특별논단

Vietnam's Economic Transition Well Begun, Not Yet Done

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국문요약

계획경제중심에서 시장경제로의 전환과 극빈곤국에서 중앙하위 수입국가로의 베트남 경제개혁은 한 세대만에 놀라운 성공을 이루었다. 이러한 전환은 어떤 경제적 위기나 정치적 내란 그리고 사회적 변동 없이도 실현 가능한 유일한 사례이다. 이전 소비에트 연방국이었던 많은 국가들은 순조로운 전환에 실패했는데 왜 베트남은 성공할 수 있었을까? 이 글은 시장 중심 개혁이 베트남의 고도성장과 일관된 경제성장을 성공으로 이끄는 주요한 역할을 했음을 밝힌다. 이러한 성공은 기본 서비스 분야에서, 지역에 대한 접근, 그리고 인적자본과 사회공공기반시설에 대한 투자에 대한 평등주의적이며 분권화된 정책이 뒷받침되면서 가능했다. 그리고 이는 베트남 리더십의 협력적 방식, 즉 새로운 아이디어에 대한 수용 및 진행 방식을 통한 생활수준의 향상, 빈곤의 경감, 그리고 큰 경제위기를 피하는 등 긍정적인 결과를 초래할 수 있었다.

베트남의 경제개혁이 성공할 수 있었던 요소는 발전단계 초기의 농업 중심의 경제상태, 아래로부터 점진적으로 진행된 개혁과정, 광범위한 정책 개혁 및 올바른 유인구조, 외부지향적인 무역 및 투자정책을 통한 외자 유치, 인적자본의 역할 부여, 기업가 활동 그리고 당-국가 시스템을 꼽을 수 있다.

현재 베트남은 중간 소득국가에 위치하고 있으며, 더 효율적인 경제와 생산적인 사회를 창조하기 위해 시장의 힘과 국가 간의 촉진 역할을 활용할 수 있는 새로운 방법을 모색하고 있다.

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I The Context

Vietnam's transition to a market economy has transformed the country and the lives of its people. In 1986, Vietnam launched Đổi Mới—a homegrown, political and economic renewal campaign—that marked the beginning of its transition from a centrally planned economy to a socialist-oriented market economy. At that time, Vietnam was one of the poorest countries in the world, and with many problems: hyperinflation, famine, drastic cuts in Soviet aid, and a trade embargo by the west.[1)] For most Vietnamese, life was harsh and the future looked bleak. When measured against this backdrop, the economic performance of the last two and half-decades has been impressive. Between 1990 and 2012, Vietnam's economy has grown at an annual average rate of 7.1 percent, and the per capita income quintupled. The rapid expansion of the economy has been accompanied by high levels of growth of international trade; large-scale inflows of foreign direct investment; a dramatic reduction in poverty; and almost universal access to primary education, health care, and life-sustaining infrastructure such as paved roads, electricity, piped water, and housing. Vietnam's economic transition—from a centrally planned economy to a market economy and from an extremely poor country to a lower-middle-income country in less than 20 years—is now studied as a successful case study of transition among developing countries.[2)]

While Vietnam's transition process has many distinctive features—influenced by its own history and politics—it shares some common features with other successful transitional countries.[3)] With hindsight it is clear that market-based reforms to

1) With a per capita gross domestic product of US$98 (in current U.S. dollars), Vietnam was indeed the poorest country in the world in 1990. The next two countries with the second-and third-lowest per capita income were Somalia (US$139) and Sierra Leone (US$163). In terms of per capita gross domestic product adjusted for purchasing power parity, Vietnam was among the 20 poorest countries in the world.

2) See, for example, Growth Commission (2009)

3) According to Rama (2009), the renovation process of Vietnam was neither an outright imitation of

promote high and sustained economic growth were critical to Vietnam's success, supported by egalitarian and decentralized policies in provision of basic services, access to land, and investments in human capital and infrastructure. Unlike countries in the former Soviet Union, Vietnam did not experience any sharp drop in output nor did it experience any internal coups, political purges or open infighting. The unusually smooth transition process of Vietnam has been attributed to a number of factors, five of which are discussed here: (a) a less unfavorable initial condition with fewer distortions in its economy; (b) a gradual and bottom-up reform process; (c) getting the broad policy reforms and incentive structure right; (d) embracing outward-oriented trade and investment policies to steer domestic reforms; and (e) the enabling role of human capital, entrepreneurship, and the party-state system.

Vietnam's success has created new challenges, prolonging its transition process. Rapid structural transformation and ongoing transition to a market economy has revealed new structural problems. In recent years Vietnam has experienced bouts of macroeconomic turbulence including double-digit inflation, depreciating currency, capital flight, and loss of international reserves. The quality and sustainability of growth is another source of concern, given the declining productivity, depleting natural resources and the deleterious impact on the environment. The country also faces many new social challenges: vulnerability is increasing, poverty is becoming concentrated among ethnic minorities, inequality in incomes and opportunities are rising, underpinned by continuing disparities in human development between urban and rural areas as well as widening disparities within rural areas and across different socioeconomic groups and the pace of job creation is slowing. But it would be wrong to use these problems as an excuse not to transition from a centrally planned economy, because these are part and parcel of a journey to a market-based economy.

any prepackaged economic model from the west nor did it involve heavy outside influences. Yet, Vietnamese leaders were certainly observing the reform experience of several former Soviet Union countries, sometimes with concern, and were eagerly learning lessons from successful East Asian countries.

The rest of the paper is organized as follows. Section II discusses the factors that have contributed to Vietnam's success. Section III explores the emerging challenges. Section IV concludes with the key lessons for other transitional countries.

II Factors Underpinning the Initial Success

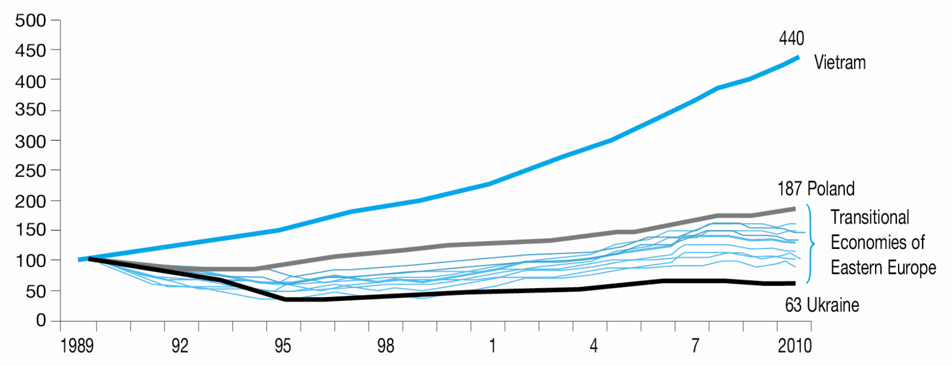
Vietnam's transition to a market economy has been subject to much research. During the last two decades, numerous books and reports have been written documenting Vietnam's transition to a market economy. Many multilateral organizations have commissioned reports and several national and international scholars have written on the topic.[4] The discussion in this section draws lessons from past success to inform future debate, and is not meant to be an exhaustive exploration of factors explaining Vietnam's transitional success.[5]

Vietnam stands out as a clear success story among the transitional economies. The transition in Eastern Europe proved to be a complex and problematic process, with recurrent economic crises, involving some combination of factors including falling output, declining average incomes, sharp increases in poverty, rising mortality and falling birthrates, and rapid inflation (figure 1). However, Vietnam also experienced high rates of economic growth, rising investment, vigorous exports, and a sharp drop in inflation, with a program of limited and gradual reform. Moreover, the changes in Vietnam occurred in the context of the continuation of single-party rule, high levels of state intervention, and significant direct control of production through the SOEs. Why did Vietnam succeed while so many other countries failed?

4) See the list of references at the end of the report.

5) For more comprehensive discussion on transition, see Arkadie and Mallon (2003), IMF (1996) and ADB (2006).

<Figure 1> Vietnam's Output Performance Relative to other Transitional Economies



Sources : WDI 2010; http://www.databasece.com/en/gdp-during-transition; WB estimates

1. Different Initial Conditions

At the start of its transition, Vietnam was the poorest and the least industrialized of all the transitional countries—which in hindsight seems to be an advantage.[6)] Its economy was never subjected to the same level of effective centralized control as in the Former Soviet Union and Eastern European transitional economies.[7)] For example, the list of commodities allocated under plans was always limited compared to the Soviet material balance system. Similarly, the SOE sector in Vietnam accounted for a small part of nonagriculture production, 29 percent, and an even smaller part of employment, 16 percent, unlike other transitional economieswhere

6) Given our focus on Vietnam, there is much about other transition countries that may have been neglected here. For example, the former Yugoslavia broke into five (now seven) different countries and had a war. The Soviet Union broke into 15 countries, each of which had to establish new sets of political institutions and legal frameworks. Some borders remain in dispute to this day. There were wars in Caucuses and Tajikstan. Czechoslovakia broke into two separate countries. The need to establish new political institutions and legal frameworks, dealing with international and domestic security, and addressing the collapse of the socialist trading system and soviet aid must have posed massive challenges, much of which Vietnam was spared.

7) Arkadie, Brain Van and Raymon Mallon, Viet Nam: A Transition Tiger Asian Pacific, Press at The Australian National University Canberra, 2003.

the share of SOEs in total output was 75 to 95 percent (IMF 1996). While the transitional economies of Eastern Europe had achieved a higher level of industrialization under the central planning system with the development of heavy industry, much of the existing capital stock was found to be uncompetitive. Thus, while Vietnam could continue to use a large part of its pre-transition capital, other transitional countries often had to rebuild new capital stock, thereby experiencing a significant drop in output, primarily in the industrial sector, in the initial years.[8)][9)]

Another important feature was the relative importance of the rural sector and the dominant role of household units in Vietnam's agriculture production. Arkadie and Mallon(2003), Lin(2010), and others have argued that Vietnam, like China, was largely an agrarian economy at the time of transition, so its production structure was broadly consistent with its comparative advantage. Therefore, when Vietnam opened its economy to domestic and external competition, its agricultural sector responded vigorously to changes that incentivized agriculture—offsetting any contraction in the industrial sector. For example, Party Resolution No. 10, passed in 1988, provided farmers with property rights (albeit limited), which the Party Secretary-General, Do Muoi, argued was a turning point in agricultural development (see Box 1). The limited property rights, along with price and trade reforms, contributed to sustaining agricultural growth, generated the surplus necessary to diversify into nonagricultural sectors, and strengthened the resilience of the economy.[10)]

8) Critics have argued, however, that such an interpretation assumes that the problem was simply an overgrowth of the state sector and wrong investment in large capital-intensive projects. This ignores the deeper incentive problems associated with central planning and direct state involvement in production.

9) A possible variant of this hypothesis can be that it was sheer desperation—famine, hyperinflation, little or no aid—that pushed Vietnam's government to reform. In a humorous vein, some call this period reform by the PhDs—the poor, the hungry, and the driven.

10) Other initial conditions that helped Vietnam avoid a sharp decline in output include the timing of natural resource (mainly oil) exploration, and its location in one of the most dynamic and fastest growing regions in the world.

<Vietnam's land reform was key to its agricultural success>

The Land Law of 1993 marked the continuation of a program of agriculture reforms that were initiated in 1988 with the implementation of Resolution 10. Resolution 10 radically changed the incentive system in the rural sector by recognizing, for the first time, that the household was the basic production unit of Vietnam's agrarian economy and granting it the needed autonomy. With the aim of consolidating these changes, the 1993 Land Law granted households five basic rights: to transfer, exchange, inherit, rent, and mortgage their land. The law also extended the lease term to twenty years for annual crop land and fifty years for perennial crop land. The implementation of this law resulted in an extensive land titling program in Vietnam. In terms of scale and speed of implementation, it was one of the largest rural titling programs in the developing world (Iyer and Do, 2008). Resolution 10 and the Land Law of 1993 together played a crucial role in boosting agricultural growth in the 1990s, thus enabling Vietnam to turn around from a food deficit country in the 1980s to one of the world's largest rice exporters by the end of the 2000s.

Source : Well Begun, Not Yet Done: Remarkable Progress on Poverty Reduction and the Emerging Challenges, The World Bank, June 2012.

2. A Bottom-up, Gradualist Approach

Reform in Vietnam, certainly in its early stages, was bottom-up and gradual, focusing heavily on productive units. The incremental process meant that at each step the effectiveness of new institutions and policies were tested and adjusted to Vietnamese conditions. This process was particularly evident in the agricultural sector, which was subject to a continuous crisis in the years prior to the adoption of Đổi Mới.

Agricultural reforms were inspired by the resistance of farmers in the Mekong Delta to collectivization after reunification. Agrarian collectivization was an important part of socialist strategy. This was particularly true in the North, where the cooperatives were developed both as productive units and as providers of social services. The experience of the South, and in particular the Mekong Delta, was somewhat different. There were two successive waves of collectivization in the Mekong, in 1979-80 and then in the early 1980s, although collectives never played as decisive a role in the southern rural economy as they had in the North.[11] As has been documented, many of the agricultural reforms were inspired by the resistance of farmers in the Mekong Delta to collectivization after reunification. In particular, it relates to farmers' refusal to grow rice beyond the need to satisfy their household requirements. Some senior policy makers witnessed the benefits of household farming and later formulated policies to encourage similar changes throughout the country[12] (see Box 2).[13] They decollectivized agriculture, established land-user rights, reduced the role of cooperatives, liberalized agricultural prices, and encouraged farmers to export—transforming the country from being chronically food deficient to the third-largest exporter of rice in two years.[14] The disappearance of food rationing became the first tangible success of economic reform in Vietnam. It helped build support for doing away with the subsidy mechanism and letting goods and services flow freely.

Another example of step-by-step reform can be seen in the development of market institutions. Unlike many other transitional countries, Vietnam did not entirely do away with its pre-reform economic institutions and structures, but rather adapted and reoriented them to changing times. Instead of complete destruction of old institutions as a prelude to the installation of new mechanisms, many reforms were directed at making existing institutions work better, while gradually introducing new market institutions. It is, therefore, not an accident that, among the economies closely linked to the Former Soviet Union, Vietnam was unique for its swift adjustment with the least output disruption.[15]

11) Even in northern and central Vietnam, farm households were an important element of the production system.

12) Rama, Martin, Making Difficult Choices: Vietnam in Transition, Working Paper No. 40, Commission of Growth and Development, 2009.

13) It has been reported that Mr. Do Muoi, the Deputy Prime Minister responsible for unification, came from Hanoi to visit the farmers and told them that what they had done was correct (Howie 2011).

14) Others, however, have cautioned against bottom-up learning, arguing that "references to grass-roots communities are better translated as references to the base of an apparat," see Fforde (2009).

15) Critics of the gradualist approach to reforms have depicted it as a reflection of a limited understanding of the market, reinforced by inefficiency, corruption, internal opposition, lack of human resources, and the "trial and error" or "groping" approach followed by the government.

3. Policy Reforms and Incentive Structure

Perhaps the most fundamental change during the first few years of its transition is the slew of policy changes aimed at raising the efficiency of the enterprise sector, boosting production in agriculture, opening the economy to foreign trade and investment, and reforming the government. Several of the key policy changes in each of these areas include[16)17)] (ADB 2006; IMF 1996):

① Liberalizing prices, exchange rate and trade: (a) Liberalizing most industrial prices by the end of 1988, and the few remaining prices that were controlled for official (state) customers, such as those of cement, steel, and electricity, were generally set close to free–market values; (b) devaluing the official exchange rate and aligning it closely to the rate in the parallel market; (c) eliminating export subsidies; (d) allowing retention of foreign currency earnings; (e) liberalizing trade, in particular by allowing production enterprises to trade directly abroad, thereby dismantling the tight and bureaucratic grip of the trading companies; (g) creating export processing zones and industrial parks; and (vi) abolishing internal customs checkpoints (ADB 2006; IMF 1996).

② Permitting private businesses: (a) Reducing restrictions on private enterprises; (b) allowing private sector enterprises equal access to credit and creating a legal framework more supportive of their operation (see box 3); (c) subjecting all enterprises to uniform rules of taxation; (d) allowing all enterprises to establish direct trade links or to use trade companies of their own choice rather than a specific trade channel; (e) exposing all enterprises to foreign competition by liberalizing the import regime; and (f) decollectivizing agriculture and establishing land–use rights.

16) ADB(Asia Development Bank), "Economic Transition in Viet Nam", PPTO Studies Series 1/2006, Manila, 2006.

17) IMF (International Monetary Fund), "Vietnam Transition to a Market Economy", IMF, Washington, DC, 1996.

③ Reforming the state-owned enterprises: (a) Replacing central planning powers with substantial state enterprise autonomy; (b) giving enterprises the authority to set most prices, select appropriate mixes of inputs and outputs, and determine their own investment; (c) giving managers the right to lay off excess workers based on prescribed guidelines; (d) allowing enterprises the freedom to sell their excess production (beyond a centrally planned amount) at market prices for all outputs; and (e) imposing hard budget constraints on SOEs. A cash compensation program was also set up for redundant workers from SOEs.

④ Labor market liberalization: (a)Reducing restrictions on the mobility of labor enabled underemployed people in rural areas to move to new jobs in urban and peri-urban areas; and (b)successive modifications to the labor code formalized labor hiring practices and eliminated obstacles to free labor mobility.

<Enterprise Law was key to unleashing private entrepreneurship in the country>

A series of additional policy reforms outside the agriculture sector helped to lay the foundations for rapid development of the private sector, whose role was officially recognized by Vietnam's 1992 Constitution. The most important milestone in the process was the Enterprise Law of January 2000. It represented a radical change in approach compared to the preceding Private Enterprise Law and Company Law, both of which were approved in 1990. Private enterprises were allowed to operate prior to 2000, but subjected to a series of government approvals and controls. With the introduction of the new Enterprise Law, citizens were allowed to establish and operate private businesses with limited intervention from government officials. The most important innovation introduced by the Enterprise Law was the simplification of registration procedures and the associated elimination of a large number of business licenses, which sharply reduced transaction costs for businesses and helped to install greater business confidence. As a result of these reforms, the number of registered enterprises increased by almost 15 times within a time span of only 10 years, from 31,000 in 2000 to 460,000 in 2009, according to the Ministry of Planning and Investment (MPI).

Source : Well Begun, Not Yet Done: Remarkable Progress on Poverty Reduction and the Emerging Challenges, The World Bank, June 2012.

Many of these policies, though incomplete and partial, provided the basis for a non-state sector to emerge and to respond to market-based incentives. Vietnam's physical and human capital was underused as a result of controlled prices and an incentive system that discouraged more production. By liberalizing prices and instituting an incentive system, the market economy succeeded where central planning had failed.

4. Using External Trade Agreements to Shape Domestic Reforms[18)]

The commitments undertaken by Vietnam in a number of regional and multilateral trade agreements provided a considerable boost to domestic reforms during the transition period. Vietnam signed a slew of trade agreements to signal its intention to play by the international rules including the Association of Southeast Asian Nations (ASEAN) Free Trade Area (FTA) in 1995 (including ASEAN FTAs with Australia, China, India, Japan, the Republic of Korea, and New Zealand); Bilateral Trade Agreements with the United States in 2000 and with Japan in 2008; and becoming a member of the World Trade Organization (WTO) in 2007. Some of the benefits of trade liberalization include (a) a predictable and transparent regime for international trade, (b) a substantial reduction of tariffs for domestic manufacturers and exporters, (c) elimination of all export subsidies considered illegal by the WTO, and (d) liberalization of services such as banking, distribution, construction, health care, tourism, insurance, and business services (auditing, legal, information technology, and research and development) (CIEM 2010).

Trade liberalization has had a huge positive impact on Vietnam's economy. Some of the visible benefits of trade liberalization include a significant boost to foreign direct investment, a resilient export sector, lower prices, and improved quality of goods and services. Bilateral trade agreements and WTO commitments have led

18) This section draws on a background note prepared by the EU-funded MUTRAP III project

Vietnam to introduce important modifications in its institutional and administrative systems. For example, as part of its WTO commitments, Vietnam publishes an official journal of all the laws, regulations, and administrative procedures of general application before enforcing them. Moreover, the full texts of the legal acts are posted on a government website at least 60 days prior to approval so agencies, organizations, and individuals can submit comments. A study conducted by the Multilateral Trade Assistance Project concluded that the impact of ASEAN, plus liberalization on almost all the main trade and economic indicators, will be largely positive.

5. Role of Human Capital, Entrepreneurship, and the Party-State System

Vietnam's transition to a market economy reduced the barriers to the adoption of existing knowledge, which, along with improved incentives and increased competition, is crucial in explaining the rapid improvements in economic performance over the last two decades. Vietnam's ability to rapidly exploit existing knowledge was aided by solid performance in promoting literacy, numeracy, and broader human development in the pre-reform period. In fact, at the beginning of the reform period, Vietnam had much higher literacy rates, life expectancy, and education than most other countries with similar levels of per capita income. The strong human capital base was complemented by the energy, liveliness, and entrepreneurial skills of the population and the quality of Vietnamese workforce.

Some economic historians have argued that the Vietnamese party-state system played an important role in the country's smooth transition[19] (Dixon 2003). The pre-reform period party-state bureaucracy was a complex system that connected the central state to all elements of society, extending through many layers to the

19) Dixon, Chris, *Developmental lessons of Vietnamese transitional economy*. Progress in Development Studies 3, 4 (2003) pp. 287~306.

workplace and small community groupings. These systems enabled decrees, quotas, and policies to be transmitted through the systems and were extremely effective in mobilizing people and organizations at all levels. It is apparent that at all levels, considerable administrative and organizational capacity existed, which explains Vietnam's remarkable achievements in terms of such measures as literacy rates, life expectancy, and infant mortality rates even before the onset of the transition. Therefore, Vietnam entered the reform period with the ability to focus on long-term national goals, and with considerable administrative, managerial, and implementation capacity, which contributed to its initial success.[20] But as discussed later, with the expanding private sector, the party-state system has found it increasingly difficult to attract and retain talent—causing gradual erosion of its administrative and management capacity.

III Emerging Challenges and Lessons with Hindsight

Vietnam's economy has grown so rapidly in recent years that it is easy to overlook some of its lingering challenges. In a span of five years, between 2003 and 2012, Vietnam's economy more than doubled from US$40 billion to US$135 billion, and its exports more than tripled from US$20 billion to US$96 billion. This period also saw booming investment, thriving stock market, escalating real estate prices and rising prosperity all around. It is therefore easy to overlook that this period also coincided with declining contribution of productivity to growth, increased macroeconomic instability, fragmented development and inability of public institutions to keep pace with a rapidly globalizing economy. The origin of some

20) However, there are others—Fforde and de Vylder (1996) and Pike 2000, for example—who have suggested that post-1990 growth in Vietnam owed little to the state.

of these problems can trace their roots to the pace and sequence of the reform process and therefore can provide important lessons to countries that are about to attempt similar transition and therefore avoid costly mistakes. Vietnam's experience shows that mechanisms underlying Doi Moi may be well-suited to support the transition from plan to market but less so in addressing new challenges. We discuss two such challenges here: decentralization without proper accountability and emergence of special interest groups.

Vietnam has historically been a highly decentralized economy. It has a long tradition of relative autonomy of village and communities in managing their local economies. This practice was also consistent with the immediate requirement of war-time economy. And decentralization has had many virtues. It was the high degree of practical autonomy that led Vietnam to avoid the gigantism of Soviet-style industrialization. In recent years, decentralization has been responsible for more inclusive development and healthy inter-provincial competition.

Yet decentralization without proper accountability could result in fragmented and sub-optimal development outcomes. Common purpose and strong leadership had meant the local and national governments each contributed in their own ways to common national goals. But overtime Vietnam's new economy has developed under a degree of independence from the central system, where the center's ability to direct activity toward national development goals and the means to establish the necessary institutional and regulatory framework for sustained growth has weakened. In combination, the reforms and the associated reduction in centralized control have promoted development within and closely connected to the SOEs, the local administrations, and subsectors of the centralized system. The resulting networks and localized "corporatism" have become major factors in economic change. Thus, lower echelons of the state have emerged as a form of new business elite. While the majority of the new economic elite may neither wish for nor be in a position to demand political change, they have had a significant impact on decision making and policy. The localization of development and control in Vietnam contrasts sharply with the highly centralized systems that characterized such economies as South Korea and Taiwan (China).[21]

The scope and pace of reforms have been influenced by differing views within the party and the state and the proliferation of interests. These include such broad sections as the military, police, trades unions, women, regional and local administrations, SOEs, and the various ministries and departments. There have also been significant shifts in the importance of these groupings, notably the increased representation and influence of local administrations and technocrats.[22] The major divisions are also variously reinforced and divided by the proliferation of the new economic interests. The result is that there are fewer fixed positions, with, for many individuals and groupings, the attitude to reform reflecting particular measures rather than the process as a whole[23] (Dixon 2003; Koh 2001, 537-38). The proliferation of interest groups and the nature of the Vietnamese legal and regulatory systems—which operate on the basis of what is permitted rather than what is not—has resulted in the production of an enormous volume of decrees, regulations, and legislation. The operation of the system has been further hindered by lack of professionals and technocrats at higher levels, the ones who provide the cores of the bureaucracies in such Asian developmental states as South Korea; Singapore; and Taiwan, China.

The fragmentation of development has also been associated with the weakening of the quality of the country's economic institutions. The legacy of central planning sometimes weighs heavily on Vietnam's economic institutions. Although markets are now the main mechanism of resource allocation, they often function poorly because the underlying institutions are missing, poorly formed, or incomplete. Its public and private sector economic institutions are highly fragmented.

21) Dapice (2008).

22) Fforde, A. and de Vylder, S, "From plan to market: the economic transition in Vietnam", *Boulder CO,* Westeview Press, 1996 p.105.

23) Dixon, Chris, *Developmental lessons of Vietnamese transitional economy,* Progress in Development Studies 3, 4, 2003, PP.537~538.

Fragmentation is a problem because it increases the costs of coordination, which can result in a loss of efficiency. A fragmented regulatory system generates conflicting rules. Fragmentation of public investment results in duplication and waste.

IV Concluding Remarks

Vietnam turned the crisis of the late-1980s into one of the greatest development successes of our time. The country has shown itself to be remarkably adaptable and has made impressive progress during the initial transition years under extremely difficult conditions. It was the decision to embrace market-based reforms and to change the incentive structures to conform to market principles that played a critical role in its success. The cooperative way in which new ideas on economics were processed and accepted by the Vietnamese leadership over the last two and half decades may explain why the country was so successful at raising living standards, reducing poverty and avoiding major economic crises.

Transition is, however, best viewed as a journey and not as a destination. While it is easy to define Vietnam's initial point in its journey to becoming a market economy, there is unlikely to be a finish line. Even the most mature market economies must constantly change, update, and fine-tune their policies and institutions to keep up with the changing times. After becoming a lower middle income country, Vietnam is exploring ways to use the power of the market and the facilitating role of the state to chart a new course to create a more efficient economy and a more productive society. It is therefore redoubling its effort to develop new institutions, new incentive structures and a more transparent and open society to support the strong and healthy market economy that has already evolved. Vietnam is on course to embark on its next journey to develop a mature market economy that befits its status of a dynamic, emerging middle-income country in Asia. Such a journey is necessary, desirable and perhaps unavoidable.

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