

Institutional Challenges and Implications for Public Governance



Vũ Thành TỰ Anh
Fulbright University Vietnam
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Presentation Outline



- ❧ “Socialist Market Economy”
- ❧ State commercialization
- ❧ State fragmentation
- ❧ Emergence of clientelism
- ❧ Implications for public governance

The Fundamental Institution: “Socialist Market Economy”



Economic development		Political stability
Market economy		Socialist orientation
Private ownership		Public ownership
Decentralized markets		Centralized plans
Integration		Protectionism

Dualistic Nature of Vietnam's Economy



Active integrationist or
comparative advantage
following strategy:

**FDI and
private exporters**

Protectionist or
comparative advantage
defying strategy:

**SOEs and
some FDIs**

State Commercialization



- ❧ **Puzzle:** How to achieve economic legitimacy while maintaining economic leading role and keeping political monopoly?
- ❧ State gradually replaces central planning by markets, but fails to establish a clear separation between them
- ❧ State commercialization
 - ❧ 1985-1989: SOEs rocketed from 3,000 to 12,000
 - ❧ 1994: Nearly 100 state general corporations
 - ❧ 2005-2011: 13 state economic groups

Consequences



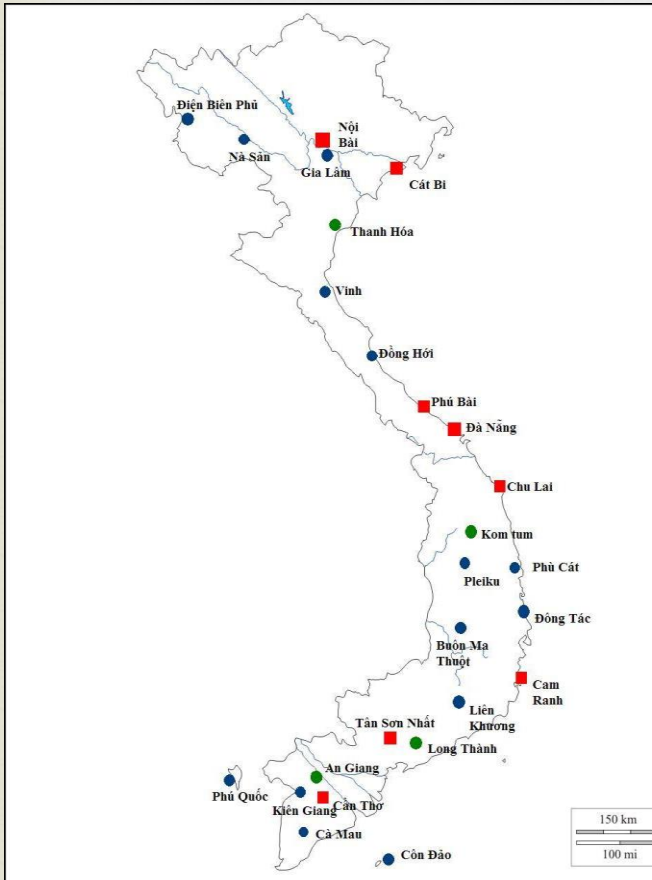
- ❧ Unequal playing field
- ❧ Lack of transparency and accountability
- ❧ Crowding-out effects
- ❧ Missing the middle: Very few genuinely large-scale domestic private companies in manufacturing
- ❧ Emergence of private oligarchs since mid-2000s

State fragmentation

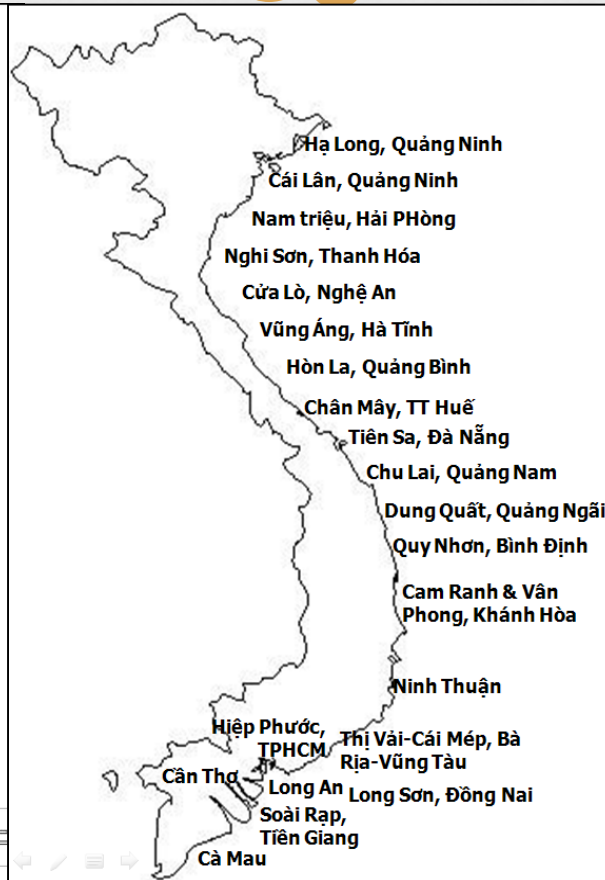


- ∞ Central vs. local
- ∞ State vs. business
- ∞ Within government: lack of coordination
- ∞ Among provinces: race to the bottom

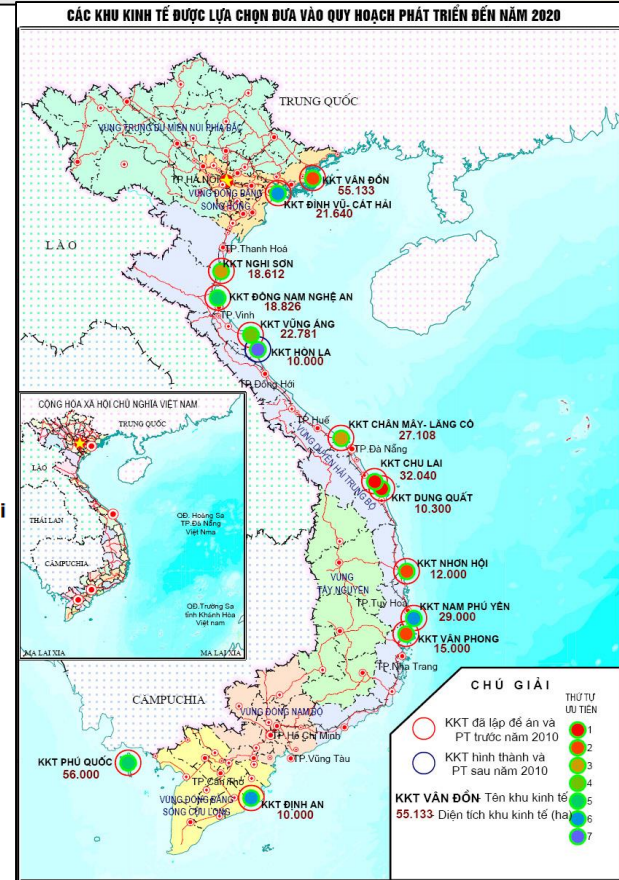
Consequences



AIRPORTS

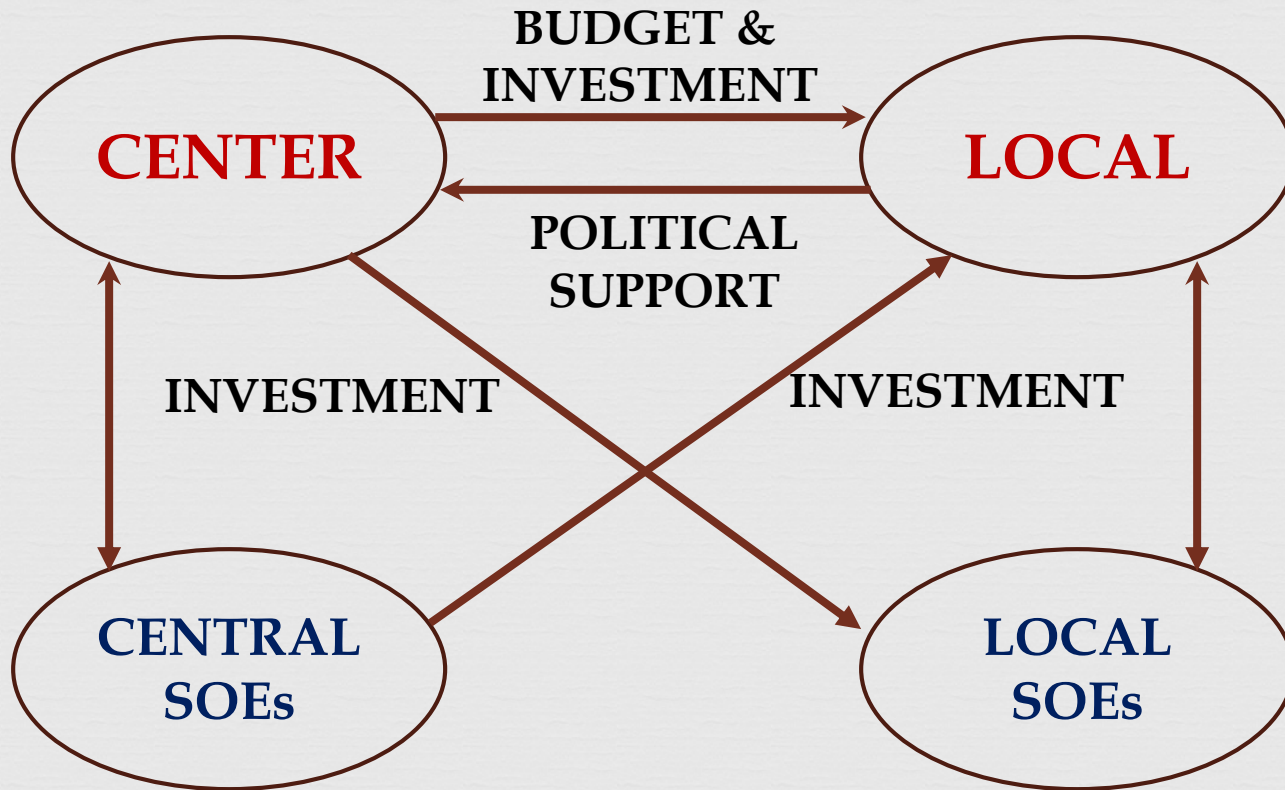


DEEP SEAPORTS

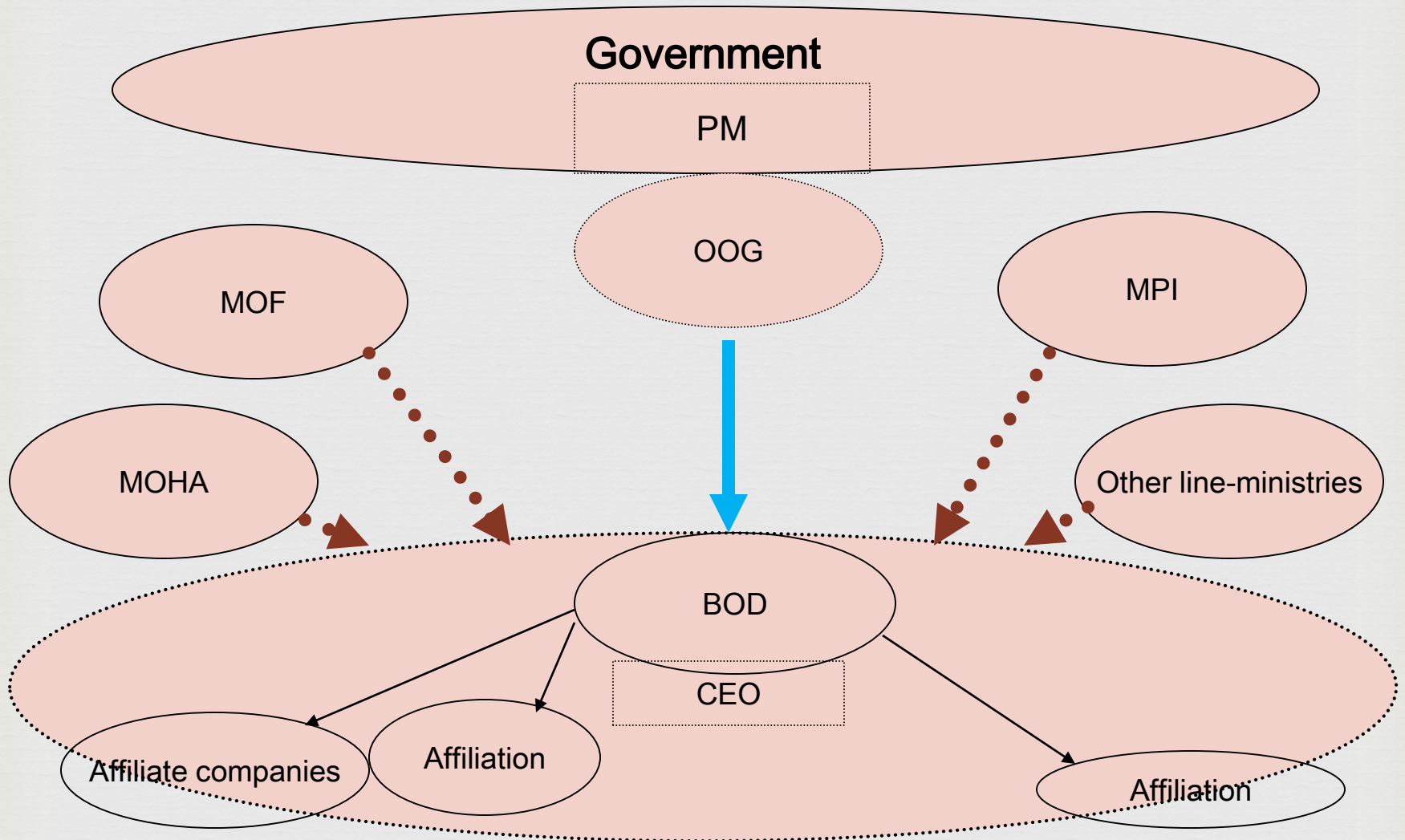


ECONOMIC ZONES

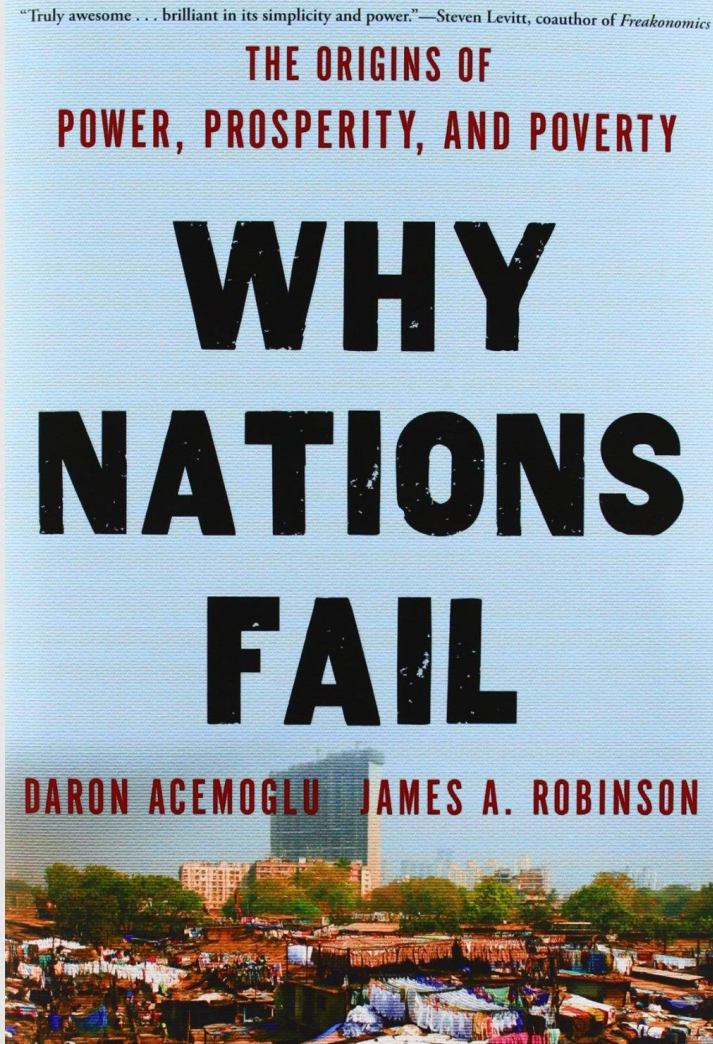
Emergence of clientelism



Supervisory fragmentation in SEGs



Political Economy Ramifications



- ❧ *State capture*: public and private conglomerates affect, even shape the formation of the rules of the game
- ❧ *Resistance to reforms* (e.g., economic restructuring, overcoming growth bottlenecks, transforming the growth model)
- ❧ *Emergence of clientelism*
- ❧ *Economic slowdown/stagnation*

Inclusive vs. Exclusive Institutions

- ❧ **Extractive Political Institutions:** Power is concentrated in the hands of narrow groups of elites, no check and balance, no rule of law.
- ❧ **Extractive Economic Institutions :** No law and order; ownership is not guaranteed; market entry barriers; regulations prevent the functioning of the market and create an unequal playing field.
- **Inclusive Political Institutions :** Allow broad participation; restrict and control the politicians; rule of law. A degree of political centralization able to maintain law and order.
- **Inclusive Economic Institutions :** Property rights are guaranteed; law and order; markets prevail; the state support market functioning; relatively low barriers of entry and exit; respect for contracts; access to education and opportunities for the majority of citizens.

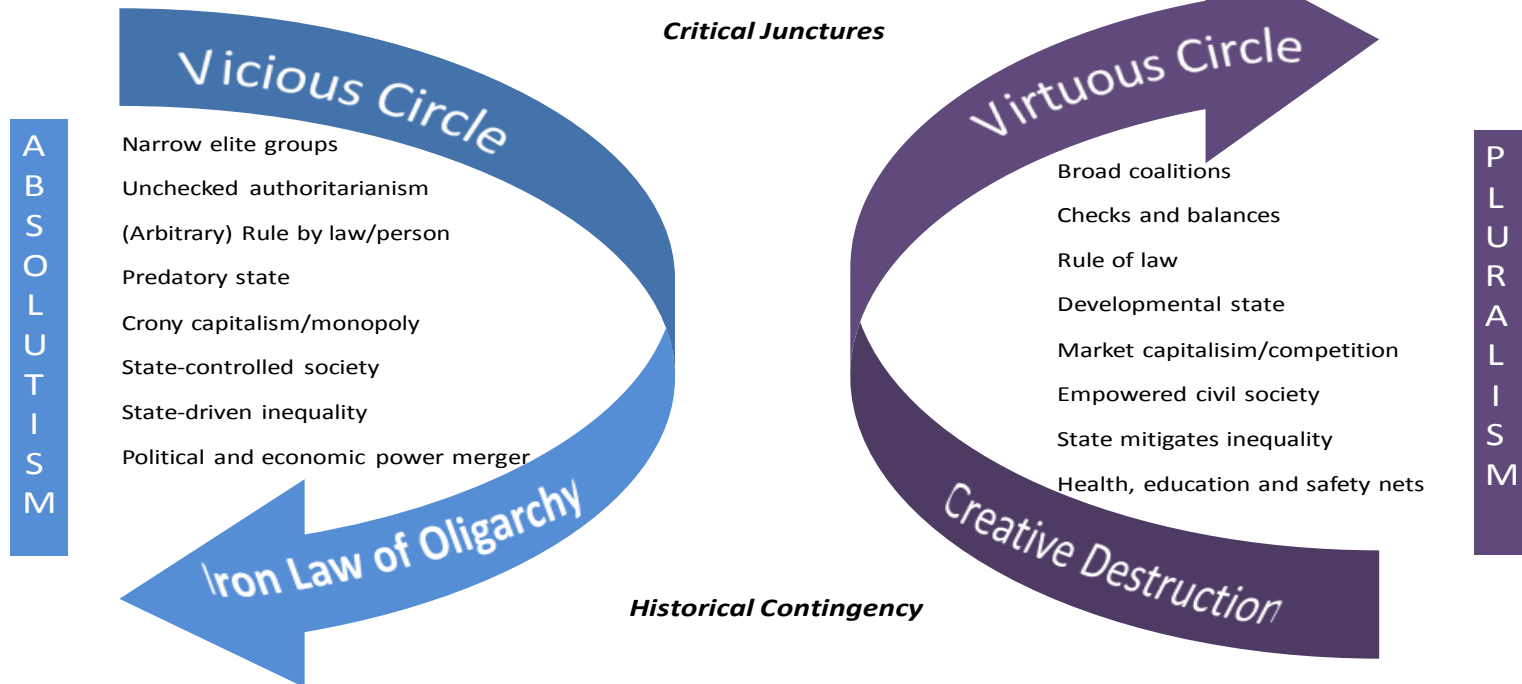
Implications for public governance



Why Nations Fail — or Succeed Acemoglu and Robinson Paradigm

**Extractive Economic and
Political Institutions**

**Inclusive Economic and
Political Institutions**



The persistence and strengthening of absolutism have impoverished North Korea and Myanmar

Pluralism transcends authoritarian growth, creating modern South Korea and Taiwan

Thank you for your attention!



Vũ Thành TỰ Anh
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