

# Economic Development in a Rent-seeking Society: The Vietnam Development Model

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## **Abstract**

The collapse of communism in Eastern Europe and the Soviet Union created a demand shock in East Asian socialist countries. In response to this demand shock, these countries expanded into different export markets, such as United States and Western Europe. But access to these markets, as well as inclusion in ASEAN and WTO, came with broader conditions about internal liberalization. This paper uses the example of Vietnam to explore this transition and explain the political economy details. We highlight (a) the importance of institutional conditions within international trade treaties, and (b) the importance of rent seeking as a conceptual tool to understand the actions of political elites. We illustrate with three different industries: the textile-garment and telecommunications industries, managed in a state capitalist manner; and the motorcycle industry, allowed to grow in a crony capitalist manner.

## **1. Introduction**

As communism collapsed in the Soviet Union and Eastern Europe, export industries in Asian socialist countries suffered a demand shock. Part of the response to this shock was a search for alternative markets. But access to these new markets, especially in advanced capitalist countries such as United States and European Union, was conditional on broader internal economic and political reforms. The Association of Southeast Asian Nations (ASEAN) has also played an important part in opening new export avenues, and it also includes requirements for opening up internal markets, which have affected the ability of countries to continue their industrial and protectionist policies (Studwell 2013). Similarly, access to the World Trade Organization (WTO) also includes liberalizing conditions. Thus, although the demand shock may have affected predominantly one industry, in order to mount an effective response, East Asian socialist countries had to introduce much broader liberalizing reforms.

This demand shock, and the institutional response that followed, allow us to focus on an often neglected factor influencing economic development: the importance of conditions imposed from the outside by international trade agreements. All too often, models of development ignore international factors, assuming that development, or lack thereof, is a consequence of only domestic factors. For example, the development economics literature has argued about the importance of geography (Sachs 2003; Easterly & Levine 2003; Nunn & Puga 2010), domestic economic institutions (North 1990; Leglan 1996; Rodrik, Subramanian & Trebbi 2002; Acemoglu, Johnson & Robinson 2005), democracy (Przeworski & Limongi 1993; Besley & Burgess 2002; Robinson 2006), state capacity (Migdal 1988; Besley & Torsten. 2009; 2011), lack of corruption (Bates, Coatsworth & Williamson 2007; Olken & Pande 2012), historical legacies (Comin, Easterly & Gong 2010; Spolaore & Wacziarg 2013), ethnic homogeneity

(Easterly & Levine 1997; Habyarimana et al 2007), culture, social capital, and religion (Grier 1997; Harrison & Huntington 2000; Francois & Zbojnik 2005), health (Deaton 2003; Ghobarah, Huth & Russett 2004; Bleakley 2010), and education (Foster & Rosenzweig 1996; Duflo 2001; Hanushek & Woessmann 2008). The importance of international trade has, of course, been long recognized (e.g. Bates 1984; Greif 1989; 1992), but the impact of external shocks and the interplay between trade, politics, and institutions are far less studied (some notable exceptions are Alt et al. 1996; Rodrik 1999; Bauer 2000). Part of the reason for this relative neglect of international factors is the difficulty to obtain the relevant empirical data to shed light on this matter.

In this paper, we provide an in-depth perspective of the effects of a demand shock in Vietnam, and an analysis of the political economy behind Vietnam economic development, which, to some extent, followed. The case of Vietnam is also interesting because it is a politically centralized country, despite having a population of over 90 million people. This makes Vietnam significantly different from other development stories, such as that of South Korea or China, in which political and administrative fragmentation has played an important role (Crane 1990; Ge 1999; Li, Li and Zhang 2000; Farole 2011; Xu 2011). Moreover, no one assumes reform in Vietnam was driven by factors such as benevolent authoritarianism, as it is sometimes assumed to have happened in South Korea, Taiwan or Singapore (Haggard et al. 1990: 26; Ghandi 2008; Sachs 2012). As such, Vietnam seems to illustrate an alternative “development model”, in which a politically authoritarian and centralized regime operates under the political constraints created by the institutions of international trade.

This “model” was not necessarily the result of a well-elaborated plan, considering that the Vietnamese political leaders mainly scrambled to find solutions and maintain power in the face

of the demand shock. But the results of their improvisations have been relatively successful, both in political terms (they have not lost power) and economically. Vietnam has recently experienced high growth, its GDP per capita tripling over the past three decades (Figure 1). Even if one may suspect that part of this growth might be government-distorted malinvestment, the success still cannot be denied.

<< Figure 1 >>

Because of political centralization, Vietnam looks like a hard case—it is a case where one would not normally expect liberalizing reforms to go through. For example, as argued by Nye (1997), authoritarian leaders voluntarily implement genuine institutional reforms only when they can be convinced by certain groups in society to give up long-term power in favor of some short-term benefits. This has not been the case of Vietnam, as political leaders have tried their best, and so far succeeded, to maintain their power despite the challenge. Vietnam remains a one-party system and a nominally socialist state. Similarly, as argued by Moberg (2015) and Moberg & Coyne (2015), one should be skeptical of “reforms” introduced by centralized authoritarian regimes, as they usually tend to be only a cover for rent-creation. Our narrative about liberalization in Vietnam does not challenge this idea per se. On various important margins, the country is still very far from a liberal capitalist model, and it is undoubtedly still best described as a rent-seeking society. For example, according to the Heritage & Wall Street Journal (2015) *Index of Economic Freedom*, investment freedom Vietnam in the 1990s and 2000s was very low (at 30) and actually declined even further (to 15) in recent years. Similarly, the protection of property rights is basically non-existent (in the range of 10-15). This being said, its growth is not mysterious. Institutional changes underlining growth have also been substantial: trade freedom gradually grew from 44.6 (“repressed”) in 1995 to 78.6 (“mostly free”) in 2015, and business

freedom increased from 40 (“repressed”) to 60 (“moderately free”) in 2005.

Vietnam thus illustrates an interesting development case study in which increasing freedom to trade and start businesses operates in an institutional environment of still very poorly protected property rights and contracts. The country is a good example of how growth can happen in a rent-seeking society, a subject of substantive interest among economists and still far from being well-understood (e.g. see Ghandi 2008; North, Wallis & Weingast 2009; Acemoglu & Robinson 2012; Haber 2012).

In this paper, we illustrate that different areas of the economy can operate under different economic regimes. A common assumption in the comparative systems literature is that institutional changes only occur from one type of system to another type (for a review see Aligica & Tarko 2015: chapter 6). However, this need not be the case. Different types of economic systems should be understood as theoretical models, and economic reality can be, and often is, a superposition of these models, i.e. different sectors of the economy are best described by different theoretical models (Aligica & Tarko 2015: p. 19).

We describe three sectors of the Vietnam economy (textiles-garment [T&G] industry, telecommunications industry and motorcycle industry) and explain why they are operated under different systems of rent seeking and economic development. It is this kind of superposition of different types of economic systems that explains the dynamic of the transition and the attempts by the political elites to spur development without losing power.

## **2. Theoretical models of rent-seeking societies**

Rent-seeking societies are highly regulated economies in which entry in various markets is politically restricted across a wide-range of occupations and businesses (Krueger 1974;

Buchanan, Tollison & Tullock 1980; Tollison 1982; Tullock 2005; Haber 2002; Congleton, Hillman & Konrad 2008; Congleton & Hillman 2015). The effect of these restrictions is to create rents for the incumbents, by protecting them from competition. As a result of the possibility to earn such rents, i.e. artificially high profit margins or earnings, individuals and firms spend resources bidding for access to those rents. The system looks like an all-pay auction (Hillman & Samet 1987; Hillman 1988). This bidding process is known as rent seeking, and, because many spend resources by bidding, but few end up getting the rents, it results in a large waste of resources, reallocating capital and talents away from productive activities toward rent-seeking activities (Baumol 1990). For example, Mohammad & Whalley (1984) estimated that, before liberalizing, India was losing about 30-45 percent of GNP because of rent seeking.

Several different economic systems have been modeled as rent seeking societies (Aligica & Tarko 2015): (a) classical mercantilism; (b) real-life socialism; (c) state capitalism; and (d) crony capitalism. All these systems rely on rent seeking to distribute the rights to earn profits, but they differ in terms of their institutional details and their legitimizing ideologies. The classic mercantilist and the real-world socialist models are the most strictly controlled, in which all production is constrained by monopoly rights. The state capitalist model is more liberalized, allowing genuine markets to exist everywhere except in the realm of the “commanding heights”, which are used to satisfy political goals. The crony capitalist model accounts for weak states, which do not and/or cannot offer credible and universal protections to contracts and property, but can offer credible protections to some via crony relations. Real-life socialism, state capitalism and crony capitalism are particularly relevant for our case study.

While, in theory, socialism implemented the Marxist economic doctrine, which was used to legitimize the regime, in practice, it operated as a neo-mercantilist regime (Levy 1990; Shleifer

& Vishny 1992; Anderson & Boettke 1997). As noted by Anderson & Boettke (1997) central planning created production ceilings. Because these ceilings create a wide variety of shortages throughout the economy, they create positions of power associated with the right to distribute the privilege of having access to various resources. In turn, this system leads to people bidding to obtain those privileges as well as those positions of power. In other words, managing an economy by central planning creates a full-blown rent-seeking society.

As a socialist economy, Vietnam used to fit this model. The transition we're describing should be understood as going from the full-blown rent-seeking society created by real-world socialism, towards a loosened and more liberalized version of a rent-seeking society.

When socialist economies collapsed, some of them, China and Russia most prominently, transformed into *state capitalist economies*, rather than into Western-style market economies (Bremmer 2009; 2010; Aligica & Tarko 2012; The Economist 2012). While liberalizing to some extent, state capitalism relies on institutions such as “national champions” and state-owned enterprises (SOEs), usually legitimized by appealing to nationalism. In case of Vietnam, the SOEs were also tasked with job creation and retention, for the purpose of maintaining the basic social fabric of the economy legitimizing the role of the Communist Party.

By allowing market prices to exist (albeit often heavily distorted by various regulatory policies), state capitalism can be more efficient than real-life socialism. This is true even for state enterprises. As it was pointed out by one of the main critics of the possibility of implementing an efficient system working on genuine socialist principles, if market prices are allowed to exist, even state enterprises are forced to operate more efficiently: “publicly owned and operated enterprises are subject to the sovereignty of the market” because “they must fit themselves, as

buyers of raw materials, equipment, and labor, and as sellers of goods and services, into the scheme of the market economy” (Mises 1949: p. 258). Moreover, state capitalist enterprises are often used to returning additional revenues to the states (Bremmer 2009; 2010), which make efficiency concerns even more prominent. Traditionally, states obtained revenues from taxes, monetary expansion, or borrowing. One of the important state capitalist innovations is that the state would obtain revenues from profitable state enterprises. These are either sovereign wealth funds (SWFs), which operate in international markets, or state enterprises, which are profitable thanks to being granted monopoly status (e.g. telecommunications services).

Crony capitalism is sometimes understood as a worrying tendency within advanced capitalist systems (e.g. Zingales 2012). We are referring here to a different usage of the term. Crony capitalism is also understood as a type of economic system, characterizing countries such as Philippines, Indonesia and many South American countries. As described by Haber, Mauro & Razo (2002) and by Aligica & Tarko (2014; 2015), this is a rent-seeking system designed to offer a second-best solution to the problem of weak contract and property rights protections. When property rights are not protected, investment and capital accumulation (either foreign or domestic) are weak, and, hence, development is slow or does not occur at all. In crony capitalist countries, while lacking universal property rights protection, the property of particular well-connected individuals *is* protected. This often happens because there is an overlap in family ties between the property and business owners and the political elites, hence the “crony” qualifier (Haber 2002; Aligica & Tarko 2014). The result of this selective property protection is that investment and development can occur, via these selective paths.

Such rent seeking is also often associated to foreign investment, as foreign investors need to establish political connections and secure political privileges in order for their property to be

relatively secure. This is indeed what has happened in Vietnam in the motorcycle industry, as Japanese firms managed to form the necessary political connections (while Chinese firms did not). However, this situation is still better than the alternative “natural state” (North, Wallis & Weingast 2009) in which no one’s property is secure and no development occurs.

As noted by Aligica & Tarko (2015: p. 16), while a *theoretical model* of an economy system is defined by a given set of features, “real-life cases are *superpositions* of those clusters of features” (emphasis in the original) and “one has to decide which feature is the strongest and most salient one, considering that it is often the case that all features are present”. They conclude that one can identify a real-world case with just *one* of these theoretical models “only in the sense that it is that combination [of features] which predominates and is the most salient”. However, as our case study will illustrate, different areas of the economy prominently manifest clear features of *different* models. Hence, we need to revert to the idea that a real-world example is a superposition of the theoretical models. Otherwise, we would end up with the situation in which “saliency remains a matter of interpretation and the entire discussion remains a matter of methodological dispute” (Aligica & Tarko 2015: p. 16).

<< Table 1 >>

If we identify different sectors of the economy as embodying different models, the main research question then becomes to explain why each model was chosen for each sector. The explanation is partly due to pure internal political factors, and partly due to international factors, i.e. the political constraints created domestically by the institutions of international trade.

The Vietnam example is interesting for three main reasons. First, it provides a dramatic illustration of how internal reforms may be spurred by an exogenous international shock, under

the constraints of international treaties (Vo, Trinh, & Dinh, 2004). Table 1 lists important trade treaties between Vietnam and its major trade partners.

Second, it provides a clear example of how different models can co-exist within the same country across different sectors of the economy. This provides an important warning against jumping to conclusions about the nature of a country's "system" based solely on the analysis of one or few sectors. This is important because different systems, including different varieties of rent-seeking systems, involve different development mechanisms. If one jumps to conclusions about the nature of a country's "system", one risks grossly misidentifying the causes of economic difficulties and the possible remedies and paths to development.

Third, the case of Vietnam illustrates the crony capitalist growth path, in which growth can happen, thanks to specific interplay between politics, institutions and market, despite the lack of universal rule of law. This observation suggests that, when state capacity is weak, a policy agenda that seeks to simply eliminate rents creation and rent seeking, could backfire by undermining the capacity of firms and industry to overcome weak institutions. Rule of law does not result simply from eliminating rent seeking and rent creation policies; it is the result of a rather difficult and long process of building state capacity.

### **3. From demand shock to liberalization and growth**

Between 1975 and 1995, the US imposed a trade embargo restricting trade between Vietnam, the US and its allies. Vietnam mostly traded within the communist block except for China, with which it experienced a long border dispute and a brief war in 1978 known as the Sino-Vietnamese War. Vietnam's trade relationship with China resumed in 1980s and intensified since 2000s, but the Sino-Vietnamese War may explain why Chinese firms had more difficulty

of forming crony relations with the Vietnamese government compared to other firms (Japanese and Taiwanese).

Vietnam's major exporting market during the 1980s, the Soviet trade block, suddenly collapsed in 1991, seriously affecting Vietnam's textile industry and causing a considerable decline in output (Hill 1998). After 1991, Vietnamese producers focused on the quota-free Asian and European markets (Thomsen, 2007). Vietnam signed a trade agreement with the European Union in 1992, and became a member of the ASEAN trading block in 1995. Figure 2 shows the impressive growth in export value between 2001 and 2013 following these agreements.

<< Figure 2 >>

The demand shock from the fall of communism in Eastern Europe (1989-1992) affected Vietnam most strongly in the textiles and garment industry, which was mainly organized as a collection of state-owned enterprises (SOEs). It was the search for new markets in some major sectors such as textile and garment that forced the Vietnamese government to liberalize other parts of the economy.

### *3.1 The textile-garment industry: state capitalism as a controlled transition method*

The contemporary development of the textile-garment industry started in the 1980s in the framework of cooperative agreements with other Communist countries. The industry's main advantage was cheap labor. During this period, guaranteed market shares removed any incentive for innovation, industrial upgrading, or marketing development.

A series of economic reforms were started in 1986 (known as "Doi Moi"), and by the early

1990s, the communist-style economic cooperation was replaced by low value-added operations set up by foreign investors, especially from Taiwan and South Korea. These foreign investors built manufacturing facilities in Vietnam and exported ready-made garments back to their home countries and, from there, to international buyers. Vietnam's abundant low-skilled labor was initially offered low wages, as workers had little alternatives and the foreign investors did not need to bid up their wages in order to retain them. Hill (1998) has argued that Doi Moi led to a major "shake out" of the industry, especially for SOEs. The government's gradual withdrawal of subsidies caused state-owned textile factories to scramble to compete with both foreign and private entrants, especially with China. Hill's observation was confirmed by one of us during fieldwork in 2011 when a number of the interviewees expressed similar opinions.

During this period, Vietnamese private and public T&G enterprises had limited success at direct exporting to foreign buyers, and the large export shares were organized and controlled through foreign trading houses (IBM Belgium, DMI, Ticon, & TAC, 2009). As a result, the highest value from the exports was captured in Taiwan and South Korea rather than within Vietnam. Compared to the major apparel producers in Bangladesh, China, India, and Sri Lanka, the T&G industry in Vietnam is a late developer, having only achieved critical and world competitive mass starting in 2000. The sector's relative immaturity is reflected in the limitations of skilled labor, technology, and technical and management skills (IBM Belgium, et al., 2009).

Figure 3 shows the market share of T&G exports to international markets: the United States (post-embargo), the European Union, Japan, and others in 2013. In 2015, Vietnam is the second largest T&G exporter to the United States, after China. It is the third biggest T&G exporter to Japan, and the fifth largest T&G exporter to the European Union (Le, 2012).

<< Figure 3 >>

The textiles and garment industry also plays an important *social* role in the Vietnamese economy and it is actively promoted by the central government. Even in the last ten years, this industry has continued to be the largest formal employer in Vietnam, providing jobs for more than two million workers, and more than 10 per cent (approximately 1.3 million jobs) of employment in the industrial sector (Dam & Barbour-Lacey, 2015). Because it employs a large section of the Vietnamese population, job creation in this industry is traditionally seen to help maintaining social stability, especially in the rural and mountainous areas of the country. Through the use of SOEs, the government had also created jobs in cotton production, of which Vietnam was an exporter until recently.

To understand the liberalizing events in Vietnam, it is thus important to bear in mind that these textiles SOEs are used by the Vietnamese government as a crucial tool for maintaining social stability by providing large scale employment. Moreover, because of its potentially large effect on employment, the demand shock in this area threatened the very stability of the entire political regime. Consequently, the Vietnamese government has often sacrificed efficiency concerns for the purpose of maintaining employment. As the Vietnamese economy grew and inequality widened, the government pressured SOEs in the textiles and garment industry to maintain jobs in the sub-sectors despite the fact that some state-owned producers were suffering losses and are less productive than the private sector. While some SOE managers wanted to opt out of cotton production, which would have employed fewer people, the government decided that the goal of preventing short-term unemployment, and maintaining some basic income for the poor, in the remote and mountainous regions of Vietnam, where cotton is cultivated, was more important. This is a typical example of state capitalist policy at work, in which economic efficiency

considerations take a second place from social and political considerations.

This being said, the government did manage a gradual transformation of the industry, and a decline in the overall importance of SOEs. Until recently, centrally controlled SOEs<sup>1</sup> accounted for a large bulk of product output and were much better capitalized than smaller, locally controlled SOEs (interviews with two industry experts, 2011). However, the number of the former SOEs is decreasing due to the gradual privatization (locally called “equitization”) as part of the government’s commitment to the WTO. By 2009, SOEs have declined to 1-2 per cent of the total number of T&G enterprises, although, they still employ a large number of workers (26,381 employee in 2014). The most common types of firms in the industry (76 per cent) are now joint stock, private companies, and limited companies some of which also have state capital. In addition, foreign owned firms make up 18 per cent of total enterprises in 2009 (Le, 2011).

To better understand this managed transition we need to look into more detail at the differences between the textile and the garment industries, and at the shift between them (Hill 1998). They have quite different structural features (Table 2).

<< Table 2 >>

By its nature, the textile sector is capital-intensive and dependent on both economies of scale and experience in technology management. Vietnamese producers are weak on both criteria. For instance, an interviewee at Vietnam Textile and Apparel Association (VITAS)<sup>2</sup> explained that it

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<sup>1</sup> There are two types of SOE in Vietnam. One type is controlled by the central government and the corresponding ministry to the industry, and the other type are provincial SOEs managed by local city or province governments. Note, however, that Vietnam does not have a federal system, so the province governments are actually agents of the central government.

<sup>2</sup> VITAS was originally established by the government to act as the industry’s watchdog. It has 15 branches and 635 members, who account for 70 per cent of the total production capacity of the industry (The Business-to-Business Programme, 2010). VITAS represents its members and consults with state and government bodies, advising on policies and mechanisms relating to the development of the industry. In addition, VITAS acts for the industry in

requires, on average, VND 310.56 billion (USD 15 million) in investment capital to establish a dyeing factory that could produce 10 million meters of fabric. The Vietnamese textile sector also suffers from limited skilled workers (Nghì, 2011).

The garment sector, on the other hand, is a consumer-oriented industry where “mature” technology and significant capital investment is not required. Knowledge of international marketing channels, attention to quality control, management of stocks, and capacity to reliably deliver outputs are far more important. In addition, as an interviewee who is an expert and representative at the Association for Garment Textile Embroidery Knitting (AGTEK)<sup>3</sup> explained, because learning requires less time and effort, it is easier to hire and train new workers, so there is no labor shortage in the garment sector.

In essence, the textile sector’s history (removal of subsidies and market share) and its structure (being both capital- and technology-intensive) hurt the development of the textile sector after the relative liberalization of the industry, which was forced on Vietnam by its trade treaties. Nonetheless, the social unrest was avoided as the workers from the diminishing textiles industry could be attracted towards the relatively similar garment industry, and, also, to other sectors. During the 1990s, the textile started to shrink. By 2011, it was down to approximately 27 per cent of the overall T&G industry (Le, 2011).

As Vietnam industrializes, it attracts workers away from the T&G industry and creates a pressure to increase wages. But such wage increases are not possible unless the industry becomes more

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dealing with international buyers and facilitates contracts between domestic enterprises and foreign investors (Buisman & Wielenga, 2008). Because of VITAS’s close connection with the state and SOEs, an interviewee whose firm is a member of VITAS told one of us that it was largely a lobbyist for the SOEs, not for private or foreign enterprises.

<sup>3</sup> AGTEK largely represents small and medium enterprises within the industry in the south, which now includes approximately 62 per cent of the total businesses in the sector. AGTEK has fewer connections with the central government than VITAS; instead, it is heavily active in promoting business and trade opportunities among its members and buyers.

efficient. This partly explains the high performance of the garment sector since the economic reform. From a market-based perspective, this seems like a straightforward structural adjustment process, similar to what has happened in Western Europe in the 19<sup>th</sup> century and early 20<sup>th</sup> century. However, from the Vietnamese government's state capitalist perspective, such a restructuring brings about many political unknowns, which is why they have acted to prolong and slowdown the transition using state-own enterprises as stabilizers for jobs and basic income. It is plausible that, absent the constraints from the international trade treaties, they would not have liberalized this market at all, in order to avoid the political uncertainties arising from the growing unemployment in some industries and wage disparities among the agriculture and the industrial sectors.

Transitions towards greater economic efficiency accompanied by political changes have sometimes occurred. In some instances, the existing political leaders can be "bribed" to give up their power. Boettke & Coyne (2007) refer to this as the "political economy of forgiveness" in which the punishment of political leaders for their past offenses takes second place to the desire to ease the transition by offering those leaders forgiveness. In other cases, the political transition can occur only gradually and takes more time. For example, Acemoglu, Johnson & Robinson (2005) and Acemoglu & Robinson (2012) argue that the gradual growth of the merchant class in Western Europe after 1500 was accompanied by their increased political influence, and, hence, spurred gradual institutional changes towards a more market-friendly political order. This phenomenon looks more similar to what is happening in Vietnam, as market competition is allowed to emerge in a controlled fashion.

### *3.2 The telecom industry: State capitalism in a state-controlled duopoly market*

The telecommunications industry offers an illustrative case study of industrial success in the state capitalist manner. In a little more than a decade and half, this industry transformed from a monopolistic market dominated by one SOE to a duopoly market with two major state-owned market leaders and nine other small telecom operators in 2013 (Ministry of Information and Communications 2014).<sup>4</sup> During the early development of the industry, the state maintains tight control of entry barriers through licensing and allows few SOEs to lead the industrial transformation. Vietnam leaders asserted the need to retain firm control of the telecommunications industry in order to sustain the nation's security and stability, which was primacy to their concerns (interviews, 2011).

Between 1975 and 1995, the industry was organized based on the real-life socialist model that incorporates central planning, price fixings and strict state regulations. The General Department of Post, Telephone, and Telegraph (PTT), a government unit, was responsible for all aspects of postal service and telecommunications, including devising and implementing policies and providing services to government offices and Vietnamese consumers. In 1990 Decree 115/HDBT transformed PTT into Vietnam Posts and Telecommunication (VNPT)—a general business corporation owned by the government. This decree effectively created a state-owned monopoly in the telecom industry.

VNPT inherited substantial monopoly rent, exercised monopolistic power and reaped profits from a lucrative market that held no competition. In addition, there was not credible political pressure or institutional mechanisms that compelled VNPT to industrialize. Therefore, it had little incentive to upgrade either its infrastructure or its management abilities (interview with

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<sup>4</sup> The 11 operators listed as active in 2013 were: VNPT, Viettel, FPT Telecom, HTC, CMC Telecom, GTel Mobile, Dong Duong, VTC, SPT, SCTV, and Vishipel.

former VNPT managers, 2011). As a consequence, Vietnamese economy experienced a low telecommunications penetration rate, mainly caused by high tariffs and slow service, and a weak infrastructure. For example, in 1995, only four out of 1,000 consumers had a telephone line, and there were only 23,500 mobile connections throughout Vietnam (Nguyen, Pham et al. 2005). The telecom network was described as ‘outdated’ and Internet access was not available for residential use (Nguyen, Pham et al. 2005). A consumer in Ho Chi Minh City explained in an interview that in the early 1990s it took VNPT up to one month to install a fixed phone line for a business or household in Ho Chi Minh City (interview, 2011). In 2001 tariffs for international service in Vietnam were USD 2.00–2.30 per minute. To put this in perspective, this was more than twice the price of the same tariff in 2003 when VNPT competitor, Viettel, offered international service at roughly USD 75 cents per minute using Voice Over Internet Protocol technology (Nguyen, Pham et al. 2005).

In 1995, Vietnam joined the Association of Southeast Asian Nations (ASEAN) and normalized its trade relations with the United States. This initial integration eventually led Vietnam to sign a BTA with the United States in 2001. The US-Vietnam BTA contained an important telecommunications provision, which set the schedule to gradually liberalize the Vietnamese telecommunications industry. The Vietnamese government officially abolished VNPT’s monopoly in 1995 by slowly opening the sector to competition, particularly among SOEs, for all telecom services. In the same year, Comvik Group, a Swedish telecom operator, signed the very first business cooperation contract<sup>5</sup> with VNPT, forming MobiFone, the first mobile phone

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<sup>5</sup> A business cooperation contract is a written agreement between a foreign investor and a Vietnamese partner in which the parties agree to cooperate to undertake certain business activities in Vietnam and to share the revenue or profits arising from such activities. No separate legal entity or company is established, and there is no limitation on liability for participants Allens, Arthur, et al. (2010). Legal Guide to Investment in Vietnam. Ha Noi, Allens Arthur Robinson

network in Vietnam. This cooperation marked a milestone in the industry's development (Nga 2010). Nonetheless, VNPT monopoly officially ended when the military-owned SOE, Viettel, received a commercial license to enter the telecom market in 1995.

After five years of preparation, Viettel began to provide telecom service in 2000. Initially it only offered long-distance service within Vietnam using Voice Over Internet Protocol technology. In 2001 the service expanded to international destinations (Cheshier 2010). Next, in 2002, Viettel became an Internet service provider, and in 2004 it launched its mobile network under the same trademark. In 2009, under Decree 2097/2009/QD-TTg, Viettel became a state-owned general corporation, and its name was changed to Viettel Group.

During this period, there were some major factors that supported Viettel's effort to penetrate the telecom market, update its industrial capability and resolve critical market failures. First, as a latecomer, Viettel had to overcome VNPT's market dominance by quickly acquiring market knowledge, and competing with VNPT in price and quality. Second, the government supports of Viettel were implicitly conditioned on performance, which forced Viettel's high learning effort. Third, the Ministry of Defense, Viettel's managing ministry, was also politically powerful and autonomous within the government, which provided Viettel a stable and dependable macro political environment to focus on learning and upgrading. In addition, the Ministry of Defense also supplied to Viettel important resources such as land, labor, infrastructure and access to finance, some of which were in exclusive control of the Army. This allowed Viettel to solve a number of market failures that were experienced by other operators who were similarly faced these critical constraints. There was also skillful business management in cost savings,

recruitment of highly skilled and committed engineers and technicians, uses of vertical integration between telecom service and device manufacturing, and flexible business strategies with trial-and-error approach. The highly successful business strategies were largely thanks to Viettel two prominent leaders, General Hoang Anh Xuan and General Nguyen Manh Hung, both of whom had previously led the telecommunication department for the Ministry of Defense. Finally, Viettel leaders were also aware of the upcoming international competition as the industry's protection period under trade treaties, particularly with the U.S. was phasing out and completely ended in 2015 (interviews with a Viettel senior manager). This short time horizon of protection pressured Viettel to quickly learn, update and establish its capability and market dominance in the Vietnamese market before foreign competition sets in.

Within a decade and half, Viettel achieved immense industrial upgrading and market access (see Figure 4 and 5). In 2013 Viettel Group's total revenue reached USD 9.38 billion (Lao Dong 2015), surpassing VNPT's earnings, which stood at approximately USD 4.78 billion (Minh Tuyet 2015). With these considerable earnings, Viettel became the largest and most powerful state-owned general corporation in the industry in 2015.

<<Figure 4>>

By early 2010s, Viettel and VNPT together form a duopoly in the telecom industry. They capture 93 percent the mobile phone market (Figure 5), the largest subsector within the telecom industry. The duopoly is also market leaders in all other subsectors including Internet, fixed phone and 3G data services.

<<Figure 5>>

Together with the rise and success of Viettel, the telecommunications industry in Vietnam

experienced some notable industrial developments in the post-monopoly period. First, the industry experienced an average growth rate of approximately 17 per cent per year between 2006 and 2013 (see Figure 6). In 2014 Vietnam ranked 12th in telecom revenues and 20th in mobile Internet penetration in Asia Pacific (Euromonitor International 2015).<sup>6</sup> In addition, Vietnam's mobile phone penetration stood at 89 per cent in 2014, up from 74.9 per cent in 2009 (Euromonitor International 2015). Furthermore, the number of main telephone lines grew five times, from four per 100 inhabitants in 1995 to 20 per 100 by 2009 (Nguyen, Pham et al. 2005; Ministry of Information and Communications 2014). In only a four-year period, from 2009 to 2013, Vietnam also experienced major increases in subscription service for 3G phones which contributed to Vietnam's per capita growth (Deloitte 2012).

<<Figure 6>>

Finally, the industry went from a technology receiver (before 2000) to a service and equipment exporter. Between 2010 and 2012, Vietnam's export revenue of telecom services increased approximately 38 per cent, from USD 576 million to USD 794 million (US Commercial Service 2012). In addition, exports revenue of telecom equipment increased by 94 per cent from 2010 to 2015 (US Commercial Service 2014). Vietnam's rapid growth rate in exports of telecom equipment is illustrated in Table 3.

<<Table 3>>

Viettel drove much of this export growth during the post-monopoly period because it was the first provider and manufacturer to export telecom services and equipment abroad. It also leads the industry in the area of research development and pressures VNPT to upgrade its domestic

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<sup>6</sup> Mobile telecom revenues constituted 68.4 per cent of total telecom revenues.

infrastructures and establish R&D institutes in order to study market demand in Vietnam and abroad. By early 2010s, the telecom industry transformed from a state-owned monopolistic market (between 1975 and 1995), to a competitive market with 11 service providers (during the 2000s), to an oligopoly market dominated by two major state-owned providers (see Figure 5).

In a state capitalist manner, both Viettel and VNPT were legitimized and structured as the "national champions" to lead the development of telecommunications industry on the basis of security and stability. Although private and foreign operators are allowed to jointly invest with local firms in the market after 1995,<sup>7</sup> the structure of the telecommunications industry favors economies of scale and access to important resources such as commercial license, land, telecom frequency, infrastructure and labor. As a consequence, after a period of managed liberalization, Viettel and VNPT emerge as market leaders holding the commanding height of the telecommunication industry. In the context that competition within the state sector forced credible learning efforts and performance, national resources were used to solve for critical market failures in land, labor and infrastructure. Thus, competition within the state sector especially between Viettel and VNPT reduced waste, and enhanced new learning and technological upgrading. In spite that rent creation and rent seeking were pervasive during this period, in reality, state operators utilized rents to support capability building and compete in a quasi-liberalized market. These behaviors feature the extent to which state capitalism generates growth and industrial development.

While the telecom and T&G industries both conform to the state capitalist model, there are clear differences between them. On the one hand, there were far many more firms with diversified

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<sup>7</sup> Foreign investor could invest by forming either a business cooperation contract or joint venture with a local operators.

ownership in the T&G industry. In addition, the role of the state was largely to retain jobs and basic income for low-skilled workers largely to fulfill the objectives of a socialist economy. In the mean time, competitive market among private, public and foreign enterprises forced productivities among the SOEs, especially in garment manufacturing. On the other hand, the telecom industry experienced strong state control, and organized in an oligopolistic market with credible competition within and among the public and private sectors. Thus, one could argue that state capitalism in Vietnam operate in two modes (1) state capitalist with the goal of maintaining social orders and job retention, (2) state capitalist with the primary goal of controlling important industry, protecting national security, as well as profit seeking. These two modes of state capitalism are not exclusive as there are some overlaps, but the objective and degree to which the state maintains control over certain sector may varies and that could lead to very different development trajectory such as the case of the T&G and telecommunications industries.

### *3.3 The motorcycle industry: The crony capitalist development model*

The motorcycle industry was one of the first industries chosen as a strategic foundation for Vietnam's economic development. Since the mid-1990s, the industry has achieved a number of important milestones. Prior to 2005, the motorcycle industry accounted for 3.1 per cent of the total industrial production value of the country, which grew to 23.9 per cent by 2007 (Ministry of Industry and Trade, 2007). In 2011, the Vietnamese motorcycle market sold 3.7 million units and grew 22 per cent from 2010 (The Saigon Times, 2012) making it the fourth-largest market for motorcycle sales worldwide, after China, India, and Indonesia, respectively (Quoc-Hung, 2012b) and it continues to be so in 2015. In 2014, there were 43 million registered motorcycles in a country of 90 million populations. That is almost one in every two Vietnamese owns a motorcycle. The motorcycle industry provides an exemplary case study of industrial upgrading

predominantly driven by crony capitalism and foreign direct investment (FDI) starting in the early 1990s.

In a liberal capitalist system one does not need permission to start a new motorcycle company. This is not the case, however, in Vietnam. Under socialism, no one but state enterprises are allowed to produce goods. This full-blown socialist policy changed in the 1990s, as the Vietnamese government decided to offer licenses to specific private and foreign firms and allow them to export to and produce motorcycles in Vietnam. In addition, the government also enacted industrial programs, and provided incentives to attract foreign investors, while it also launched import substitution policies to support local firms. The intention was to increase capital investment, technology transfer from foreign investors and industrial capability of the industry. The policies, in effect, provided rents to local enterprises as well as to foreign investors in order to encourage foreign transfer of technology and industrialization.

As a consequence, the Vietnamese motorcycle industry was quickly dominated by few foreign motorcycle makers (the lead firm)<sup>8</sup> and suppliers that created an oligopolistic market for Japanese and Taiwanese producers (Fujita 2007). The import licenses allowed foreign investors import complete knockdown units from abroad. A number of these Japanese motorcycles were simply second-hand motorcycles that were out of fashion in Japan. Given the lack of competition, foreign investors were able to set high marked-up price and gain large profits. At the same time, few industrial upgrading and technology transfer took place. Being guaranteed large profit margins by the lack of competition, Japanese companies did not need to produce their motorcycles locally or use local inputs. Hence, during this early period, the rents sought and

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<sup>8</sup> A lead firm is a brand-name company that manufactures and assembles its own brand of motorcycles. They also source components from first-tier and second-tier suppliers.

captured by Japanese investors did not spearhead industrialization and technology transfers.

<< Table 4 >>

In the late 1990s, in an effort to integrate into the regional and global market, coupled with lobbying of the Japanese embassy and the Japanese Business Association in Vietnam, the Vietnamese government removed a series of protection policies that had previously restricted sales of foreign motorcycles. However, to stimulate industrialization in the motorcycle industry, the government imposed local parts requirement set at 40-60 per cent depending on the model. At the end of that decade, major foreign motorcycle companies had established investments in Vietnam, including global lead firms: Taiwan's SYM and Japan's Suzuki, Honda, and Yamaha (see Table 4). In addition, some Taiwanese and Japanese parts manufacturers followed the lead companies and built plants in Vietnam to produce parts such as tires, batteries, breaks, electric components and plastic parts.

<< Figure 7 >>

Around the same time, there were industrial surplus of motorcycles in China, which made their way to Vietnam mostly through the Sino-Vietnam border. This led to an influx of Chinese motorcycles in the Vietnamese market. This phenomenon was dubbed the "China shock" by Japanese investors. During this period, Chinese and local lead firms falsely claimed local content in Chinese motorcycle and thus allowing them to capture some of the rents that benefited Japanese investor in the earlier period. At the height of the China shock, Chinese motorcycle sales in 2001 made up 80.5 percent of total sales (Figure 7). There were notably industrial transformation for domestic firms, as they began to learn and produce components for Chinese motorcycles (Fujita, 2010).

The Japanese manufacturers successfully recaptured substantial market shares from Chinese-Vietnamese producers after 2002, by (1) pressuring the Vietnamese government to enforce its local parts policies, and (2) introducing its very first low-cost model to attract consumers in the low-income group. As a consequence, a number of local assemblers and suppliers who were accumulating new capability through contracting with Chinese lead firms went out of business.

The motorcycle industry is significantly different from the T&G industry in that, while the state tried to control the industry via industrial policies and regulations, it did not use the “state champions” or the state sector to lead the industry. This is partly because the Vietnamese has weak industrial capability in the beginning and would need the transfer of know-how and technology from abroad. Therefore, the state maintains a weak control while using rent policies to promote industrialization.

However, this FDI-led strategy gets mixed up with (1) rent seeking via market access from Japanese lead firms, and (2) fraudulent claims of local content policies by the Vietnamese and Chinese lead firms. These have prevented the industrial policy to work as intended. After 2004, the industry took another major turn. Starting in 2005, the industry was once again largely occupied by major foreign (but not Chinese) motorcycle manufacturers, with local firms participating lower in the production chain. Trying to attract more FDI, the Vietnamese government further removed its administrative and trade barriers, especially to small and medium enterprises from abroad. While this helped consumers by further driving down the motorcycle prices, it also left local firms competing directly with foreign businesses. Consequently, nearly half of the local businesses went under: of the 51 Vietnamese firms surveyed by Fujita (2007), 35 left the industry. This, once again, highlights the difficulty, due to unforeseen consequences, of implementing policies that actually lead to the desired goal.

Nevertheless, motorcycle production continues at a high growth rate due to increased demand of motorcycle among Vietnamese consumers.

In the later part of the 2000s, the Vietnamese government made an attempt to further liberalize the economy in anticipation of Vietnam's accession to the WTO. It removed prohibitions on motorcycle imports, repealed local parts requirements, and reduced tariffs on imported components. Furthermore, regulations on motorcycle registrations were relaxed so that a driver could register more than one motorcycle under his name. In essence, the government's efforts to loosen the market using both trade and administrative policies, together with the introduction of a low-cost motorcycle produced by Honda and other foreign manufacturers, substantially expanded the market and boosted sales.

Starting 2010, major foreign motorcycle makers started to export their production surplus to other markets. In 2011, Honda exported 300,000 motorcycles to the Philippines, Cambodia, Laos, and Afghanistan (Tran, 2012). Yamaha and Piaggio have also exported their Vietnamese-built motorcycles, though in smaller quantities. The localization ratio (percentage of parts of each unit to be made by the lead firms) was between 70 per cent and 95 per cent, depending on the lead firm in 2012. Honda's local parts ratio reached nearly 95 per cent on some of its models (Quoc-Hung, 2012a). Also in 2011, the five largest motorcycle manufacturers in Vietnam—Honda,<sup>9</sup> Yamaha, Suzuki, SYM, and Piaggio<sup>10</sup>—are estimated to have sold approximately 3.32 million motorcycles combined in Vietnam (Quoc-Hung, 2012a). Based on this statistics, the five

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<sup>9</sup> Honda's 2012 market share in Vietnam was more than 61 per cent. It sold more than 2 million units in 2011, and more than 2.3 million units in 2012 (Quoc Hung, 2012a).

<sup>10</sup> Piaggio has sold approximately 180,000 units in Vietnam since it officially entered the Vietnamese market in 2009. In 2012 Piaggio produced four different models at its maximum capacity in Vietnam: 100,000 units with a 70 per cent local content ratio. Piaggio aims to increase productivity in Vietnam to 300,000 units per year with 90 per cent local content ratio. It also plans to build both a manufacturing firm to produce engines and an R&D centre in Vietnam (Quoc-Hung, 2012a).

largest motorcycle manufacturers in Vietnam took roughly 90 per cent of the market share, leaving Lifan (China), Kymco (Taiwan), and Sufat (Vietnam) to split the remaining 10 per cent of the market.

The evolution of the motorcycle industry illustrates both the crony capitalist nature of the process, and the impact of international factors such as trade treaties that compel market liberalization. The government failure to keep out Chinese firms, initially in violation of domestic parts requirements, a symptom of weak state capacity, resulted in market competition between Chinese and Japanese firms, and induced cost competition that allowed local suppliers to join the production value chain. However, local firms' learning was cut short as Japanese firms pressured the government to enforce its local parts policies. By giving in to these rent seeking demands the government undermined the local parts producers.

In one interpretation, the Vietnamese government finally succeeds at industrializing the motorcycle industry after a long trial-and-error process. In another, more ominous, interpretation, the government officials' incentives had been, at times, at odds with broader development, as they benefited from rent seeking, and only the market competition between Japanese and Chinese lead firms provided the nudge that the industry needed in the right direction. The motorcycle industry demonstrates Vietnam's other economic system in that competing cronyism, corruption and market competition among Japanese, Chinese and Vietnamese manufacturers led to technical learning and capability building for local firms, despite the Vietnamese government's failure to effectively monitor rent creation and implementation.

#### **4. Conclusion**

All too often we are tempted to identify a given country with a single unique political-economic

model. But the example of Vietnam shows that, at least in some cases, such an assumption is heavily at odds with reality. Our analysis shows that Vietnam does not correspond to a single economic system, but it is a superposition of socialism, state capitalism, and crony capitalism. Because of its low economic freedom and property rights protections, Vietnam operates mainly as a rent-seeking society. Our choice to analyze three industries was driven by the fact that they illustrate diverse systems of economic development. The motorcycle industry has been governed by rent seeking and government-provided licenses, and the goals of technological imports and skill development have been undermined by crony capitalism. The textile-garment and telecommunications industries have a typical state capitalist organization, with SOEs being the most important players in the market, and largely designed to satisfy political, social and economic goals. Nonetheless, the government seems to have been able to engineer a gradual restructuring of Vietnam's industries and economy.

The question for the future is whether, given the incentive structure of political elites, countries like Vietnam can eventually move towards a full "open access society" and away from the "personal rules" that characterize all the different avatars of the rent-seeking society (Frye and Shleifer 1997; Wade 1998; Boudreaux & Aligica 2007). Although we don't answer this latter question, we have provided rich evidence about the underlining conditions that either enhance or constrain such a move. Our analysis highlights how institutional conditions including those embedded in international trade agreements work in moving a country towards a more developmental path. More importantly, we emphasize that the ways in which a government chooses to act within institutional constraints must be understood from the perspective of rents and rent seeking.

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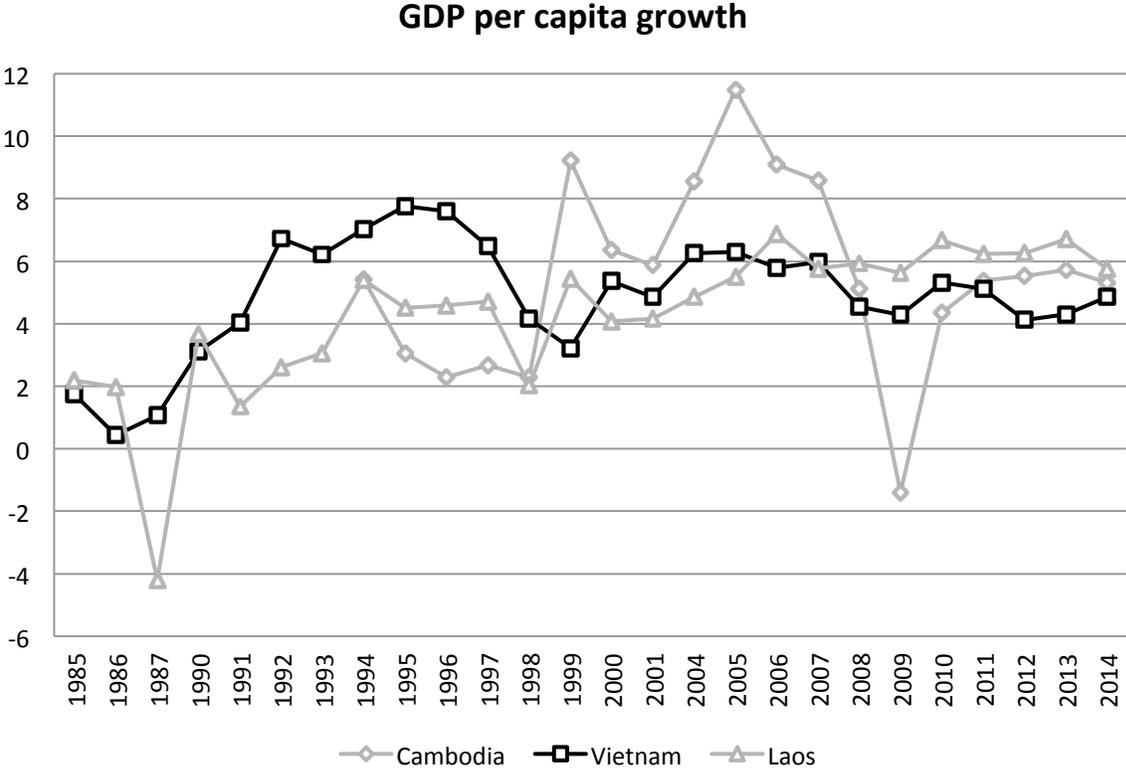
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# Figures

Figure 1: Formerly socialist SE Asian countries annual growth rates, 1985-2014



Source of data: World Bank

Figure 2: Industry Total Export Value, 2001–2013 (in USD million)

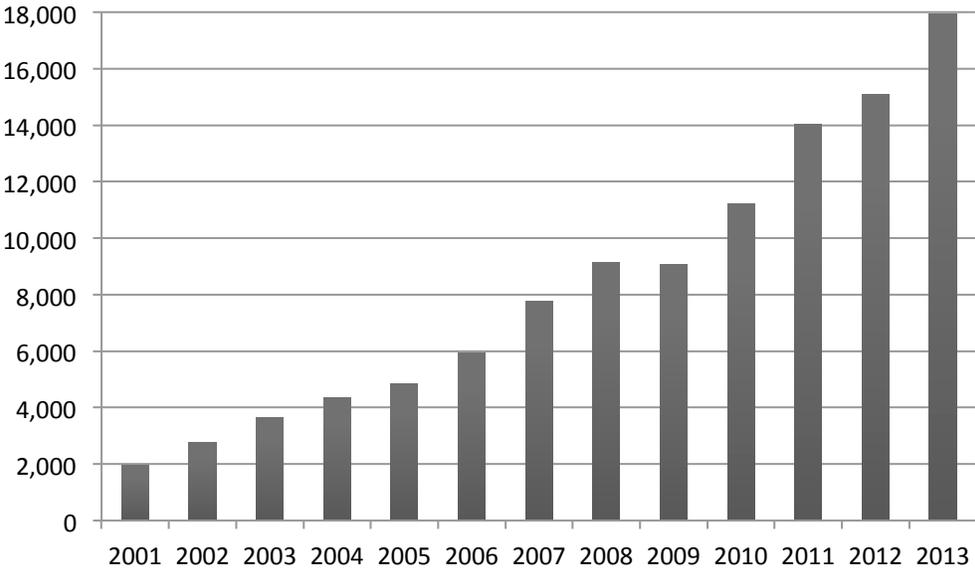
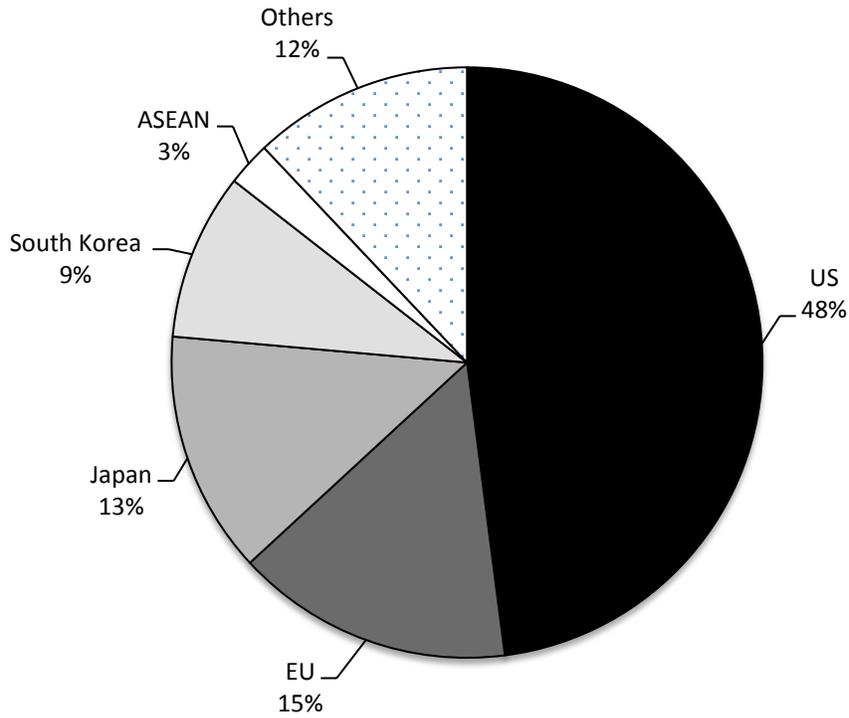


Figure 3: Market Shares for Textile-Garment Exports in 2013 (in percentage)



Source of data: General Department of Vietnam Customs.

Figure 4. Viettel's Revenue 2000 to 2014 (in VND trillion)

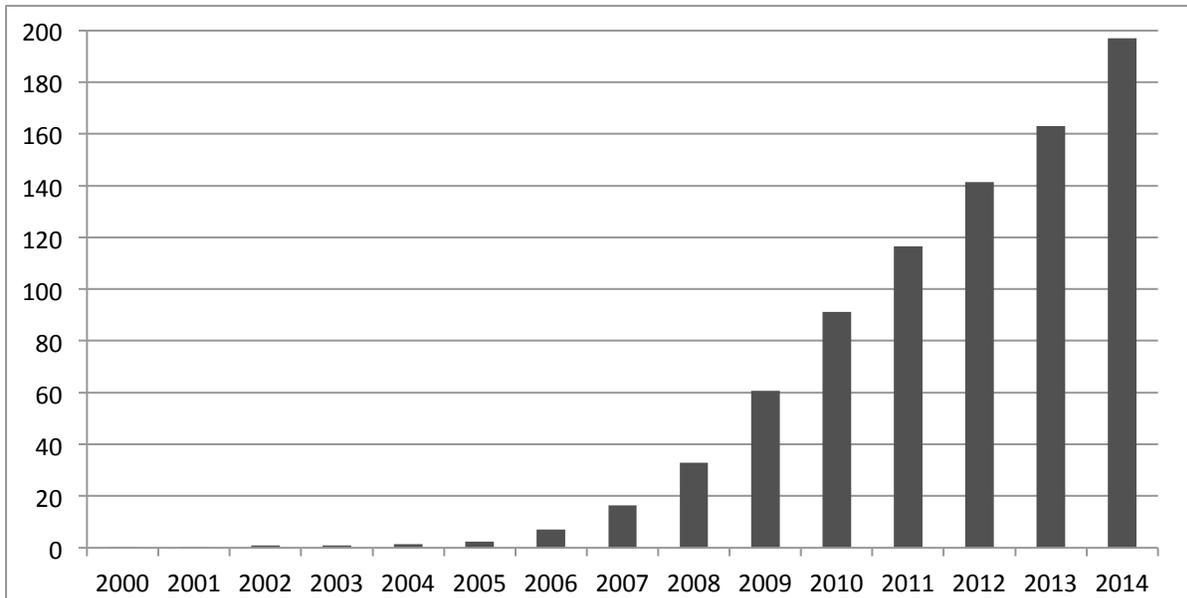
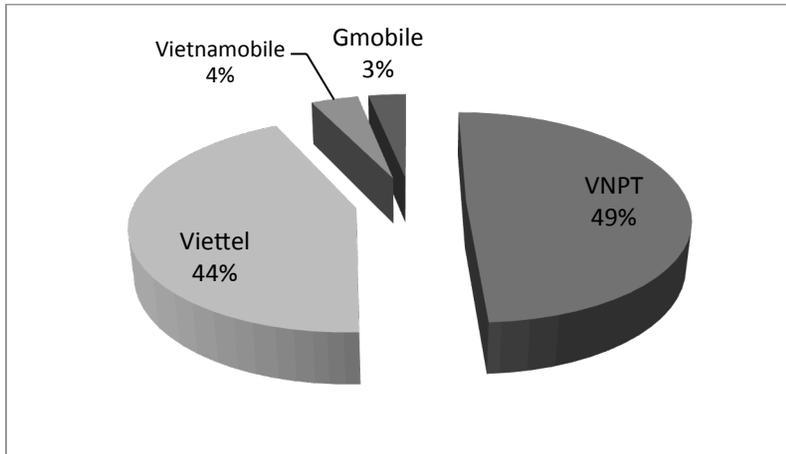


Figure 5. Market Shares of Mobile Phone Service Providers by Subscribers in 2013



Source of data: Ministry of Information and Communications (2014).

Figure 6. Total Revenue of the Telecom Sector in Vietnam Between 2006 and 2013 (in USD millions)

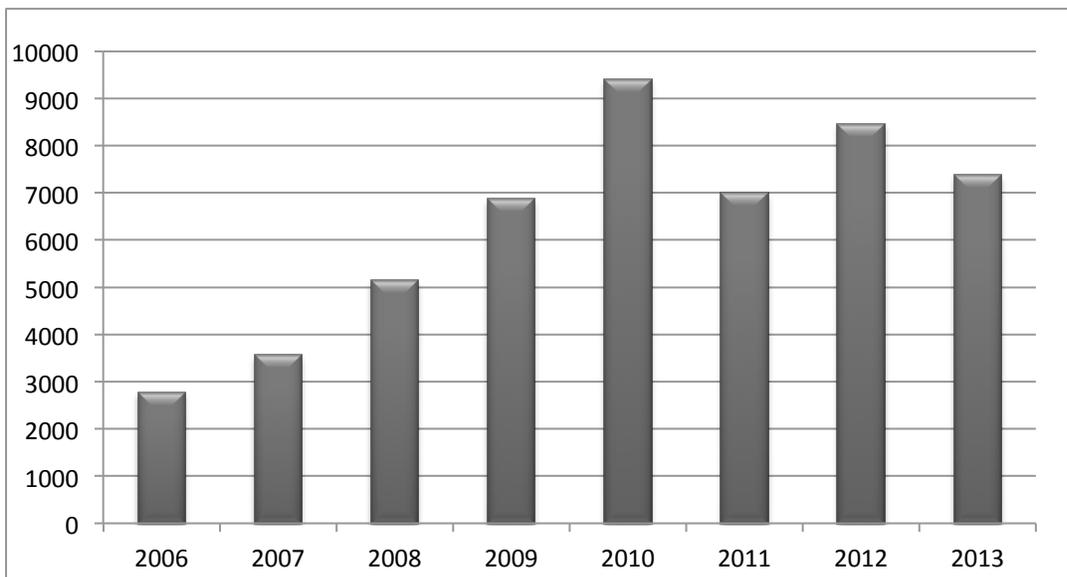
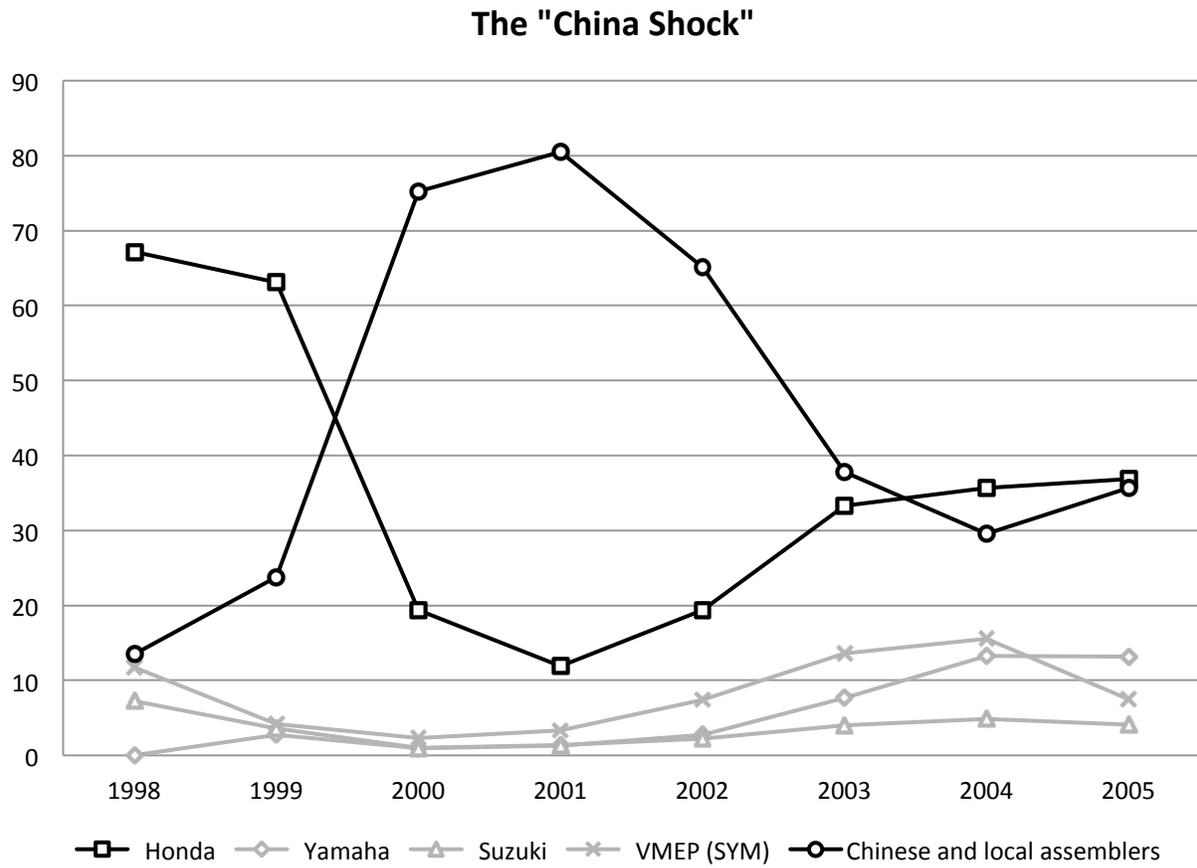


Figure 7: Market Share of Major Firms During the “China Shock” Period (2001–2005)



Source of data: The Ministry of Industry and Trade (2007).

## Tables

*Table 1: Vietnam's Trade Treaties*

Year	Treaty description
1992	Vietnam signs bilateral trade agreement (BTA) with the European Union.
1995	United States lifts trade embargo and normalizes its relationship with Vietnam. This same year, Vietnam also joins ASEAN and commits to fulfilling agreements under the ASEAN Free Trade Area by 2006.
1998	Vietnam becomes a member of Asia Pacific Economic Cooperation.
2000	Vietnam signs Vietnam-United States BTA, to become effective December 2001.
2001	United States grants Vietnam normal trade relations status.
2002	Vietnam signs free trade agreement creating the ASEAN–China Free Trade Area with China and nine other members of the ASEAN. <sup>11</sup> The agreement gives poorer nations including Vietnam until 2015 to open up to Chinese goods (Wayne, 2010).
2003	The Vietnam-United States Garment and Textile Agreement signed, to be renewed on a yearly basis unless renegotiated. Vietnamese export quotas were implemented and were broken into 25 categories, each of which is subject to 7 per cent growth per year (except wool products, which grow at 2 per cent per year) (Martin, 2008).
2006	U.S. Multi-Fibre Agreement (MFA) ends. Vietnam pledges to end all World Trade Organization (WTO)-prohibited subsidies in its textile-garment industry, as part of its WTO accession agreement.
2007	Vietnam gains access to the WTO.
2009	Vietnam–Japan Economic Partnership Agreement leads to the abolition of tariffs from Japan, starting in October 2009.
2009	Duties on trade between Vietnam and ASEAN reduced from 5 per cent (under the Common Effective Preferential Tariff scheme) to 0 per cent, which effectively created a duty-free block. Flexibility, however, will allow import duties on some sensitive products to be eliminated by 1 January 2018. Consequently, Vietnam gained tariff-free access to two major Asian markets, Japan and ASEAN, in the same year. <sup>12</sup>
2010	The ASEAN–China Free Trade Area comes into effect. China and six ASEAN nations <sup>13</sup> agree to trade more than 7,880 product categories, and 90 per cent of imported goods are to be freely exchanged with zero tariffs. <sup>14</sup>
2015	Vietnam concluded a major free trade agreement with the European Union on December. The agreement includes the elimination of over 99 per cent tariff over a 10-year period between the European Union and Vietnam (European Commission, 2015).
2016	Vietnam signed the Trans-Pacific Partnership in February. This free trade agreement among twelve Pacific Rim countries reduces approximately 18,000 tariffs. There was wide expectation that the T&G industry will be the biggest winner in this trade pact as tariffs for textile and garment will reduce from 18 per cent to zero (Dezan Shira and Associates, 2015)

<sup>11</sup> “According to tax exemption plans under the framework of the ASEAN–China Free Trade Area, half of all tax lines were at 0–5 per cent in 2009. Furthermore, there will be zero tax on 40 per cent of all tax lines in 2013, 100 per cent in 2015, and a flexible rate for 250 tax lines by 2018” (Voice of Vietnam, 2010).

<sup>12</sup> Details for the trade agreement may be found at <http://wits.worldbank.org/GPTAD/PDF/annexes/ASEAN%20protocol%20AFTA.pdf>

<sup>13</sup> These countries are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

<sup>14</sup> Burma, Cambodia, Laos, and Vietnam are expected to participate by 2015.

*Table 2: Key Distinctions between the Textile and Garment Sectors in Vietnam*

<b>Characteristics</b>	<b>Textile</b>	<b>Garment</b>
<b>Intensity</b>	Capital intensive	Labor intensive
<b>Economies of scale</b>	More important	Less important
<b>Ownership</b>	SOEs, and foreign firms	SOEs, foreign and Vietnamese private firms
<b>Vertical integration</b>	Common to have integration with spinning, weaving, dyeing, and finishing	Some integration during the central planning period but less so as garment exports increase
<b>Size</b>	Mostly large firms	Mostly small- and medium-sized firms
<b>Market</b>	Mostly domestic (except for unfinished fiber)	Mostly foreign (especially the European Union, Japan, and United States)

*Source:* Adapted from Hill (1998).

*Table 3. Vietnam's Local Production and Import–Export of Telecommunication Equipment 2010–2015, in USD million*

<b>Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014 (estimated)</b>	<b>2015 (estimated)</b>
Total local production	1,196	1,375	1,650	1,750	2,000	2,300
Total exports*	49	56	65	75	85	95
Percentage export growth year-on-year**	Base year	14.3	16.1	15.4	13.3	11.8

*Source of data:* \* U.S. Commercial Service (2012; 2014). \*\* Author's calculations.

*Table 4: Major Foreign Motorcycle Firms in Vietnam, 1992–2014*

<b>Name of Company</b>	<b>Year of License</b>	<b>Ownership Structure, Country of Origin, and Per cent Owned</b>
Vietnam Manufacture & Export Processing Co., Ltd.	1992	Chinfon Group (producer of SYM motorcycles) (Taiwan, 100%)
Vietnam Suzuki Corp.	1995	Suzuki Corp. (Japan, 35%) Sojitz (Japan, 35%) Vikyno: Southern Agricultural Machinery Corp. (Vietnam, 30%)
SuFat Vietnam Corp.*	1996	Sufat (Vietnam, 100%)
Honda Vietnam Co., Ltd.	1996	Honda Motor Co., Ltd. (Japan, 42%) Asian Honda Motors (Thailand, 28%) Vietnam Engine & Agricultural Machinery Corp. (Vietnam, 30%)

Yamaha Vietnam Co., Ltd	1998	Yamaha Motors (Japan, 46%) Hong Leong Industries (Malaysia, 24%) Vietnam Forestry Corporation (30%)
Lifan Motorcycle Manufacturing JV Co.	2002	Chongqing Lifan (China, 70%), Vietnam Import-Export Technology Development Co. (30%)
Kymco Vietnam*	2004	Kymco (Taiwan) Hoa Lam (Vietnam)
Piaggio Vietnam*	2009	The Piaggio Group (Italy, 100%)

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*Sources:* Compilation based on Fujita (2008, p. 5). \*Authors' own data.