shaoqi, Wang Guangmei, was paraded around Beijing wearing necklace made of ping-pong balls to humiliate her. Wang along with many victims of the Cultural Revolution was persecuted because of their cosmopolitan background.

⁶⁸ Chang, *China Under Deng Xiaoping*, *op. cit.*, p. 23.

⁶⁹ Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform 1978-1993* (Cambridge: Cambridge University Press, 1996), p. 61.

⁷⁰ Potter and Potter, *China’s Peasant*, p. 73.

⁷¹ Fewsmith, p. 22-23. Mao had earlier criticized Anhui’s implementation of household responsibility system (HRS) as a restoration of capitalism, and led a crackdown against followers in 1959. When the pressure subsided, the local leaders only renamed their rural program to conceal the continuation of the HRS in their areas.

⁷² Fewsmith, p. 19.

among like-minded party personalities, and often personally coordinated internal efforts to neutralize the influence of Maoist holdovers on the economy.

One significant case was Deng's personal coordination with Wan Li who was then the minister of railway during the last years of Mao's rule to let go what Deng called "leftists" in the Chinese rail system. Following Deng's lead, second-tier leaders such as Wan Li began to speak openly about the need to restore market efficiency in the economy: "Anything that can increase production, make greater contributions to the state, consolidate the collective economy, increase the masses' income, and improve their standard of living is a good method."⁷³

The process of political coalition-building extended beyond the usual circle of party functionaries to include even non-party technocrats who had always been partial to more pragmatic approach in solving economic difficulties. The assimilation of the once-powerless technocrats into the political establishment was one of the unexpected outcomes of the purging episode during the Cultural Revolution. These reform-minded technocrats would become an important political bloc in the post-Mao period such as Chen Yizi who would then head the influential think tank "Rural Development Group."⁷⁴

These technocrats under the patronage of reformist party leaders would bolster the cause of economic reform, as many of their empirical studies would be utilized to counter the stale ideological rhetoric of the opposing factions. With the rise of Deng as the Paramount Leader, there has been a continuous trend toward 'technocratization' of the party apparatus and state bureaucracy. Increasingly, thus, debates have been phrased in scientific and empirical languages rather than in traditional ideological articulation and sloganeering. This is in keeping with what Fewsmith has observed as the effort of the Chinese Communist Party to be a "ruling party" rather than a "revolutionary party," suggesting a change of role of political actors from mobilizing cadres to carrying administrative functions.⁷⁵ In fact, since 1982, education and expert credential have increasingly become the single most important factor for party and bureaucratic promotion, as there has been a strong trend toward specialization and professionalization in the appointment of leaders.⁷⁶ Other technocrats who would be given the opportunity to advance in their career were two unassuming engineers from Gansu Province, Hu Jintao (later president and head of the party) and Wen Jiabao (later as premier).⁷⁷

The case of Vietnam manifested a different set of nuances since the rise of the communist party was very much intertwined with the country's anti-colonial nationalist movement – first against the French then later against the US-backed Ngo Dinh Diem regime in the south. In the words of the former party leader Le Duan, "the nation and socialism are one."⁷⁸ These unique historical circumstances created a distinctive set of political opportunities and constraints, different from that of the Chinese. Appeals to patriotism and national identity were more purposely exploited by the party and incorporated into the

⁷³ Fewsmith, *op. cit.*, p. 29. This was stated during an inspection of rural communities in Fengyang province in January 1979.

⁷⁴ Chen was former classmate of Deng's son, Deng Pufang, in Beijing University.

⁷⁵ Joseph Fewsmith, "The Political Economy of China's Transition," *The Foundation for Law, Justice and Society Working Paper*, n.d., p. 8.

⁷⁶ Jean-Pierre Cabestan, "The Modernization of Elites," in S. Feuchtwang, et. al (eds.), *Transforming China's Economy in the Eighties: Volume II* (London: Zed, 1988), p. 85.

⁷⁷ The rise of Hu Jintao was particularly interesting. His father was a victim of the Cultural Revolution and this experience has deeply affected him and influenced his political outlook. See Joe Harvey, "Getting to know Hu," *Al Jazeera English Online*, 19 October 2007; viewed 29 August 2009.

⁷⁸ Quoted in Carlyle Thayer, "Challenges to the Legitimacy of Vietnam's One-Party State," paper presented at the *International Workshop on the Search for Legitimacy: Managing the Consequences of Asian Development*, National University of Singapore, 27-28 July 2009.

practice of socialism, unlike the Chinese who wanted to deliberately expunge their Confucian heritage especially during the Cultural Revolution.⁷⁹

Perhaps because of this unique historical context, the leadership that had developed in Vietnam was different from the single-personality absolutism characterizing China during the pre-reform years. More strikingly than in China, the party in Vietnam wielded political power through collective decision-making among a small band of patriarchs that controlled the party and state since independence from France. Produced by having to fight successive external threats and challenges since the war for national liberation, this strong bond based on nationalist sentiments was in stark contrast to the one-man political showmanship of Mao, which resulted in fissures among the next generation of party members. As discussed earlier, these fissures in turn created the opportunity for the reform agenda to take hold in China, as more pragmatic leaders used the reform process to marginalize the conservative Maoist holdovers.

According to Pike, communist Vietnam had been run by a hermetically sealed leadership group whose composition remained basically unchanged from the establishment of an independent Vietnamese state in 1945 up to the 1980s.⁸⁰ While there had been the rise of charismatic leaders such as Ho Chi Minh, their rule had not superseded party protocols in the manner that Mao's rule did. In fact, by 1960, Ho Chi Minh had been relegated only as a political figurehead. While there had been efforts at deification to elevate his status like Mao, such attempts were done after the end of Ho Chi Minh's political life; thus, preventing the possibility of nurturing a cult of personality during his reign that could undermine the established party processes.

Vietnam's less fragmentary leadership structure had several implications that had import to the reform process. Due to this balance of power, Vietnam was able to introduce a clearer succession plan compared with China, and there has been a consistent regularization of political relationships; thus, making it harder for pragmatic leaders to challenge the existing paradigm without challenging the whole system. In China, reformers tried to undermine the conservatives by using the economic reform as a tool without being threatening to the entire political establishment. Hence, the reformers were able to gather support even from those who advocated retention of some core central planning tenets because they were able to articulate the support to the reforms as a separate issue from other contentious matters related to the position of the party in society.

Such approach would have been less successful in Vietnam since factionalism was comparatively low. The relatively unified leadership structure could explain the fact that, despite the early attempts at reforming the economy in 1979, setbacks marked the first half of the 1980s when the reforms brought about socioeconomic problems. Another way of saying it was that the less competitive atmosphere among various factions in the Vietnamese party might have delayed the onset of reform by several years, and this could be explained partly as an indirect outcome of Vietnamese party politics. According to Thayer, a process of "rejuvenation of the party" has been introduced since 1976 wherein one-third of Central Committee members are routinely retired every five years.⁸¹ This meant that opportunity to be part of the ruling establishment was there, and party leaders and members would rather support the status quo than challenge it, knowing that the window of opportunity to achieve power was regularly open. In short, the system tended to be biased toward the conservatives. This was clearly shown when the initial attempts at

⁷⁹ During the Cultural Revolution, Red Guards would routinely search every home, and destroy all evidence of religious activities and Confucian proclivities; see Potter and Potter, *China's Peasants*, *op. cit.*, pp.83-89.

⁸⁰ Douglas Pike, "Vietnam: Who Will Succeed?" *The World and I Educational Resource and Archive*, June 1987; cited in Carlyle Thayer, "Generational Change in Vietnam," paper presented at the *Conference on Generational Change in Indochina*, Rosslyn, Virginia, 29 August 2003.

⁸¹ Thayer, "Generational Change," *op. cit.*

reform were rebuked by central planning advocates who criticized the reforms for bringing “negative phenomena.”⁸²

In another words, in a condition where the leadership was relatively unified or the reformers and conservatives were sharing the same degree of political leverage, it would be harder for any reform to be initiated and sustained granting that no other external or internal factors were at play. Somehow, political stability as measured by the degree of political fragmentation tended to dissipate the sense of crisis that could spark reformist pressures. Brian Womack described this phenomenon as “reform immobilism.”⁸³

On the other hand, this political arrangement had its silver lining since in a condition of less factionalism, leaders felt compelled to sustain such unity. Hence, there was little incentive to engage in a political “war of extermination” unlike in Mao’s China. This might explain the fewer cases of persecution and high profile purging in Vietnam. In fact, purged reformers like Nguyen Van Linh owed much to the conservatives as he did to the pragmatists since conservative party leaders who had a “change of heart” on the reform also instigated the rehabilitation of marginalized reformers. For example, once formerly opposed to the reforms, party doyen Le Duan later publicly criticized the ill effects of “bureaucratic centralism.”⁸⁴ The same was true with Truong Chinh who previously had a strong Maoist leaning.⁸⁵

Like in China, the trend toward technocratization of policymaking also influenced the continuation of reforms, albeit in a limited degree. For instance, on the average, 25 percent of National Assembly members from 1992 to 2002 had postgraduate qualifications.⁸⁶ Even in the military, officers have been availing of overseas education and training in Western countries including erstwhile nemesis the United States. Thus, ideological percolation and transmission of Western economic concepts might have been possible through these educational exchanges. While not directly spurring the onset of the doi moi reforms, such technocratization of the state and bureaucracy allowed the embedding of free market thinking that could possibly ensure the continuation of the reforms.⁸⁷ In terms of generational shifts, Thayer suggested that Vietnamese party membership has been showing a trend of dropping age average, pointing to the possible emergence of a new generation of cadres whose political and economic outlook might not be trapped in the rigid Cold War mindset and the country’s tragic postwar history. However, in the same work, Thayer showed that party membership among the Vietnamese youth has been increasingly less attractive.⁸⁸ This could be a possible outcome of the market reforms, which created new opportunities for personal and career advancement outside of the party such as the opportunities presented by becoming entrepreneurs for young Vietnamese.⁸⁹

5.2 Supportive Social Structures and Indigenous Relations

A number of authors have suggested that the reform agenda would not have prospered without the existence of supportive social relations that some observers consider uniquely Chinese. Individualistic societies such as those in the West might have provided the enabling environment for the rise of the

⁸² Kimura, *The Vietnamese Economy*, *op. cit.*, pp. 47-50.

⁸³ Brian Womack, “Vietnam in 1996: Reform Immobilism,” *Asian Survey* 37 (1), January 1997, pp. 79-87.

⁸⁴ Quoted in Kimura, *op. cit.*, p. 50.

⁸⁵ Vo Nhan Tri, *Vietnam’s Economic Policy Since 1975* (Singapore: Institute of Southeast Asian Studies, 1990), p. 181.

⁸⁶ See Thayer, “Generational Change.”

⁸⁷ Hongyi Lai, “Vietnam’s Reform in China’s Perspective: Politically Ahead, But Economically Behind,” *East Asia Institute Background Brief No. 328*, 12 April 2007. However, some observers like Womack cited above had some reservation about this.

⁸⁸ Thayer, “Generational.”

⁸⁹ Sarah Turner and Phuong An Nguyen, “Young Entrepreneurs, Social Capital and *Doi Moi* in Hanoi,” *Urban Studies* 42 (10), September 2005, pp. 1693-1710.

capitalist system, but the same individualistic societies would appear to be less resilient in shoring up capitalism after years of economic central planning.

In contrast, China's family-based society somehow provided the necessary relational resource to allow some form of economic transaction to persist without state intervention especially during the era of collectivization. In a period when economic activities were highly regulated, these relationships offered safe haven for economic transactions to happen, and in the absence of property laws, such relational factors gave stability to what could have otherwise been highly uncertain economic exchanges. Central to this was the idea known as '*guanxi*.'⁹⁰ Guanxi literally means relations or relationships, and has political and economic implications. Economically, while guanxi might be secondary in its effect on the emergence of market reforms, it has served a vital role in generating economic activities during the period of reform both as a source of capital and means of organizing production and distribution of commodities.⁹¹ This makes guanxi an important factor in sustaining the momentum of reform in China.

During the Maoist period, these relationships were vital in sustaining underground economies in rural and urban communities. In a condition of extreme scarcity, these relations produced informal networks of underground commerce and black market for goods.⁹² These informal structures of economic cooperation would serve as the backbone for an incipient entrepreneurial class when the wave of reform finally swept in. Thus, when the reform agenda moved the economic focus from large government-owned industries to small and medium-sized family-owned enterprises, the new policy had a natural constituency of support. In the rural setting, for instance, families and groups connected by guanxi were the first to capitalize on the move to contract farm lands to private individuals or collectives. Families and groups would often capitalize on their connections to generate the necessary initial capital to enter into the said contracts with the state. For the fortunate few, these groups would even borrow money from their Chinese relatives from Hong Kong and other commercial areas in Asia to participate in auctions for land contracts.⁹³

Interestingly, the politics of identity in China has also presented a supportive foundation for the market reform. In the case of the Hui minority in China which has been traditionally a trading community, the relaxation on commerce in the post-Mao period was not only economically significant, but also culturally essential for many minority groups who had utilized the market in the pre-socialist period to assert their identities.⁹⁴ The drive to use the new economic freedom to assert their identity was motivated by the belief that getting ahead economically was the only way to achieve social equality in the Han-dominated Chinese society. After the 1978 opening up, the Muslim Hui have since become the nucleus of a robust private sector in Quanzhou City in southern Fujian province. As a result, these minority groups have seized upon the opportunities presented by free commerce as a tool to offset their marginalization in the Han-dominated Chinese society.

Similar to the Chinese experience, the human and cultural minutiae of Vietnam also provided an anchor that facilitated the initiation as well as the continuation of the doi moi reforms. In fact, in several cases, these relationships had obstructed the full implementation of central planning. Family-centered

⁹⁰ Thomas Gold, "An Introduction to the Study of Guanxi," in T. Gold, Doug Guthrie and David Wank (eds.), *Social Connections in China* (Cambridge: Cambridge University Press, 2002), pp. 3-20.

⁹¹ Gary Hamilton, "Culture and Organization in Taiwan's Market Economy," in Robert Hefner (ed.), *Market Cultures* (Boulder: Westview, 1998), p. 63.

⁹² Adrian Hearn, "Economic Reforms in Cuba and China," in Mauricio Font and Scott Larson (eds.), *Cuba in Transition? Pathways to Renewal, Long-term Development and Global Integration* (New York: City University of New York Graduate Center, 2006), pp. 143-144.

⁹³ Potter and Potter, *China's Peasants*, *op. cit.*, p. 172.

⁹⁴ Dru Gladney, "Getting Rich Is Not So Glorious: Contrasting Perspectives on Prosperity Among Muslims and Han in China," in R. Hefner, *op. cit.*, p. 108.

social orientation among Vietnamese is so deep that the communist party has experienced tremendous resistance in eliminating family-based commercial activities during the period of economic centralization. For instance, during the intense agricultural collectivization process in North Vietnam during the 1950s and 60s, there arose the practice of “subsidiary family economy” (*kinh te phugia dinh*) wherein cooperatives tolerated families cultivating a portion of cooperative land for their personal use.⁹⁵

Authorities found out that farmers would work harder in family-allotted plots than in cooperative-controlled farmlands precisely because these small plots gave peasant families their source of personal income either by using the land for raising livestock or cultivating cash crops for sale in underground markets. This practice indicated the persistence of a robust informal market economy outside of central planning, which was fundamentally sustained by family relations and networks. Alongside the centralization of commercial activities under the tight regulation of the state, there was a parallel process of institutional indigenization where central planning co-existed with market-type relations and activities.⁹⁶ Hence, the doi moi reforms especially the initial restructurings in agriculture (such as the product contract system) did not start from scratch, but was in fact only an expansion of existing grassroots commercial practices.

Even after the reunification in 1975, private enterprise in the south was never fully suppressed.⁹⁷ Due to the significant decrease in external aid as would be discussed in the next section, the second half of the 1970s was marked by pragmatism of individuals and leaders to cope up with the destitute condition. According to Binh, the situation was so serious that economic actors such as collectives and state enterprises simply ignored government orders and conducted commercial activities on their own, such as refusing to work on collective farms, establishing “*khoan chui*” (secret contract) between collectives and families or between state enterprises and private merchants.⁹⁸ These unsanctioned economic activities were broadly referred to as the “fence breaking” movement.⁹⁹ These informal relations made the government crackdown on private commercial activities futile since even party leaders were benefiting from smuggling and black market transactions, specifically in the south. Ultimately, the relationship built during this period also proved significant in carrying out commercial transactions during the doi moi years and beyond.

In the urban sector, these social relationships were also essential in giving reform policies actual flesh in their application, and cushioned potentially adverse effects of economic liberalization, particularly the onset of unemployment that came with the restructuring of state-owned enterprises. Family networks have been an essential component in what some authors characterized as social capital-driven entrepreneurship.¹⁰⁰ For instance, kinship networks are being heavily used in accessing capital and in hiring employees. Vietnamese also access resources from overseas compatriots called *Viet Kieu*, who invest or repatriate some \$2.5 billion annually.¹⁰¹ On the whole, these human networks became a big stumbling block to the full implementation of central planning, and subsequently created the opportunity

⁹⁵ Shaun Kingsley Malarney, “State Stigma, Family Prestige, and the Development of Commerce in the Red River Delta of Vietnam,” in R. Hefner (ed.), *Market Cultures*, *op. cit.*, pp. 268-289.

⁹⁶ Adam Fforde, “The Institutions of Transition from Central Planning: The Case of Vietnam,” in Colin Barlow (ed.), *Institutions and Economic Change in Southeast Asia* (Cheltenham: Edward Elgar, 1999), pp. 118-131.

⁹⁷ Van Arkadie and Mallon, *Vietnam*, *op. cit.*, p. 71.

⁹⁸ Binh Le, “Doi Moi: A Selected Bibliography of Vietnam’s Economic Transformation 1986-2000,” online paper accessible at http://coombs.anu.edu.au/Biblio/biblio_doi_moi.html, viewed October 5, 2009.

⁹⁹ Kristina Jonsson, “Globalization, authoritarian regimes and political change: Vietnam and Laos,” in Catarina Kinnvall and Kristina Jonsson (eds.), *Globalization and Democratization in Asia* (London: Routledge, 2002), pp. 114-130.

¹⁰⁰ Sarah Turner and Phuong An Nguyen, “Young Entrepreneurs, Social Capital and Doi Moi in Hanoi, Vietnam,” *Urban Studies* 42 (10), September 2005, pp. 1693-1710.

¹⁰¹ Pepe Escobar, “Vietnam: The deep end of the doi moi,” *Asia Times*, August 15, 2003. A big chunk of this money is invested in real estate.

for market-oriented reforms to take place. One can make a case that the doi moi reforms did not actually drive the changes on the ground, but it was in fact a case of policies catching up with the actual practices and activities of the Vietnamese people who were open to trying new ways to improve their lot regardless of what the authorities said.

5.3 *Changing Geopolitical and Economic Environment*

A confluence of major geopolitical events impacted, albeit indirectly, on the transformation of the Chinese economy. The first two decades after the establishment of communist rule in China in 1949 were considered an era of heightened geopolitical tension not just between the West and the Eastern bloc, but also between the Soviet Union and China. Former adviser to the State Planning Commission, Ma Hong, asserted that during this time there was a shared sentiment among Chinese leaders that the country was surrounded by hostile forces especially after the Korean War in the 1950s.¹⁰² This “siege” mentality was further reinforced by the deterioration of China’s relationship with the Soviet Union, its erstwhile economic patron, in what is now called as the Sino-Soviet Split. It was this geopolitical situation that compelled a sense of urgency among Chinese policymakers to accelerate the development of its material base to ensure the country’s survival. According to Lai, although Mao and Deng had two different approaches in dealing with China’s external problems, both shared the belief that the survival of the Chinese regime would be determined by the state’s capacity to achieve economic progress in the soonest possible time.¹⁰³

Hence, the open-door policy of Deng Xiaoping, according to Lai, should be placed within this context of geopolitical constraints such as the intensifying ideological rivalry between the Chinese and the Soviets for supremacy in the socialist bloc. This Sino-Soviet antagonism readily gave the reformers the rhetorical ammunition to blame the latter for the debacles faced by the former during its central planning stage. In fact, Deng in a speech before some China-aligned communist parties in Moscow in November 1960 gave a scathing attack against the ruling Soviet communist party, stating that “the Soviet party is opportunist and revisionist; it lacks any deep knowledge of Marxism; its ideas about disarmament are absurd; peaceful coexistence could mean nothing... the Soviet idea of a division of labor among the countries of the socialist camp is wrong, and China must go her way.”¹⁰⁴

Likewise, China had been aware that some Eastern satellites states like Yugoslavia and Hungary had managed to introduce political and economic programs independent from the diktat from Moscow. Moreover, the period of détente with the United States during the last years of Mao only deepened the belief in the Chinese establishment that its most dangerous adversary at that point was the Soviet Union. Hence, one can make the argument that the pressure to chart a new economic paradigm was part of China’s assertion of its ideological independence, and its effort to undermine the supremacy of the Soviet Union in the Eastern bloc.

But more importantly, the pressure of introducing a new development blueprint came from a realization among the political elites that China had been left behind by its neighbors in East Asia. The figures and statistics were particularly jarring for a country that had always considered itself the most advanced in the region. While its neighbors had achieved exceptional growth rates between 1965 and 1973, China was a sore thumb sticking out with an average decline of more than 7 percent during the

¹⁰² Ma Hong, *New Strategy*, *op. cit.*, p. 23.

¹⁰³ Lai Sing Lam, *The International Environment and China’s Twin Models of Development* (Bern: Peter Lang, 2007).

¹⁰⁴ Quoted in Harold Ford, “Calling the Sino-Soviet Split,” *Studies in Intelligence*, Winter 1998/1999, pp. 57-91.

same period.¹⁰⁵ The regime's political nemesis, the ruling Koumintang nationalist party in Taiwan, was able to achieve an average of 10 percent growth compared with the slide of China's economy.

The impact of new strategic realities with the Sino-Soviet split and improvement in US-China relations, and the pressure from the development of its neighbors shifted the outlook among the political elites in the country. Between 1978 and 1979, there was increasing economic coordination and joint activities between the US and China such as in the area of technology sharing and China's opening up of its energy sector to American companies.¹⁰⁶ The desire to acquire new technology and develop its export industries ultimately added to the sense of urgency that a new approach should be tried. No less than Deng mentioned this in his speech in March 1978: "Profound changes have taken place and new leaps have been made in almost all areas. A whole range of sciences and technologies is continuously emerging... Backwardness must be recognized before it can be changed."¹⁰⁷

China's liberal trade reforms were also crucial in gathering and consolidating political support when these reforms brought about cascading levels of foreign investment to the country. From 1984 to 1989, China received \$2.82 billion in investment, which further accelerated to over \$37 billion in 1995 alone.¹⁰⁸ This made China the destination of 60 percent of all foreign direct investments in Asia, and 12 percent of all foreign direct investments worldwide. Ironically, such big slice in the allocation of investment contributed to the deterioration of economic situation in the second half of the 1990s that culminated in the Asian financial crisis in 1997, as foreign investors preferred to sink their money in China than in Southeast Asia.

Like China, Vietnam's decision to introduce and sustain the doi moi reforms was profoundly influenced by the changing geopolitical and economic environment. But in comparison to China whose economy was bigger hence better able to endure economic shocks, external pressures had more profound influence on Vietnam's economic standing; thus, providing a more compelling exigency that shaped elite decision-making in favor of opening the economy. Prior to the reforms, Vietnam had been heavily reliant on external aid and assistance to keep its economy afloat and its people fed. During the most intense period of military confrontation against the US between 1966 and 1975, foreign grants averaged about 64 percent of the total non-military expenditure.¹⁰⁹

After the victory of the communists in 1975, economic assistance ceased, and trade relations with the West were hurriedly severed. Internally, the Vietnamese worked for the expansion of the central planning in the south, which as earlier discussed had been a failure. Externally, the new socialist regime replaced its old dependence on foreign aid with a new type of dependence on Eastern bloc economic grants with the signing of an agreement in 1978 under the framework of the Soviet-led Council for Mutual Economic Assistance (CMEA). In the same year, Vietnam entered into a 25-year Treaty of Friendship and Cooperation with the Soviet Union.¹¹⁰

¹⁰⁵ Harry Harding, *China's Second Revolution: Reform After Mao* (Washington, DC: Brookings Institute, 1987), pp. 38-39. For instance, during the same period, its neighbors achieved marked improvement in their economy, e.g. Japan 9.8 percent, Taiwan 10.3 percent, South Korea 10 percent, Hong Kong 7.9 percent and Singapore 13 percent.

¹⁰⁶ Naughton, *Growing Out of the Plan*, p. 63.

¹⁰⁷ Quoted in Naughton, p. 63.

¹⁰⁸ Martin Perry, "Business Networking and the Changing Industrial Landscape," in Chia Lin Sien (ed.), *Southeast Asia Transformed* (Singapore: Institute of Southeast Asian Studies, 2003), pp. 355-384.

¹⁰⁹ James Riedel and William Turley, "The politics and economics of transition to an open market economy in Vietnam," OECD

¹¹⁰ Carlyle Thayer, "Vietnam's Integration into the Region and the Asian Financial Crisis," keynote address at the *EuroViet Conference*, University of Passau, Germany, 16 September 1999.

For a country that depended significantly on external assistance from its ideological kindred, the deepening schism within the socialist bloc constricted a major economic lifeline for Vietnam. From 1976 to 1980, Vietnam relied heavily on Soviet assistance, which wasn't enough to offset the immediate termination of economic aid by the Chinese in 1978.¹¹¹ Vietnam's invasion of neighboring Cambodia in December of the same year, and the subsequent intrusion of the Chinese military into northern Vietnam in 1979 created a severe condition, which Fforde and de Vylder called "systemic crisis," i.e. a sustained period of uncertainty posing an existential threat to the very sustainability of the regime.¹¹² The aid crunch also meant the serious cutting back on capital imports such as machinery, tools, raw materials and other essential goods, which directly affected the central planning efforts of the government, especially after reunification. In short, the economy was teetering on "very serious macroeconomic imbalances."¹¹³

This externally induced crisis provided the impetus for party leaders, cooperatives and individuals to engage in "reform from below."¹¹⁴ There was a tacit admittance among the broad sectors of the Vietnamese society that the central planning experiment was unsustainable given the magnitude of the country's economic problems. As a response, Vietnam started to orient its economy outward by liberalizing its trade and investment policies. In an attempt to push the country's integration with the global economy, Vietnam entered into trade agreements with more than 60 countries and initiated trade relations with 170 others. These bilateral and multilateral economic relations became the engine of growth for its economy throughout the 1990s. Foreign direct investment in Vietnam averaged about \$2 billion annually, or equal to 4 percent of its gross domestic product.¹¹⁵ From 1988 to 2006, two-thirds of the total foreign investments to the country, amounting to \$16 billion, came from its neighbors in Asia including Singapore, Taiwan, Japan, South Korea and Hong Kong.¹¹⁶ This made East and Southeast Asia major contributors to the economic dynamism of Vietnam.

Vietnam's 1995 membership in the Association of Southeast Asian Nations (ASEAN) only showed the country's readiness or willingness to compete alongside some of the world's most economically liberal nations. The decision to apply for membership to the ASEAN was prompted by the intention of securing favorable conditions to carry out its economic reforms, which by joining a larger grouping would give Vietnam greater leverage to compete with China, and at the same time maximize the benefits of establishing formal economic and trade relations with the United States with the signing of the US-Vietnam Bilateral Trade Agreement in 2000. The latter was a pivotal step for the country's foray into the global economy, as it opened the pathway for Vietnam's accession into the World Trade Organization (WTO) in 2007, and subsequently gave the country the green light to tap financial resources from international lending institutions.¹¹⁷ The ratification of these trade agreements also brought about the necessary changes in the country's institutional and juridical make-up since these economic accords would require the re-writing of practically all commercial laws in the country; thus, further cementing the market-oriented economic paradigm.¹¹⁸ In this respect, the reform agenda was transformed from an actor-

¹¹¹ Melanie Beresford and Dang Phong, *Economic Transition in Vietnam* (Cheltenham: Edward Elgar, 2000), p. 23.

¹¹² Adam Fforde and Stefan de Vylder, *From Plan to Market: the economic transition in Vietnam* (Boulder: Westview, 1996).

¹¹³ G. Irvin, "Vietnam: assessing the achievements of *Doi Moi*," *Journal of Development Studies* 31, 1995, pp. 725-751.

¹¹⁴ Fforde and de Vylder, pp. 12-13.

¹¹⁵ Jean Rafael Chaponniere, Jean Pierre Cling and Bin Zhou, "Vietnam Following China's Footsteps," *UN University World Institute for Development Economic Research (WIDER) Research Paper*, Number 2008/84, September 2008, p. 3.

¹¹⁶ Vo Tri Thanh and Pham Hoang Ha, "Vietnam's Recent Economic Reforms and Developments: Achievements, Paradoxes and Challenges," in Philip Taylor (ed.), *Social Inequality in Vietnam the Challenges to Reform* (Singapore: Institute of Southeast Asian Studies, 2004), pp. 63-89.

¹¹⁷ Vo and Pham, "Vietnam's Recent Economic Reforms," *op. cit.*

¹¹⁸ Steve Parker, "Vietnam's Road to International Economic Integration," unpublished manuscript, January 2005.

led process to an institution-driven process; ensuring that even with the change of political leadership, the doi moi reforms would continue.¹¹⁹

6. Conclusion

How does the theoretical framework outlined in this think-piece apply to the advent of the economic reform process in China and Vietnam? As shown in the discussion, elite decision-making is crucial in every step of the reform process from its initiation, continuation and expansion into other sectors. But the distinctive character of one-party socialist regimes makes the process of policymaking as it applies to economic strategy more nuanced. In China, we see that the pragmatists ingeniously took advantage of the reform process to subvert rule of the Maoists, and later to outmaneuver their conservative rivals in the ensuing battle for political succession after the death of Mao. The Chinese experience shows that there was a clear political underpinning to the market-oriented reforms during the Dengist years, which as time went by have become increasingly driven by ideological and technocratic inspirations.

The persistence of proto-market networks in Chinese society, and the shift in the geopolitical environment provided the structural grounding to these reforms. Internally, the pragmatists while cognizant of the existence of market mechanisms in rural and urban communities had been surprised to see the overwhelming popular support to these readjustments. Hence, the reforms did not just assist in consolidating their power in the party, but also gave them a solid constituency. On the other hand, the normalization of relations with the United States and Europe, and the schism within the socialist camp made support to the central planning paradigm quite anachronistic. China's socialist market economy was not only a vigorous assertion of ideological independence from the Soviet reading of what constituted socialist economic praxis. It was also a practical move to capitalize on previously untapped external resources such as technological exchange and scientific know-how outside the Eastern bloc.

The case of Vietnam was more complex in a number of ways. The succession of military conflicts resulted in a more cohesive political class, driven more by a strong sense of nationalism than by pure ideological conviction. Having developed a perception of being constantly under siege by hostile external enemies, the Vietnamese leadership has grown relatively more unified as a political actor. However, this form of political cohesiveness might explain why the reform process in Vietnam had been more inconsistently pursued than in China. In fact, policy reversal marked the early years of the incipient reform agenda. This might be because the economic benefit of pursuing market reform could not outweigh the political cost of provoking divisiveness among party and state elites.

However, the political obstruction presented by a less fragmentary leadership structure was finally overcome by external factors notably the inadequacy of economic assistance and the continued geopolitical instability in Indochina. Whereas the Chinese market reform had political undercurrent particularly during its inception, the Vietnamese case showed that the introduction of doi moi reforms was actually driven by necessity rather than by political calculations. However, given the increasing interconnection of Vietnamese domestic economy with the global economy, it would be less likely to see the reforms being reversed without incurring the wrath of powerful external actors that the communist party does not have control over.

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¹¹⁹ Although this has to be qualified since a reform slowdown was experienced after the Asian financial crisis in 1997. However, it is highly unlikely that the market reforms would be reversed any time soon.

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