

## Economic Transition in China and Vietnam: A Comparative Perspective

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### Analytical Framework

A gradualist approach characterized by gradual, experimental, phased and partial reform was the key feature of Asian economic transitions from state socialism,<sup>1</sup> which demonstrated a different pattern of transition as compared to the former communist countries in Russia and Eastern Europe that were illustrative of a “neoclassical” big bang or radical approach. Whether this divergent pattern is due to differences in initial conditions or choices of policy was hotly debated throughout the 1990s. One school of thought focused on economic conditions and structures prior to reform that differed from those in Russia and Eastern Europe.<sup>2</sup> The other school of thought emphasized elite strategic choices

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1. State socialism is also often referred to as “centrally planned economy,” “central planning economy,” or “command economy” based on the Soviet model or Stalinist model.
  2. David Lipton and Jeffrey Sachs, “Creating a Market Economy in Eastern Europe: The Case of Poland,” *Brookings Papers on Economic Activities*, 1, (1990a), pp. 75-133; David Lipton and Jeffrey Sachs, “Privatization in East Europe: The Case of Poland,” *Brookings Papers on Economic Activities*, 2, (1990b), pp. 293-341; Anders Aslund, “Principles of Privatization,” in Laszlo Csaba, ed., *Systemic Change and Stabilization in Eastern Europe* (Dartmouth, UK: Aldershot, 1991), pp. 17-31; Andrew Berg and Jeffrey Sachs, “Structural Adjustment and International Trade in Eastern Europe: The Case of Poland,” *Economic Policy*, April 1992, pp. 117-173; Kevin Murphy *et al.*, “The Transition to a Market Economy: Pitfalls of Partial Reform,” *Quarterly Journal of Economics*, vol. 107, no. 3, 1992, pp. 889-906; Jeffrey Sachs, *Poland's Jump to the Market Economy* (Cambridge, MA: MIT Press, 1993); Roman Frydman and Andrzej Rapaczynski, *Privatization in Eastern Europe: Is the State Withering Away?* (London: Central European University Press, 1994); Wing Thye Woo, “The Art of Reforming Centrally Planned Economies: Comparing China, Poland, and Russia,” *Journal of Comparative Economics*, vol. 18, no. 3, 1994, pp. 276-308; Jeffrey Sachs and Wing Thye Woo, “Structural Factors in the Economic Reforms of China, Eastern Europe, and the Former Soviet Union,” *Economic Policy*, April, 1994, pp. 101-145; Anders Aslund, *How Russia Became a Market Economy* (Washington, DC: Brookings Institution, 1995).

of reform policy and sequencing of policies.<sup>3</sup>

In the view of this article, while initial conditions are important in determining and explaining *why* reforms are adopted, elite strategic policy choices best explain *how* reforms have been carried out, because it is elite strategic interactions and policy choices that have played a direct role in shaping the pattern of transition while structural factors an indirect one. Initial conditions, elite policy choices, and the pattern of transition should look like a set of antecedent causal relationships between z, x and y:

Independent and dependent variables:

Zi = structural factors

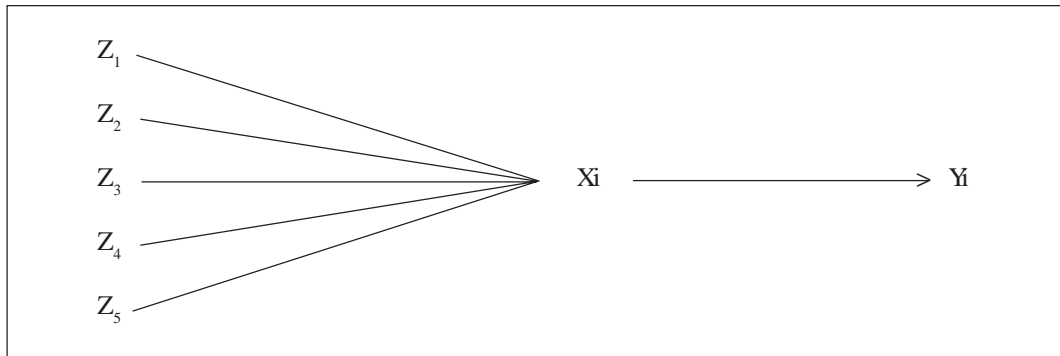
Xi = policy choices

Yi = patterns of transition

Zi                      →                      Xi                      →                      Yi

The initial conditions or antecedent causes of transition may differ significantly in different countries. However, these different pre-reform conditions or antecedent causes (such as predominantly agrarian societies, deepening economic recession or trade and financial difficulties) could prompt a common response or policy choice if the communist elite in the different countries shares a common belief in the efficacy of that response or policy choice, for example, the leadership's perception of the necessity for economic growth on one hand and the need for maintenance of communist power and preservation of party-state interests on the other. Just as individuals may take the same medicine to cure different physical problems, these countries may simultaneously choose similar reform policies to cope with different sets of political and economic problems. In this case, the specific antecedent causes ( $Z_1, Z_2, Z_3, Z_4, Z_5$ ) in different countries prompt the leadership to act on a common set of policy choices, Xi, to produce a similar pattern of transition, Y:

3. Richard Portes, "Introduction to Economic Transformation of Hungary and Poland," *European Economics*, March 1990, pp. 11-18; Richard Portes, "The Path of Reform in Central and Eastern Europe: An Introduction," *European Economics*, 1991, Special Issue No. 2, pp. 3-15; Ronald McKinnon, *The Order of Economic Liberalization* (Baltimore, MD: Johns Hopkins University, 1991); Gerard Roland, "Political Economy of Sequencing Tactics in the Transition Period," in Laszlo Csaba, ed., *Systemic Change and Stabilization in Eastern Europe* (Dartmouth, UK: Aldershot, 1991), pp. 47-64; Mathias Dewatripont and Gerard Roland, "Economic Reform and Dynamic Political Constraints," *Review of Economic Studies*, vol. 59, no. 4, 1992a, pp. 703-730; Mathias Dewatripont and Gerard Roland, "The Virtues of Gradualism and Legitimacy in the Transition to a Market Economy," *Economic Journal*, March 1992b, pp. 291-300; John McMillan and Barry Naughton, "How to Reform a Planned Economy: Lessons from China," *Oxford Review of Economic Policy*, vol. 8, no. 1, 1992, pp. 130-143; Peter Murrell, "Conservative Political Philosophy and the Strategy of Economic Transition," *East European Politics and Society*, vol. 6, no. 1, 1992, pp. 3-16; John Litwack and Yingyi Qian, "Economic Transition Strategies: Imperfect Fiscal Commitment Can Favor Unbalanced Investment," Mimeo, Stanford University, 1993; Philippe Aghion and Oliver Jean Blanchard, "On the Speed of Transition in Eastern Europe," Mimeo, MIT, 1993; Mathias Dewatripont and Gerard Roland, "The Design of Reform Packages under Uncertainty," *The American Economic Review*, vol. 85, no. 5, 1995, pp. 1207-1223; Shang-Jin Wei, "Gradualism versus Big Bang: Speed and Sustainability of Reforms," *Canadian Journal of Economics*, vol. 30, no. 4, 1997, pp. 1234-1247.



In either case, the choice of similar reform policies ( $X_i$ ) in coping with their economic and political problems (pre-reform conditions) produces a similar pattern of transition in these countries that is different from that of Eastern Europe. This analytical model of explanation is well deduced from the theoretical approach of strategic choice.

China is often cited as the leading example of a successful gradualist approach to transition from communism. Some smaller Asian communist countries have by and large followed a similar strategy of transition, with an initial emphasis on agricultural reform and a gradual opening of the previously closed economy. Therefore, this article would like to apply this analytical model to the comparative study of transitions in China and Vietnam and explain why China and Vietnam have adopted a gradualist approach in economic transition.

### **Explanations**

Reform in the Asian countries often started where possible, and strategic choice was constrained by many variables. This article will focus on some of the most important key variables: the power relationship between moderate and radical reformers, the relationship between reform and stability, and the relationship between socialist principles and market reform practices. In what follows, we will examine China and Vietnam's economic transition along these three empirical dimensions and explain why they have adopted a gradualist approach in economic transition.

#### ***The Power Relationship between Moderate Reformers and Radical Reformers***

There has been no consensus among communist leaders about the content, scope, pace or extent of reforms. In the broadest terms, the leaders of Asian communist countries fall into two groups – more conservative leaders or moderate reformers, on the one hand, and more liberal leaders or radical reformers, on the other. The reform strategic debate and the tensions between them usually determine the choice of reform policy and, ultimately, the path of transition.

*(a) China*

In China, after the purges of Mao's followers between 1976 and 1978, the reformers took control over the entire party-state apparatus. They were led by a group of veteran party leaders who had been the principal victims of the Cultural Revolution. But the differences between the moderate and radical wings of the reform movement became evident in the late 1970s. As Harry Harding, an influential China scholar, points out, "the tensions between these two groups should not be characterized as a struggle between those who favor reform and those who oppose it."<sup>4</sup> They all agreed on the necessity of reforms that could improve the economic performance of the Chinese socialist economic system, promote China's economic modernization, and raise standards of living for the Chinese people. However, they disagreed on the content, scope and pace or extent of reforms. More conservative leaders or moderate reformers, such as Chen Yun and Peng Zhen, are cautious and skeptical about dramatic departures from the planned economy and party-state political system that were the legacy of the Soviet model that China had imitated under Mao or the Maoist style of political economy. More liberal leaders or radical reformers, such as Hu Yaobang and Zhao Ziyang, entertain bolder reform measures that would make a radical departure from the traditional political economy of state socialism and launch China in the direction of a market economy.<sup>5</sup> Deng Xiaoping often played a role of balancer between the two groups, resulting in a dual-track, phased, and gradualist pattern of transition. Harry Harding provides the best picture of the division between these two groups.

First, the moderate reformers proposed making the market an important supplementary mechanism for the allocation of resources and the determination of prices, with the operation of the market restricted to agricultural goods and inessential economic sectors, industries or areas, launching China in the direction of a planned commodity economy. Chen Yun, the chief spokesman for moderate reform, treated the Chinese economy like a bird in a cage and likened the economy to a bird and the plan to a cage: "If the cage is too small, the bird will die; but if there is no cage at all, the bird will fly away, unrestrained." In contrast, the radical reformers favored a central role for the market in the economy, with the development of markets for almost all factors of production, including capital, labor, and industrial machinery, launching China in the direction of a market economy.

Second, the moderate reformers favored a slow, gradual, and experimental approach to reforms, with lengthy periods of readjustment during which the imbalances generated by reform could be repaired. They wished to maintain stringent administrative control over certain important aspects of the economy, especially investment and foreign exchange, and feared that a rapid relaxation of controls over the economy would create severe disequilibrium in the management of the Chinese economy. The radical reformers, in contrast, favored a more rapid and comprehensive structural reform to quickly remove the inefficiencies and rigidities of the traditional economic system. They were willing to take risks for the sake of economic efficiency, even if the result was a temporary disequilibrium in the economy. This debate was especially severe when the party was drafting a proposal for the reform of the urban economy in 1984. At that time, Chen Yun suggested structural reform over a period of thirty years, while Hu Yaobang insisted on completing the process in three to five years. Whenever reform created serious imbalances, the moderate reformers would want to slow the process and take administrative measures to correct it.

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4. Harry Harding, *China's Second Revolution: Reform after Mao* (Washington, DC: The Brookings Institute, 1987), p. 77.

5. *Ibid.*, p. 46.

Third, the moderate reformers insisted on maintaining the basic principles of socialism prescribed by Marx, Lenin, and Stalin (the planned economy, public ownership of the means of production, and distribution according to labor), therefore preserving administrative guidance from the planning agencies, limiting the development of private and other non-public sectors, and controlling the exchange of land and labor on the marketplace. The radical reformers, in contrast, tended to provide a much less restrictive definition of socialism than their moderate counterparts, excluding the planned economy from the list of principles of socialism and recasting the principle of public ownership more flexibly, so as to allow for the existence of a diversified ownership structure while maintaining the dominant position of public ownership.<sup>6</sup>

The tensions between these two groups and the interaction of their reform strategies caused the alternation of periods of advance and periods of retreat since 1978. The cyclical pattern was reinforced by Deng Xiaoping who, in an effort to balance between these two groups, supported both the periods of advance and retrenchment proposed by both radical and moderate groups. Whenever reforms generated problems such as inflation, inequality, runaway investment, reckless expenditure, or the outbreak of a dissident movement, the moderate reformers would blame their radical colleagues, tried to limit the extent of reform and economic liberalization, and called for a slowdown in the pace of reform, a tightening of administrative control over the economy, a remedial measure to restore equilibrium, a crackdown against dissidence and crime, and a periodic campaign against unorthodox ideas in economics, politics, literature and art. The radical reformers would be forced to defend reforms against critics, find an appropriate theoretical interpretation for their reform measures, and make a concession to the retrenchment launched by the moderate reformers, which actually reinforced the cyclical character of the Chinese reform. Almost all major party documents and policies reflected a compromise between the two groups on policy making.<sup>7</sup>

For example, the Central Party Committee decision on urban economic reform in 1984 reflected a compromise between the two groups on the relationship between plan and market, which continue to reassert planning as a basic characteristic of a socialist economy while calling for a reduction of mandatory planning. The open-door policy is characterized by a gradual opening up to the world, from the establishment of four 'special economic zones' (SEZs) in Guangdong and Fujian in 1979, through the designation of fourteen coastal cities as open cities for foreign investment in 1984 and the development strategy of coastal areas in 1988, to the opening up of inland western areas in 1997. Such a gradualist approach was actually a compromise resulting from the continuous debate between the two groups on the nature and speed of socialist reform; it was a policy designed to confine foreign influence to officially designated areas while the open door policy could be maintained and its benefits could be expanded gradually.

As a result, the Chinese reformers, in general, have implemented reforms in stages, beginning with the easier and less controversial reforms and proceeding with more complex and less popular reforms after the success of the initial reforms has created enough political support and momentum to the further reform. The entire process of China's economic transition has been incremental and experimental in nature. Reform programs have been adopted and implemented in selected pilot sectors, areas, cities, or enterprises before being undertaken on a wider basis. Those that succeeded would be adopted on a wider basis while those that failed would be abandoned or modified.<sup>8</sup>

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6. *Ibid.*, pp. 78-83.

7. *Ibid.*, pp. 83-85.

8. *Ibid.*, pp. 86-90.

That is how reform and opening in China has expanded gradually: an initial step of reform begins in rural areas before spreading to urban areas; it starts the opening policy with establishing SEZs, which is followed by a gradual expansion to the coastal regions, before spreading the same economic policies to the inland Western regions; it starts with the village and township economies, individual household economies, private economies and joint-ventured economies before undertaking major reforms in the state-owned economic sector, particularly corporatization of SOEs through shareholding reform; it starts with microeconomic reform based on expanding the autonomous powers of enterprise management and production through profit retention and responsibility contracting systems before launching macroeconomic reforms, including price, planning, finance, banking, and so forth.<sup>9</sup> The entire process of reform and opening has been shaped and determined by the tensions between moderate and radical reformers and the interaction of their reform strategies.

**(b) Vietnam**

Similar approaches have also been adopted in Vietnam, beginning with the easier reforms first, where the benefits would outweigh the costs. The incremental or gradual nature of reform is also attributed to the differences between hardliners and softliners within the party or the power relationship of the two groups. In Vietnam, the leadership system after Ho Chi Minh has been a system of competing factions held together by the principle of collective leadership. This factionalism is reflected in the division between hardliners and moderates, pro-Beijing and pro-Moscow groups, and southerners and northerners.<sup>10</sup> In general, the conservative members of the VCP leadership belong to a broad coalition of party ideologues, security apparatus and military members, and SOE managers who are strong believers in socialist orthodoxy with a strong preference for a “socialist-based market economy” in accordance with socialist ideas and practices. They are worried about the corrosive impact of the market economy and the development of private sectors on the VCP leadership and the socialist direction of reform. The reformist factions belong to a coalition of technocrats, senior party members, and citizens advocating change, who are more interested in the efficient functioning of the system than the survival of ideology with a strong preference for a comprehensive market reform and opening of the economy to the world market. They want Vietnam to change and develop more rapidly to ‘catch up’ with neighboring states and join the global market to enhance its long-term development Prospects.<sup>11</sup>

Policy debate about the nature of socioeconomic development in Vietnam began during the economic difficulties of 1979-80. The traditional Stalinist model was criticized, but not without opposition from conservative hardliners, and new policies in the early 1980s still reflected a desire to preserve the basic institutions of the traditional Stalinist model. Policy debates are reflected in the open party documents and publications.<sup>12</sup> Nguyen Duy Trinh took a conservative position, arguing against “the tendency

9. Gao Shangquan, *Two Decades of Reform in China* (Singapore: World Scientific, 1999), p. 34.

10. Thai Quang Trung, *Collective Leadership and Factionalism* (Institute of Southeast Asian Studies, Singapore, 1985).

11. Quan Xuan Dinh, “The Political Economy of Vietnam’s Transformation Process,” *Contemporary Southeast Asia*, vol. 22, no. 2, August 2000, pp. 365-366.

12. Communist Party Vietnam, *Tang cuong xay dung dang trong hop tac xa tieu cong nghiep va thu cong nghiep* (Strengthen party construction in artisanal and light industrial cooperatives), Hanoi: NXB Su That, 1979; “Phuong huong, nhiem vu phat trien cong nghiep tieu dung va cong nghiep dia phuong” (Directions and duties in the

that said that all sectors, especially the individual and capitalist, should be allowed to expand” and maintaining that “the scope for relying on markets should be limited by the need to subordinate them to the plan – the basic reason for failure is the slow pace of change in methods of planning and management structure.”<sup>13</sup> Nguyen Lam took a more radically pro-market position, arguing against ‘planning everything,’ favoring the use of markets and multiple planning levels and stressing the need to pay attention to the material interests of peasants, regions, and so on.<sup>14</sup> As a result, the reform policy in the first half of the 1980s, in general, was a compromise between the two groups in a sense that the private sector and free markets should play a role subordinate to the state plan and subsidized supply would continue as part of the state central management, with resources allocated directly into high-priority areas.<sup>15</sup>

However, at the Sixth Party Congress in December 1986, the policy debate began to favor reformers and identified the state’s central economic management as a key factor inhibiting both economic growth and micro-level reforms. Those early policies were rejected, starting with far greater formal decentralization through the slogan of ‘commercialization’ (*thuong mai hoa*) of the state economy, allowing markets to play a more important role in the allocation of resources and encouraging nonpublic sectors to exist and develop in production and services. Such a shift away from long-accepted orthodoxy created opposition from conservatives, and this again slowed the pace of transition.<sup>16</sup> In the early 1990s, the state was still the dominant owner of the means of production within industry. The nonstate share of industrial production was estimated at 23 percent, while that of retail business and trade had increased from 30 to 70 percent during the last years of the 1980s. In banking, mining, communications, and many other sectors state ownership dominated completely. Furthermore, the state sector was increasing its share both of GDP and industrial output. Thus, the economic transition was only a process of commercialization or liberalization of the state sector, with state units acting with greater autonomy according to commercial or market criteria, with privatization playing a marginal role.<sup>17</sup>

In the 1990s, particularly during the 1997 Asian financial crisis, the internal conflict between conservatives and reformers intensified. Conservatives blamed the crisis on capitalism and believed that Vietnam’s lack of economic integration was a blessing. Reformers blamed the crisis on ‘crony’ capitalism, imperfect markets, and too much government intervention. Since the Eighth Party Congress in 1996, the Politburo has been deadlocked and unable to implement any bold reforms to stimulate the economy, because it is divided along factional and ideological lines and unable to come to an agreement on the direction of the reform program. Reformers believe that economic growth is contingent upon exploiting Vietnam’s comparative advantage, joining the global market, courting foreign investment,

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development of consumer goods industry and regional industry), *Nhan Dan*, October 6, 1979; *Ve phuong huong, nhiem vu phat trien cong nghiep hang tieu dung va cong nghiep dia phuong* (On the directions and duties in the development of consumer goods industry and regional industry), Hanoi: NXB Su That, 1979; Nguyen Duy Trinh, *Ve hoi nghi 6* (On the Sixth Plenum), *Nhan Dan*, January 19, 1980; Nguyen Lam, *Phat trien cong nghiep hang tieu dung va cong nghiep dia phuong* (Develop consumer goods industry and regional industry), Hanoi: NXB Su That, 1980; “May van de ve tu tuong chinh sach kinh te hien nay” (Some current problems in thoughts about economic policy), *Tap Chi Cong San* (Communist Studies), no. 3, 1980.

13. Adam Fforde and Stefan de Vylder, *From Plan to Market: The Economic Transition in Vietnam* (Boulder, CO: Westview Press, 1996), p. 131.

14. *Ibid.*

15. *Ibid.*, pp. 126-127.

16. *Ibid.*, pp. 127, 149.

17. *Ibid.*, pp. 254-255.

and engaging in international trade, while conservatives see these as ways that the First World will continue to exploit Vietnam and keep it poor and underdeveloped.<sup>18</sup>

The tensions between these two groups have not only determined the policy choice of economic reforms but also the sequence of economic and political reforms. However, such tensions should not be characterized as a struggle between those who favor reform and those who oppose it. Disagreement is over the pace and scope of the reforms, between those who push for more radical or speedy reforms and those who favor gradual and steady reforms. For example, in the area of ownership reform, the ideological contention within the party is no longer whether a private sector should be allowed but whether such a sector would be allowed to develop larger than the state sector, and how much freedom of expression can be allowed in the area of political reform. However, the power balance has by and large been skewed in favor of the conservatives allied with the military and security groupings that dominate in the decision-making process, particularly in the area of political reform. The reformers, on the other hand, have been given the prerogative to play a more pronounced role in economic reforms as long as regime security and stability are not threatened and fundamental principles and policy lines are not breached.<sup>19</sup> The entire process of reform and opening has been shaped and determined by the tensions and power relationship between moderate and radical reformers and the interaction of their reform strategies. Faced with powerful resistance for the conservatives, the reformists have been careful in their approach to reform and find ways to compromise when pushing for reforms. The lack of agreement between the conservatives and the reformists over the direction, extent, pace, and depth of reforms has made the party indecisive over many pressing structural problems faced by the country. The result is a gradual, partial, and piecemeal response to those problems and challenges.<sup>20</sup>

### ***The Relationship between Reform and Stability***

At the cognitive level, how the party leadership perceives the need of political control and stability matters in the interplay between politics and economics. To Asian communist leaders, the fall of the Soviet Union and Eastern European communism confirmed the fundamental need of political control to maintain political stability and the necessity of economic reform to improve economic performance. Therefore, the policy choice and sequence of reform are greatly influenced by the leadership's concerns about the consequences of reform that might threaten the power of communist leadership and political stability of the regime.

#### ***(a) China***

In China, although economic reforms have promoted economic growth and increased the living standards of the Chinese people, the post-Mao leaders have recognized the 'faith crisis,' legitimacy, polarization, unemployment in SOEs, corruption, and social security as major problems threatening

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18. Zachary Abuza, "The Lessons of Le Kha Phieu: Changing Rules in Vietnamese Politics," *Contemporary Southeast Asia*, vol. 24, no. 1, April 2002, pp. 127-128.

19. Russell Heng Hiang Khng, "Leadership in Vietnam: Pressures for Reform and their Limits," *Contemporary Southeast Asia*, vol. 15, No. 1, 1988, pp.391-398.

20. Quan Xuan Dinh, pp. 372-383.

political stability and the existing political order. A series of political events – the spontaneous ‘contest’ for deputies of local peoples’ congresses at Beijing universities in the early 1980s, the student and dissident movements in the early and mid-1980s, the nationwide pro-democracy student movement in 1989, and the collapse of communist regimes in the Soviet Union and Eastern Europe – have reinforced the post-Mao leadership’s belief that political control is needed to maintain political stability and that economic reform should be cautious enough to help keep stability, not jeopardize it. Deng Xiaoping noted repeatedly that, what really counted was development, but without stability, there would be no economic development. Therefore, stability is considered the prerequisite for reform and development. Change should be gradual and within the current political structure. This line of thought has dominated China’s economic reform and development since 1978 and continued to define the parameters of reform and development since Jiang Zemin – not too radical and not too liberal.

For the reformists, reform would bring about socioeconomic development and prosperity, which in turn would enhance regime legitimacy and political stability. For the conservatives, reforms should be conducive to the stability and prosperity of the country rather than causing social disturbances. In particular, Deng Xiaoping emphasized the ‘Four Cardinal Principles’ as a fundamental prerequisite to the socialist reforms and the Four Modernizations. These Four Cardinal Principles define the direction, scope, content and limit of the post-Mao reforms.

Deng’s ‘Four Cardinal Principles’ are by no means considered by the post-Mao regime as rituals, but as defining the core elements of the system, and any attempt to weaken these principles has never been tolerated. During the 1980s, the top reformist leaders, such as Hu Yaobang and Zhao Ziyang, proposed and attempted to open up more political space or create ‘more relaxed political environment,’ such as allowing more toleration of debate on political reforms, more press freedom, and more lifting of political taboos within the party policy line. Their limited liberal reform efforts had the unintended effect of ideological decay and increasing student and dissident activities. These reformist leaders and their political allies were removed from office and politically persecuted, and those steps toward a more ‘relaxed’ political environment were quickly reversed after the suppression in 1989. In the years since, no political leaders have had the courage to challenge Deng’s doctrine. Economic liberalization was emerging with more political rigidity, more austere control over any liberalizing tendencies both within and outside the regime, and more a conservative backlash in political life. China’s leaders have shown little tolerance for challenges to the party leadership and maintained a tough stance against public protests and independent social organizations. This intolerance locks the CCP regime in a constant struggle to hold back a rising tide of self-organizing and independent social and economic organizations that have extremely limited legal space for their political maneuver. Since the 1989 student dissident movement, no political dissident movements have been able to inspire similar widespread public sympathy and support.<sup>21</sup>

The post-Mao leadership has pursued a pattern of economic modernization with no attempt to fundamentally transform the Chinese communist political system. Political reforms were regarded as a means of facilitating economic reforms, and served the purpose of strengthening and improving the Party leadership. Party leadership claimed that successful and further economic reform required ‘social stability and unity,’ and should be carried out only under party leadership. Thus any tendency towards political liberalization and democratization was seen as a threat to such leadership and stability. The focus of reform has been placed in the economic area.

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21. George Gilboy and Eric Heginbotham, “China’s Coming Transformation,” *Foreign Affairs*, vol. 80, no. 4, 2001, pp. 27-28.

Since the middle of 1990s, China's economic reform picked up speed, abandoned many key elements of state socialism, and embraced many methods commonly used in a capitalist market economy, steering China toward a more open and market-oriented economy. However, the conservatives have continued to attack Deng's economic policies. In 1995, a leading CCP leftist study group circulated among the party leadership the first of several '10,000 character' manifestos in the late 1990s, criticizing market reform practice and viewing income gaps, corruption and unemployment as straying away from the socialist road. It was reported that it struck a sympathetic chord among some high-level leaders and certain sectors or institutions. The conservatives are primarily located in the state planning, military, propaganda organs, political education at universities, social science academies, the mass media, party schools, and the western and central regions. Their influence began to increase in the late 1990s, stressing stability, collectivist values, equity, planning, and state regulation of the market. They also advocated policies that would roll back, slow down, or redirect market reforms on the socialist road. The conservatives slowly regained their ability to influence higher leadership because their comeback coincided with the Asian financial crisis, the bombing of the Chinese embassy in Belgrade, and the WTO concessions. It was also because the moderate reformers in the top leadership, such as Jiang Zemin, Zhu Rongji, and Li Ruihuan, were deeply concerned with stability, seeking to strengthen party leadership and maintain political stability. The tensions and conflicts between different ideological tendencies and forces have continued to affect the CCP top leadership.<sup>22</sup>

In the late 1990s, following a ten-year freeze on discussions concerning political reform, neo-authoritarianism and liberal intellectuals began to discuss political reform. Neo-authoritarians, such as Pan Yue, a vice minister of economic reform and the son-in-law of former military general Liu Huaqiu, emphasized elitist rule, a strong central government, a market economy, and nationalism. Liberals, such as economist Cao Siyuan, emphasized world integration, political participation, and social welfare. However, it seems that the neo-authoritarianism had the most influence on the party leadership.<sup>23</sup> In 2000, China's Academy for Social Sciences conducted a survey of middle ranking party-state officials attending the Central Party School. The survey found that 'political reform' meant little more than streamlining the bureaucracy. Corruption, unemployment, and unrest had become their major concerns.<sup>24</sup> This suggests that stability remains a predominant concern of the party-state leadership. Premised on the fundamental need for political stability, the CCP's policy pronouncements extended no further than a greater role for the market mechanism, less emphasis on egalitarianism, pursuit of proportionate and balanced growth, decentralization of economic decision-making, and closer integration of China into the world economy.<sup>25</sup>

### **(b) Vietnam**

Vietnam's *doi moi* has resulted in a market-based and multi-sectoral economy that leaves some economic areas beyond the reach of the party and creates many ideological inconsistencies between

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22. Al L. Sargis, "Ideological Tendencies and Reform Policy in China's Primary Stage of Socialism," *Nature, Society, and Thought*, vol. 11, no. 4, 1998, pp. 391-398.

23. Bruce Gilley, "Communist Party Grapples with Reform," *Far Eastern Economic Review*, vol. 164, no. 19, May 17, 2001, p. 26.

24. "Intimation of Mortality," *Economist*, vol. 359, no. 8228, June 30, 2001, pp. 21-24.

25. Andrew G. Walder, ed., *China's Transitional Economy* (New York: Oxford University Press, 1996), p. 24.

Marxist-Leninist doctrines and market reform practices. The central question the leadership has been concerned with is how the communist party can maintain its power and leadership in the process of reform. At the heart of the issue is the question of the relationship between economic and political reform and between reform and stability. The Vietnamese leadership has regarded Vietnam as having a more satisfactory balance between economics and politics and between reform and stability.<sup>26</sup>

In late 1989, in the wake of the collapse of communism in Eastern Europe, reformers pushed for democratic reforms and moved the country towards a multi-party system, which sparked off a fierce debate within the party. This led to the removal of reformist leader, Tran Xuan Bach, from the Politburo in March 1990, and the removal of many other reformers such as Duong Thu Huong (a writer), Bui Tin (a former army colonel and editor of the party newspaper *Nhan Dan*), Nguyen Khac Vien (a well-known intellectual), and Hoang Minh Chinh (director of an official think tank). "Books were banned, publishing houses were closed and editors sacked, and in early 1992 tough new guidelines were issued to control publications."<sup>27</sup>

On the other hand, the VCP leadership responded to these challenges by taking some measures, including secret ballot voting procedures, broader participation in the selection of leaders both within and outside the party, rejuvenation of the party-state leadership, efforts to separate the functions of party and state institutions, and declaration of the party policy being subject to the law made by the National Assembly. These measures are superficial and very similar to those adopted in post-Mao China. But, the collapse of communism in East Europe has made the party leadership more cautious about any liberal challenges to the system and the VCP leadership.<sup>28</sup>

At the Seventh Party Congress in June 1991, party conservatives gained the upper hand in the Politburo, with the more conservative leader Do Muoi taking over the position of General Secretary and a majority of the Politburo seats taken by conservatives.<sup>29</sup> The military-security leaders have emerged as a large bloc in the Party Central Committee since then, thus emphasizing the Party's concern for maintaining stability in the country. This group as a collective conservative voice has retained its influence in determining political, social, and economic policies.<sup>30</sup>

At the Eighth Party Congress in 1996, Le Kha Phieu, who succeeded Do Muoi as Party General Secretary was also a conservative leader who sought to protect the *doi moi* course from being sidetracked from socialism. *Nhan Dan*, the mouthpiece of the VCP, warned the Party that "hostile forces are implementing their 'peaceful evolution' strategy against our country in a bid to do away with Marxism-Leninism and Ho Chi Minh's thought, undermine the ideological single-mindedness within our Party and among the people, negate our Party's leadership, attempt to get rid of the socialist regime in our country... and cause our socioeconomic system to sidetrack from the socialist orbit."<sup>31</sup> However, the reformists, rallying behind Former Prime Minister Kiet, advocated party reform and a more open approach to the functioning of the party to fight against bloated bureaucracy, corruption, inefficiency, and waste. Although this proposal was largely unsuccessful, the reformists had the upper hand when parts of the draft economic document, which was referred to as the promotion of the state sector to 60

26. David W. P. Elliott, "Dilemma of Reform in Vietnam," in William S. Turley and Mark Selden, eds., *Reinventing Vietnamese Socialism: Doi Moi in Comparative Perspective* (Boulder, CO: Westview, 1993), p. 73

27. Russell Heng Hiang Khng, p. 100.

28. *Ibid.*, p. 101.

29. *Ibid.*, pp. 101-102.

30. Derek Tonkin, "Vietnam: Market Reform and Ideology," *Asian Affairs*, vol. 28, no. 2, 1997, p. 193.

31. *Ibid.*

percent of GDP, was removed from the resolution of the Eighth Party Congress. The resolution was a compromise or a deadlock. The party rejected political pluralism, but left many fundamental issues unresolved. Such issues as economic pluralism, public administration reform, SOE reform, and integration into the global market were accepted without clear implementation details and schedules. The various factions in the VCP agreed on three broad policy areas: the need for political stability, the need for openness to the outside world through foreign trade and investment, and the need for Vietnam to reform at its own pace. Because each faction could interpret these policy issues differently, further discussions are required. As a result, the implementation of reforms was slow and partial. All factions agreed on the need for reform, but the problem was how much the VCP should risk in its commitment to deeper reforms? The pace of reform was the main point of contention. Gradualism was the result of compromise between various factions within the VCP leadership.<sup>32</sup>

At the Fourth Plenum in December 1997, the party endorsed the 'gradual' restructuring of SOEs. The Plenum stressed the mobilization of domestic capital and encouraged foreign investment, but was cautious about the opening-up of Vietnam's capital market. The various plenum meetings between 1998 and 1999 (Fifth, Sixth, Seventh, Eighth) had been convened to tackle urgent economic problems in the face of the Asian crisis, but the meetings were dominated by the main concerns of ideology, stability, party unity, and party building. The VCP continued to stress stability over reform and use the gradual 'learning by doing' approach to economic reform as its counterpart, the CCP, did in post-Mao China throughout its reform process.<sup>33</sup>

Since the Eighth Party Congress in 1996, the Politburo has been deadlocked, as internal conflict between conservatives and reformers has prevented an agreement on the direction of the reform program. Although former General Secretary Le Kha Phieu was replaced by a more reform-minded leader, Nong Duc Manh, at the Ninth Party Congress in 2001, both conservatives and reformers have agreed on the fundamental need of maintaining political stability as the prerequisites for economic reform and growth because both factions are fearful of instability and believe that changes and reforms can also bring down the regime if not controlled. Therefore, the VCP leadership has firmly turned its back on any significant political reform and is determined to maintain party-state power and control, while adopting the idea of a 'socialist oriented market economy' as the direction of the economic reform program.

### ***The Relationship between Socialist Principles and Market Reforms***

In socialist reforms, the primary actors initiating reforms are the party-state elite and the direction of those changes is determined by their perceptions and visions on reform, which are expressed in different interpretations of Marxism-Leninism. It is in this context that the debate on overall or particular reform policies has taken place. The primary barriers to reform and change are the official ideology, and therefore the removal of ideological barriers allows reforms to move to the next stages and spread from one area to the other. The first hotly debated ideological issue in communist countries has to do with the relationship between plan and market. The leadership's different understanding of the plan-market relationship has largely determined the pace and scope of economic reform. The second has to do with

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32. Quan Xuan Dinh, pp. 367-368.

33. *Ibid.*, pp. 369-372.

ideological commitment and regime identity, in which the corner stone of socialism is identified with public ownership and therefore must be preserved in market-oriented reform.

**(a) China**

In China, an important ideological debate was the compatibility between plan and market, and this shaped and constrained the reform process from the very beginning. During the late 1970s and the early 1980s, an initial step of reform was to encourage experimentation with household contracting (*baogan daohu*) in agricultural farming, which led to the abandonment of people's communes and the introduction of the household responsibility contracting system. This meant no more collective farming and production targets. Households were given the use rights of a piece of land and allowed to sell any surplus on the market after delivery of a certain amount of grain to the state at set prices.<sup>34</sup> Important consequences of this were the increasing role of the market and independent decision making on the part of peasants, which generated a serious debate within the party on the relationship between plan and market. The debate ended with an official resolution by the CCP that the market mechanism be considered a useful supplement to socialist planning.

During the 1980s, no breakthrough was made in terms of the relationship between two of the most important concepts in the political economy of state socialism – plan and market. For the conservative or moderate reformers, the market was equal to capitalism while the plan was equal to socialism. For the conservatives, the market was seen as a bird in the cage of the socialist plan, which was called 'birdcage economy,' in which "the state guides the market and the market guides the enterprises." For the radical reformers, the plan was not considered as the fundamental principle of socialism. Both plan and market were just two different means for allocating social and economic resources and, therefore, not attributed to the nature of a political economy.<sup>35</sup> The debate ended with a compromise at the 13<sup>th</sup> Party Congress in 1987: the CCP adopted the concept 'Socialist Planned Commodity Economy' that combined planning and market mechanism.

Since 1992, the radical reformers gained the upper hand on this issue with the support of Deng Xiaoping. Since then the CCP has adopted the concept 'Socialist Market Economy' based on the idea that the market mechanism was merely an instrument of resource allocation and not a defining feature of an economic system. The market was considered compatible with both capitalist and socialist economies. The socialist nature of the economy would be maintained as long as the CCP ruled and the public ownership (the state and the collectives) occupied a predominant position in the economy. Since then, China has made the transition from a centrally planned economy to a market-based mixed economy with public ownership occupying the predominant position.

The reform process in China suggests that different views of the relationship between plan and market have played an important role in shaping the reform objective model, from 'a planned economy with some market adjustment,' to 'a planned commodity economy based on the combination of plan and market,' and now to 'a socialist market economy' which enables the market to play a central role

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34. Barry Naughton, "Distinctive Features of Economic Reform in China and Vietnam," in John McMillan and Barry Naughton, eds., *Reforming Asian Socialism: The Growth of Market Institutions* (Ann Arbor, MI: The University of Michigan Press, 1996), p. 275.

35. Gao Shangquan, p. 3.

under the state's macroeconomic control.<sup>36</sup> It took fourteen years (1978-1992) for China to switch from the initial reform objective model to the current economic model.

Another important ideological conflict arising from the reform process is the compatibility of a market system with those principles of socialism. Although China's post-Mao leaders are devoted to reform, they also remain committed to socialism. Many reform measures conflict with socialist principles and ethics in China. Reforms call for an increase in the private sector, the role of market forces, and the maximization of profit, but socialist ethics demand the predominance of public ownership, the role of state planning and control, and the social need of production. The tension between the reformist spirit and the socialist ethic has been the foundation of the debate over economic reform that has continued throughout the post-Mao era. While the moderate reformers have placed a greater emphasis on maintaining a socialist economic system that embodies traditional socialist values, the radical reformers have been more flexible with the definition of socialism, embracing the ideas of market competition, private interest, and even a certain degree of economic inequality.<sup>37</sup>

Although the Third Plenum of the Eleventh National Congress of the CCP Central committee held in 1979 initiated China's economic reform, reformers within the party disagreed on one key issue: what is the nature of the socialist economy? More than three decades of experience with the traditional planned economy had exposed serious problems and made the post-Mao leaders aware of the need for reform. The question was in what direction. Throughout the 1980s, the moderate and radical reformers debated the nature of the socialist economy, which would set the direction for China's reform. Obviously, the answer to the question had important implications for the reform strategy to be adopted. Within the political context of Chinese socialism, this was a central question. For the moderate reformers, the socialist economy at the primary stage of communism was a commodity economy based on public ownership, which could coexist with other types of ownership, and therefore, economic reform must conform to the principle of developing the commodity economy through the conscious utilization of 'the law of value.' For the radical reformers, the socialist economy was a type of market economy based on a mixed structure of ownership, with the market playing a central role in the economy, and therefore, economic reform must move in that direction. The debate between these two groups was not resolved until the Fourteenth National Congress of the CCP Central Committee in 1992, which defined the nature of the socialist economy as the 'socialist market economy,' and this marked the victory of the radical reformers in the debate. Hence, the market mechanism was viewed merely as an instrument of economic development and not a defining characteristic of an economic system, and it was compatible with either a capitalist or socialist economic system.

Further reform in the 1990s called for a breakthrough in ownership theory. The debate on the nature of shareholding cooperative system was raging during the early 1990s, with a primary focus on whether the shareholding cooperative system was public or private in nature. The result of the debate is the retention of the state sector with the concomitant creation of a parallel non-state sector. The Chinese officials made the distinction between 'privatization' and 'corporatization' and view the conversion of

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36. Gao Shangquan, p. 42. According to Gao Shangquan, one of the most important architects of China's economic reform, "The Socialist Market Economy is a market economy within the context of the socialist system, effecting the operation of the market under socialist conditions." He rejects the view that the market economy is equivalent to privatization and capitalization by further clarifying the definition of the concept: "The essence of the socialist market economy is that public ownership forms its basis." Gao Shangquan, *China's Economic Reform* (New York: St. Martin Press, 1996), pp. 5-6.

37. Harry Harding, p. 100.

SOEs into shareholding companies and the subsequent sale of such shares on a security market as ideologically compatible with 'socialism with Chinese characteristics.' The strategy has not been to privatize the state sector and hand over control and equity to private hands, but rather to bring private savings and foreign capital into state controlled shareholding enterprises within the state-controlled parameters of 'market socialism' in order to serve the state's financial needs, ensure the state's priority in access to investment capital, and maintain the dominant position of the state as majority shareholder. That is to say, corporatization has not been to allow private entities greater ownership and control over enterprises, but allow the state to exercise greater ownership and control over a vast pool of private capital hidden in the non-state sector. Shareholding reform has been limited by ideological constraints: the quota system regulating the number of SOEs allowed to be listed on a security market only recently abolished, the type of enterprises (state, not private, enterprise) allowed to be listed on a security market, and the percentage of shares (a minority) in listed enterprises allowed to be privately owned and traded.<sup>38</sup> The reform pace and direction have been shaped by a decade long disagreement, debate, and compromise between reformers and conservatives, which has resulted in a gradual, phased, experimental and dual-track pattern.

**(b) Vietnam**

In Vietnam, the leadership's perception of the relationship between plan and market has also shaped the reform agenda and the fundamental issue of what is permissible and what is not within socialism. At the Sixth Party Congress which set the guidelines for *doi moi*, the Vietnamese leadership recognized the problems of the central planning system and the advantages of the market. However, the problem is how to balance the two and use the plan as an indicator of general direction.<sup>39</sup> Reformers viewed the coexistence of plan with market and of the state sector with the market sector as the way to salvage the inefficient state sector and to relieve the state of heavy burdens to the society. Conservatives, on the other hand, contended that market-oriented economic liberalization and relaxed state control over the economy undermined the existing socialist programs and also blamed corruption, social problems, and the failure of land reform in the South on market reforms.

The strategic choice of reform policies in Vietnam was also shaped by the debate on the relationship between socialist principles and market reform practices. Market reforms have brought about many changes that contradict the doctrines of Marxism-Leninism. It is in this context that the debate on overall or particular reform policies has taken place. The function of party ideology is to provide reforms with a theoretical framework or basis, and what is more, direction. Therefore, Vietnam's party must balance socialist principles with market reforms and insure that the identity and legitimacy of its ruling status will not be undermined during economic transition.

As early as the 1980s, a theoretical issue emerged in Vietnam: can Vietnam bypass the stage of capitalist development? The political debate leading to the Seventh Party Congress raised a fundamental question concerning the applicability of socialism in Vietnam. The Seventh Party Congress rejected the idea of a stage of capitalist development in Vietnam, especially as a political system and ideology,

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38. Lan Cao, "Chinese Privatization between Plan and Market," *Law and Contemporary Problems*, vol. 63, no. 4, 2000, pp. 13-16.

39. David W. P. Elliott, p. 71.

but its contributions to developing forces of production were considered as a ‘consequence of the intellect of humanity’ which could be used for promoting socialist construction in Vietnam.<sup>40</sup> General Secretary Nguyen Van Linh warned against two deviations from the party’s reform policy: one was the tendency that merely saw the corrupt aspects of a capitalist society without recognizing its progress in technology and management organization, and the other was the tendency that only saw its good aspects without recognizing its bad aspects.<sup>41</sup>

Another theoretical question loomed: how can socialism encompass the aspects of capitalism without losing its identity? The answer is that reform and renovation “do not negate or dismiss the socialist principles because they are the boundaries between communists and noncommunists, socialist and nonsocialist societies, and revolution and reformism”<sup>42</sup> In defending socialist principles, Nguyen warned that “whoever in the name of ‘creativity’ or ‘doi moi’ says they accept Marxism-Leninism but in their actions erase its revolutionary and scientific principles, they are sinking deep into the morass of rightist or ‘leftist’ opportunism.”<sup>43</sup> The landmark of socialism is identified with the public ownership of the means of production and land.

Vietnam did not follow a comprehensive reform plan which would spell out each of the stages from beginning to end, but moved forward in a step by step manner.<sup>44</sup> The first step of reform was in the northern rural sector where both collective farms and state enterprises were allowed to engage in a wide range of ‘experiments,’ which included contracting between individual farmers and collectives. Collectivization in the south was temporarily abandoned with only one-third of collective production teams still in existence. By the early 1980s, most agricultural households were operating individually under ‘production contracts’ that stipulated for each household a quota for delivery of food grains to the state, and allowed above-quota sales at a negotiated price with the state agency.<sup>45</sup> However, this reform was not part of a longer-term plan, and peasants could not count on them, because cooperatization or collectivization remained on the party agenda. In December 1982, the Third Plenum of the Fifth Party Congress declared that the cooperatization of the southern region should be ‘basically completed’ by the end of 1985, and in 1984 an effort to renew a ‘collectivization drive’ was made by the Fourth Plenum. The Sixth Party Congress in December 1986 fully endorsed the move towards a market economy from a planned economy. But, it was only after the adoption of Politburo Decree No. 10 in April 1988 that the peasant family was clearly understood to be the basic unit in the agricultural sector and the contracting system became the basis of a long-term tenure system granting user rights of land and freedom to sell products on the open market. The user rights in the contracting system were not private ownership of land. The contracting system is similar to the one adopted in China.<sup>46</sup>

The Seventh Party Congress in June 1991 continued to reject privatization of land and endorse the role of cooperatives in managing common matters and assuring equity. The cooperatives have not been abandoned, but their role has changed from one of administrative responsibility over production

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40. David W. P. Elliott, p. 64; Nguyen Kien Phuoc and The Gia, “Affirming the Continuation of *Doi Moi* and the Advance to Socialism,” *Nhan Dan*, May 5, 1991.

41. *FBIS-EAS*, October 3, 1989, p. 7.

42. *FBIS-EAS*, October 3, 1989, p. 70.

43. *Nhan Dan*, December 12, 1990.

44. David W. P. Elliott, p. 73.

45. Chu Van Lam, “Doi Moi in Vietnamese Agriculture”, in William S. Turley and Mark Selden, 1993, pp. 153-155.

46. Börje Ljunggren, “Market Economies under Communist Regimes: Reform in Vietnam, Laos, and Cambodia”, in Börje Ljunggren, ed., *The Challenge of Reform in Indochina* (Cambridge, MA: Harvard University Press, 1993), pp. 67-68.

to one of responsibility for the distribution of inputs, provision of irrigation and other services, collection of taxes and fees, and procurement of outputs. Cooperatives also continue to own capital equipment, such as tractors and trucks, but management has been contracted to individual operators. The actual role of the cooperative in the south is more limited but remains powerful in some respects, having decisive influence over certain crucial matters such as the leasing of land.<sup>47</sup>

In the 1990s, SOE reform began to emerge as a hotly debated issue in the VCP leadership. The conservatives rejected the attempt to privatize the SOEs and were not at ease with the development of the private sector. For them, the corner stone of socialism was identified with public ownership and therefore SOEs and state control must be preserved in market-oriented reform. The reformists advocated a parallel development of private and public sectors and a reduced role of the state in the economy. For them, the development of private sectors would not undermine the predominant position of public sectors and would be beneficial to the improvement of living standards for the Vietnamese people. The result of the debate was a compromise: the Vietnamese leadership began to allow private enterprises to develop in some areas, eliminate most plan targets, emphasize the financial accountability and autonomy of state enterprises, and initiate credit and price reforms. However, “SOEs are cosseted and indirectly subsidized by preferential access to land usage rights, tax concession, and priority treatment on matters of bank finance, transport, and licensing.”<sup>48</sup> In the 1990s, the reform of SOEs followed a very similar pattern of Chinese reform. Although the number of SOEs has been reduced, they have been restructured into a score of state conglomerates, each associating a significant number of enterprises in a particular industrial sector, such as rubber, steel, transport, and cement.<sup>49</sup> These new state companies have also taken advantage of new business opportunities provided by reform at all levels of the party-state to expand into new areas, including foreign and domestic trade, joint-ventures, real estate, banking, tourism, and entertainment. In these new areas, they have benefited a great deal from various forms of monopoly or oligopoly control.<sup>50</sup>

As late as August 2001, at the Third Plenum of the Ninth Central Committee, the VCP continued to declare that “the state sector of the economy (in which state enterprises are the main pillars) shall occupy a leading role and this role is closely associated with the country’s move towards socialism and stable economic and social development.”<sup>51</sup> The Ninth Party Congress in 2001 did not make any breakthrough in economic reform objectives and only reaffirmed the policy direction laid down at the Sixth and Seventh Party Congress. Before the Ninth Party Congress, party documents declared that it was the long-term policy of the VCP to develop a “commodity-based multi-sectoral economy operating in accordance with the state-managed and socialist oriented market mechanism.” The Ninth Party Congress merely condensed this long sentence into a single phrase ‘develop a socialist-oriented market economy.’ At the First Plenum, the VCP leadership, as its counterpart did, began to grapple with the complicated question of whether businessmen should be allowed to join the party since plenty of businessmen were already party members from the party-state organizations or SOEs, but it failed to

47. *Ibid.*, pp. 68-71.

48. Derek Tonkin, p. 189.

49. *Ibid.*, 191.

50. M. Gainsborough, “Beneath the Veneer of Reform: the Politics of Economic Liberalization in Vietnam,” *Communist and Post-Communist Studies*, vol. 35, no. 3, September 2002, pp. 353-368.

51. “Thong bao Hoi nghi lan thu ba Ban Chap hanh Trung uong Dang khoa IX” (Communique of the Third Plenum of the 9th Central Committee), *Lao Dong*, August 23, 2001. [http://www.laodong.com.vn/pls/bld/folder\\$.view\\_item\\_detail\(12867\)](http://www.laodong.com.vn/pls/bld/folder$.view_item_detail(12867))

come up with a detailed policy. The private sector is now allowed to develop, but still barred from 'sensitive' industries. The boom in private companies stem almost entirely from small, family-run and privately-financed firms. To grow into bigger businesses however, those ventures will require resources that mainly go to SOEs. The country has a fledging stock market exchange, in Ho Chi Minh City, but all the listed companies are state-owned. In 2001, the Vietnamese government promised foreign donors that it would sell some 300 state outfits, but only managed half that number, because the VCP continues to preserve a significant public sector as the corner stone of socialism.<sup>52</sup>

The continuity in Vietnam's economic policy is largely a result of the compromise and balance between reformers and conservatives in the VCP leadership. Reformers wanted to scrap the inefficient state sector and free up the private sector, while conservatives contended that the collapse of the state sector could lead to mass unemployment and political unrest. The state sector was considered as the backbone of the socialist economy and must be maintained as the dominant role in the economy. Therefore, the effort should focus on making the SOEs efficient and profitable. The VCP leadership has not been able to resolve the debate between the liberal and conservative positions and form a consensual policy.<sup>53</sup> A middle-road between the two groups has been sought and reaffirmed at the Third Plenum of the Ninth Central Committee. In the foreseeable future, the direction of economic policy will be most likely to muddle through on this middle road.<sup>54</sup>

### Concluding Remarks

This article has examined three key variables that have shaped the strategic choices of reform policy and therefore the pattern of transition from state socialism in China and Vietnam. The reform pace and direction have been shaped by a decade long disagreement, debate, and balance between reformers and conservatives along the three main dimensions, which has resulted in a gradual, phased, experimental and dual-track pattern of transition. Chinese and Asian transition from state socialism confirms the following two temporary generalizations that can be found in the literature on Asian economic transition from socialism.

First, there is a direct causal relationship between elite strategic choice and pattern of transition and an antecedent relationship between structural factors, policy choices, and patterns of transition. The entire process of reform has been shaped and determined by the tensions between moderate and radical reformers and the interaction of their reform strategies.

Second, if the reformers are in a relatively weak political position, then support for reform can be obtained by introducing step-by-step partial reforms directed at areas where possible and where there will be a quick payoff such as in agriculture. The initial success would then strengthen the political support for reform and more difficult reforms can be attempted. Therefore, the timing and priorities of reforms are often dictated by economic feasibility and political sustainability perceived by the leadership.<sup>55</sup>

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52. "Reluctant Capitalists," *Economist*, March 16, 2002, p. 46.

53. Zachary Abuza, pp. 129-130.

54. David Koh, "The Politics of a Divided Party and Parkinson's State in Vietnam," *Contemporary Southeast Asia*, vol. 23, no. 3, December 2001, pp. 542-543.

55. John McMillan and Barry Naughton, eds., *Reforming Asian Socialism: The Growth of Market Institutions* (Ann Arbor, MI: The University of Michigan Press, 1996), p. 14

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**Abstract**

*Gradual and partial reform was the key feature of economic reforms in China and Vietnam, which demonstrated a different pattern of transition as compared to formerly communist countries in Russia and Eastern Europe – “neoclassical” big bang or radical approach. Whether this divergent pattern is due to differences in initial conditions or choices of policy is subject to debate. This paper argues that while initial conditions are important in determining and explaining why reforms were adopted, elite strategic choices of policy were the dominant factor that explains how reforms have been carried out. This paper has examined three key variables that have shaped the strategic choice of reform policy and therefore the pattern of economic transition from state socialism in China and Vietnam. The reform pace and direction have been shaped by a decade long disagreement, debate, and balance between reformers and conservatives along the three main dimensions, which has resulted in a gradual, phased, experimental and dual-track pattern of transition.*