

# IDS RESEARCH SUMMARY

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Institute of Development Studies

IDS RESEARCH REPORT 76  
JUNE 2012

## Who Drives Economic Reform in Vietnam's Provinces?

Vietnam has undergone rapid and far-reaching economic transformation. The decentralisation of certain economic powers from central to provincial government has contributed to this success. This report asks who drives economic reform in the provinces, exploring the role of business and government and alliances between the two.

The authors compare two provinces in the North and two in the South, observing how different alignments of interest influence the reform process. The research shows that in those provinces which are making most progress in economic reform, the private sector played an important role. Not against government but with government. There was no formal public-private coalition, but a dynamic existed of proactive government seeking input from the private sector, and the latter lobbying for and contributing to responsive and effective government. Both national and foreign enterprises played a role, but small enterprises tended to be marginalised from the process.

Vietnam keeps surprising the world with the speed and depth of its economic transformation. Decentralising authority for reforming the investment climate has contributed to this success. The main question addressed in this report is who drives the reform in the provinces. This is a

difficult undertaking because it involves dipping into sensitive issues of state-business relations and because there are enormous variations between provinces and over time. Key to the feasibility of this research was the collaboration with the Vietnam Chamber of Commerce and Industry (VCCI). The VCCI is an influential organisation with strong connections to business, government and Communist Party. These connections were essential for access to political and business leaders and for understanding the reform from private, public and Party perspectives.

The early chapters set out what the literature says about the drivers of investment climate reform and identify the knowledge gaps; these gaps concern in particular the political processes which bring about the required reform. The authors set out the national context, showing how the political and policy framework affects (dis)incentives for reform in the provinces. They then explain

the data sources and methods used in their own new research in the provinces: how they selected the provinces, what primary and secondary sources they used, and how they went about the interviews in the public and private sectors.

The subsequent chapters present the findings for the Northern provinces of Bac Ninh and Hung Yen, and for the Southern provinces of Dong Thap and Ca Mau. The authors present a comparison of similarities and differences between these provinces. They then go on to test to what extent their findings are backed up by quantitative evidence from all of Vietnam's 63 provinces, drawing on a five-year panel of data. The authors conclude by explaining the significance of their findings for research and policy, specifying how these findings advance the literature, and their practical relevance for both business and government.

“ **Allowing provinces to find their own way forward was central to Vietnam's progress in institutional and economic development.** ”

# Who Drives Economic Reform in Vietnam's Provinces?

“Where reforms were substantial and sustained the private sector was very much involved.”

## Key research findings

- The recent reform process in Vietnam has been a continuation of the previous practice of learning by experimenting, with each province being given the space to try out new things.
- Proactive provincial government working in consultation with the private sector has been critical.
- National enterprises have exerted positive influence on economic reform, as evidenced in Bac Ninh and Dong Thap provinces.
- However the policy process is often hampered by the lack of organisational capacity within the private sector.
- The PCI scores which domestic enterprises give to their provincial governments have had a considerable influence on the reform process.
- Central government has retained influence on investment climate reform through promotion decisions which tend to favour reformers.
- Despite decentralisation, the Communist Party has been the key force in managing an increasingly complex political system.
- Party and Government need to combat more forcefully two corrosive practices: the avoidance of tax and the hoarding of land.

Despite decentralisation bringing with it problems of inefficiency and waste, the

empowering of provincial governments has been key to Vietnam's success. The PCI provided critical capacity to monitor reform efforts and contributed to multiple learning effects within and across provinces. The PCI has been a useful tool through which the central government can encourage and reward good performance.

## Key policy lessons / implications of research

- Allowing provinces to find their own way forward was central to Vietnam's progress in institutional and economic development.
- The research highlights the importance of both formal and informal spaces for communication and dialogue between the private sector and government.
- Public sector failure often arises because the private sector is not sufficiently well organised to work with government in a constructive way.
- Combating tax avoidance and land hoarding should be prioritised by Party, government and VCCI.
- Investment decentralisation needs to be accompanied by strong central regulation specifying what provincial governments are permitted to offer investors and what they are not.
- Donors can support the institutionalisation and adoption of monitoring tools and indices such as the PCI in other countries.

## Credits

**Hubert Schmitz, Dau Anh Tuan, Pham Thi Thu Hang and Neil McCulloch (2012)** *Who Drives Economic Reform in Vietnam's Provinces?*, IDS Research Report 76, Brighton: IDS

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