

No 4, December 2003


NIAS *nytt*
Asia Insights



The CIEM–NIAS
Project

Navigating
Economic
Reforms with
Better Policy
Analysis

Vietnam's
Economy in 2002

Vietnam: How Do
We Go from
Here?

Vietnam and
WTO:
Opportunities and
Challenges

Bilateralism and
Globalism in East
Asia

In the Middle of
Difficulty Lies
Opportunity:
Reforming the
Vietnamese
Financial Sector

Rural
Development and
Employment in
Quang Nam
Province

Vietnam Bank for
Agriculture and
Rural
Development

**Economic Reform and Development
in Vietnam**

Some Results from the CIEM–NIAS Project

Nordic Institute of Asian Studies

NIASnytt is published by the Nordic Institute of Asian Studies and appears 4 times yearly with 2,500 copies distributed worldwide.

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Online version

Economic necessity forces us to print fewer copies of *NIASnytt* than are demanded. However, we also produce *NIASnytt* in a web version at <http://www.nias.ku.dk/nytt>

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Coming Issues in 2004

1 (March): deadline 1 February
2 (June): deadline 1 May
3 (September): deadline 1 August
4 (December): deadline 1 November

Cover photographs by Finn Tarp

Printed in Denmark by
Herrmann & Fischer



ISSN 0904-4337

Building Capacity for Policy Analysis in Vietnam

Vietnam is a populous Southeast Asian economy on the brink of what most expect to be a dynamic Asian growth experience. In this issue of NIASnytt we take a closer look at how NIAS collaborates with CIEM, one of the key policy think-tanks, behind the ongoing economic reform process. A theme common to all the articles is the critical importance of sound economic policy research and capacity building.



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Correction

It has been noted by an alert reader that the picture on state terror on page 4 of the previous issue of *NIASnytt* (3/2003) was not from Aceh but from East Timor, and not taken by an anonymous partisan, but by a famous photographer, Steve Cox. The guest editor and the NIAS editorial team regret the error and thank this reader for his vigilance.

NIAS in the melting pot

As our keener readers will already know, NIAS is in the process of being restructured. This is a drawn-out process, but one that – fortunately – is now proceeding at a far greater pace; there are indeed good chances of us reaching a final outcome before the end of 2004.

However, many people who hold our future dear to their hearts continue to express concern about the prospects and some have even got the impression that NIAS is about to be closed.

Therefore, although we have already said it on many occasions, I feel that I must repeat it here: ‘NIAS is not about to close!’

On the contrary, our owner, the Nordic Council of Ministers NCM, has now decided on the guidelines for our restructuring. Some of the main points are:

- The ownership of NIAS will be constructed at the national level.
- The Nordic mandate of NIAS will be ensured through a Nordic Board of Directors.
- NIAS’s current contract will be extended for four years (2004–2007).
- The future financing will change to be a mix of Nordic and national financing.

The Council of Ministers will now appoint a working group to implement the decision. It will comprise members from at least the following: the Secretariat of the Nordic Council of Ministers; the Danish Ministry of Science, Technology and Innovation; the University of Copenhagen; the Copenhagen Business School; the University of Lund; and NIAS. The working group will explore the options available for a new ownership construction, including the possibility of setting up a consortium of Nordic universities based on the model of the Nordic Centre at Fudan in China.

The working group will be asked to look at all the aspects involved in the restructuring: the legal basis for national incorporation and the nature of the legal construction of the new ownership (for example combining national hosting/ownership with a Nordic consortium); the legal and practical relationship to the new host institution; future strategy (including the new Nordic profile and mandate); staff-related issues; financing; and a whole range of practical matters relating to the transfer of ownership.

NIAS has proposed to start off with a workshop for possible future owners and partners to get an essential input into the formulation of a new strategy for NIAS. In other words: What do our owners and partners want to get out of NIAS in the future?

We are very happy to know that during the upcoming process, the Nordic Council of Ministers and NIAS will be on the same side of the negotiating table. The Council of Ministers has asked its Secretary General, Per Unckel, former Minister of Education in Sweden, to take responsibility for implementing the process, which also affects a number of other Nordic research institutions. Per Unckel has welcomed dialogue during the process, and we invite our partners to express their views and constructive ideas not only to us, but also to Per Unckel and the staff at the Secretariat of the NCM responsible for the process. You may channel any such ideas for the consideration of the Secretariat through me (jorgen.delman@nias.ku.dk).

I have to apologise for focusing so persistently on our internal matters at this place, but it is obviously important to us that the process leads to an even stronger and better anchored NIAS. We shall keep you posted!

In the meantime, the present issue deals with Vietnam’s economic reforms and development and reflects – in a practical manner – that NIAS pursues its mandate in different ways. Our collaboration with the Central Institute of Economic Management (CIEM) in Hanoi has been both challenging and rewarding. Enjoy your reading!

Jørgen Delman



Jørgen Delman

The CIEM–NIAS Project

By Finn Tarp

In May of 2001, the Central Institute of Economic Management (CIEM), a think-tank in the Ministry of Planning and Investment (MPI), and NIAS initiated a three-year collaborative research project supported financially by Danida. The overall purpose of the project was defined with a view to strengthening the capacity of CIEM staff to provide sound economic policy advice based on high quality research.



Finn Tarp is Professor of Development Economics at the University of Copenhagen. He was coordinator of the CIEM–NIAS project in Hanoi during the first two years of project implementation. He is now participating in the project from his base in Copenhagen in close collaboration with the authors of this issue and the Director of NIAS, Jørgen Delman.

The three joint research projects are: (1) Globalization and Vietnam in the international economy, (2) Financial sector reform, and (3) Provincial study of Quang Nam. Under these headings a wide range of research and capacity building activities have been pursued over the past few years, and NIAS has as well assisted CIEM in, for example, formulating an Institutional Development Plan (IDP), strengthening the library and information services of CIEM, and sending CIEM staff on training abroad. A very favourable mid-term review was

carried out in early 2003, and discussions about future activities have begun.

In this edition of *NIASnytt*, we start out with an article by Theo Larsen. Among the group of 11 authors, he is the only one, who is not a member of the CIEM–NIAS research group. He is, however, an economist working at the World Bank Office in Hanoi, with whom frequent interaction has taken place throughout the project. Theo Larsen takes a bird's eye view at the importance of building analytical capacity for policy analysis in Vietnam. The critical need of increasing the visibility of policy makers comes out clearly. Subsequently, Vo Tri Thanh reviews the Report on Vietnam's Economy 2002. This report is produced annually with support from the CIEM–NIAS project.

Turning to Project 1, Henning Tarp Jensen and John Rand discuss what can be learned from the 2000 Social Accounting Matrix (SAM) for Vietnam. Under Project 1, a variety of analytical studies based on computable general equilibrium (CGE) modelling have also been produced. Professor David Roland-Holst from the University of California (Berkeley) took the lead in this work in collaboration with both CIEM and Danish researchers in the Development Economics Research Group (DERG) at the University of Copenhagen. On this background, the President

of CIEM, Dinh Van An, discusses the opportunities and challenges of Vietnam vis-à-vis the WTO, and Pham Lan Huong takes a look at the complex bilateral relationship between Vietnam and China.

It is widely recognized that financial sector reform will be essential in furthering economic progress in Vietnam. The CIEM–NIAS project is therefore in the process of producing a book volume on this topic, and Jens Kovsted and Nguyen Dinh Tai discuss a set of key issues in this area. The fundamental conclusion is that the Government of Vietnam will, in the coming years, have to strike a delicate balance between relinquishing direct control, while simultaneously establishing the necessary regulatory and supervisory framework.

The final two articles reflect on Project 3, which included field work in the Quang Nam province in Central Vietnam. Quang Nam is one of the more marginalized provinces in Vietnam, and Chu Tien Quang summarizes the information gathered about land, labour and credit issues. The complexity of local and regional development is obvious, and this also transpires clearly from the contribution by Lotte Isager and Luu Duc Khai, who put focus on the Vietnam Bank for Agriculture and Rural Development (VBARD).

It is my hope that you will find the selection of articles



The CIEM building in Hanoi

presented here of interest. They provide a variety of insights into the intriguing realities of economic development in a South East Asian country on the move. Vietnam, one of the priority countries for Danish international development assistance, was a tiger on a bicycle not that long ago. She is now a tiger on a motor bike! What the future holds remains to be seen, but while many challenges are yet to be overcome, prospects are indeed promising, if well informed policy choices are made. Sound

policy analysis is critical in this effort. It is therefore appreciated that Danida supports the realization of this aim through the CIEM–NIAS project.

Finally, allow me to stress that this issue can only provide glimpses into what has been achieved so far. For further details on the CIEM–NIAS project, including access to all the publications and discussion papers issued over the past two years, please go to the following web-site: <http://www.nias.ku.dk/Ciemnias/> ■



The CIEM–NIAS project warmly congratulates Ms. Hoai on the occasion of her wedding on 29 November 2003. *Chuc Mung Hanh Phuc.*

Navigating Economic Reforms with Better Policy Analysis

By Theo Larsen

Supporting policy makers with sound policy analysis is key to the continuation of sustainable development and poverty reduction in Vietnam. In this article this is illustrated by two pressing issues on the policy agenda: the allocation of public investment and integration with the international economy.

In the late 1980s, a sea of change in economic policy marked the beginning of the liberalization of Vietnam's economy. The new policies had a tremendous impact on real growth and poverty reduction. In the early 1990s a majority of the Vietnamese had an income level that did not allow them to cover basic health needs, such as a minimum caloric intake. By 1998, the share of the population in this income group had been almost halved, and in 2002 the share was further reduced to 29 per cent. In other words, more than 20 million people were lifted out of poverty

in a decade. The Vietnamese experience is one of the greatest success stories in economic development. The single most important driving force behind this unparalleled achievement was a new direction in economic policy.

The fruits of the first wave of policy reforms are being harvested now. However, it is by no means given that Vietnam's growth in the next decade will have as high an "elasticity of poverty reduction" as in the previous one. New policies must be introduced, and difficult choices need to be made in the near future to sustain continued

progress. *As the Vietnamese economy emerges from central planning – so too must its policy analysis.*

In practical terms, Vietnamese policy makers need analytical frameworks and economic and social projections in order to reach informed decisions. At the technical level this includes economic modelling, cost–benefit analysis, and forecasting. What is the rationale for public intervention? What is the right instrument for such intervention? What are the budgetary costs of intervention? Finding answers to these questions is not easy, but a sound analytical framework is the



Theo Larsen is an economist in the World Bank's Hanoi Office. For the past three years, he has been working on macroeconomic and structural issues in Vietnam. He holds an MSc from the University of Copenhagen.

best starting point. Two of the most pressing issues on Vietnam's current policy agenda, namely allocation of public investments, and integration with the global economy, provide good illustrations of the need for sound policy analysis and capacity building.

Making the Right Public Investments

With a share of approximately 18 per cent of the annual GDP, making the right public investments constitute one of the most important policy challenges for Vietnam today. The importance of making informed choices based on sound criteria is evident. Without the appropriate analytical framework it will be largely impossible for the government to select between competing investment projects in a way that both maximizes economic returns, and also weighs in relative poverty reducing externalities, environmental impacts, and not least the associated future recurrent maintenance costs. Investments in infrastructure can be key in securing access to markets and social services. *The right type of*

infrastructure in the right place at the right time can be the sine qua non of sustainable long-term development. On the other hand, ill-conceived public investments, based on purely political considerations, are not only wasteful when executed, they can also become an excessive intertemporal fiscal burden. High-profile, but low-impact, investment projects have the potential to drain the government's budget for many subsequent years. They also risk crowding out expenditures in other areas, while making no discernible impact on economic growth or poverty reduction.

Managing the Social Aspects of Integration

Another example of the need for good policy analysis is from international trade. Vietnam is becoming increasingly integrated with the world economy. The country is quickly emerging as a global leader in many commodities, and overseas market shares for textiles and other manufactured goods are currently expanding fast. *With the dollar value of*

exports doubling in the past five years, this policy of openness has created countless new opportunities, and brought valuable gains for most Vietnamese. However, there have also been losers. And yet others will lose out as competition becomes fiercer and production patterns shift in line with the comparative advantages of Vietnam. *Not only the world market prices will be imported to Vietnam, but also their volatility.* To soften the blow, safety nets must be in place and policies must be designed in ways that target the most vulnerable. Again the need for policy analysis and capacity building is obvious.

Sound Policy Analysis – Key to Sustainable Development

One lesson that can be drawn from decades of development assistance is that of the crucial importance of commitment to, and ownership of, the policy agenda. Commitments to reform policies only make sense if the resulting implications and outcomes are well understood and found worthy of pursuit. Last but not least, *international partners, bilateral as well as multilateral, have a direct interest in dealing with an informed government that formulates and actively implements its policy agenda.* A government that is capable of analyzing different policy options and expected outcomes is a stronger negotiation partner. And as experience shows, a strong counterpart is the best guarantee for sound agreements and equitable partnerships, which in turn are prerequisites for sustainable development. ■



Vietnam's Economy in 2002

By Vo Tri Thanh

Since 1996 the Central Institute for Economic Management has been producing an annual report on Vietnam's economy. The report aims at providing readers with an updated and comprehensive picture of the economy of Vietnam. More specifically, the report reviews the achievements of the past year as well as critical factors affecting economic performance. Economic policies and measures are compared with that of previous years to identify trends and provide a background for forecasting, and various structural issues are discussed.



Vo Tri Thanh is Head of the Department for Trade Policy and International Integration Study at CIEM. His research fields include macroeconomic policies, trade policy and econometric modelling. He holds a Ph.D. degree in economics from the Australian National University, and has published regularly during his career.

The report is typically organised in four sections. Section 1 reviews the world economic setting, followed by Section 2, which gives an overall picture of Vietnam's economy. Economic growth is analysed from both the supply and the demand side. Macroeconomic stability is described fully with reference to price fluctuations and changes in the balance of international payments. Section 2 also covers issues such as international trade, fiscal and monetary policies, and labour, employment and income. In addition, the annual report usually discusses in Section 3, major reform issues that are critical topics or challenges facing Vietnam's economy at the present time. The final Section 4 provides an overview of the economic outlook of Vietnam for the forthcoming year.

The reports for the years 2001–2004 are prepared with support from the CIEM-NIAS project, including participation in preparing the outline of the report, academic backstopping and other professional support, as well as financial support for publication and dissemination.

2002 Highlights

The following summarizes some highlights from the 2002 report.

After a number of years with relatively slow economic growth due to the impact of global economic recession and financial crises in Southeast Asia, the economy started to recover in

2000, and the annual GDP growth rate increased from 4.8% in 1999 to around 7% in 2002. Vietnam recorded the second highest GDP growth rate in the South Asian region. Only China did better. Industry and construction were the largest contributors to the GDP growth, followed by services. Nevertheless, the growth of manufacturing experienced a gradual decline in value added due to high costs of input and low efficiency of industrial production as a result of rapid growth in import-substituting sub-sectors. Services grew speedily at 6.5%, but development of production support services was still far from desirable. In sharp contrast with the situation in 1999, domestic consumption and investment have served (on the demand side) as driving forces for economic growth since 2000.

Total investment in 2002 was estimated at VND 183,800 billion in current prices (i.e. a 10.1% annual growth rate). This accounted for 34.3% of the GDP and was therefore the highest ratio of investment to GDP so far. Low efficiency of the government investment, rooted in severe losses and waste due to planning and institutional weaknesses associated with investment and widespread corruption emerged as a key problem.

The export volume in 2002 reached USD 16.7 billion, an increase of 11.2% in comparison

with 2001. Major export goods were still dominated by primary products, and low-skilled manufacturing goods such as textiles, garments, and footwear. The export volume to the U.S. market more than doubled as a result of the implementation of the Vietnam-U.S. bilateral trade agreement. This turned this market into the second largest importer from Vietnam. The import volume amounted to USD 19.7 billion, showing a dramatic increase of 21.7% compared with 2001. Imports of raw materials, fuel, machinery and equipment, and spare parts accounted for 94.9% of the total import. While the structure of exports experienced a considerable shift, the one for import remained nearly the same, and I should stress that Vietnam is still faced with a myriad of difficulties in accessing the European and American markets. Vietnam's major trading partners in 2002 were Japan, the U.S.A., China, Australia, Singapore, Taiwan, Germany, Iraq, the Republic of Korea, Thailand, Hong Kong, Malaysia, and Russia.

The total value of retail commodities and services in 2002 went up by 11.2%, and after three consecutive years with negligent increases, the consumer price index rose by 4% as compared to 2001. This indicated relatively strong growth in the consumption of the population. However, CPI

movements favoured food manufacturers and traders to a larger degree than agricultural growers.

A very notable feature of movement in the price of residential land took place between late 2001 and mid 2002. Urban land prices soared dramatically from two to fourfold from the level in the previous year, especially in Hanoi and Ho Chi Minh City. The VND/USD exchange rate moved up gradually month after month so the annual growth ended up being 2.1%, much lower than the 3.8% increase recorded in 2001.

In 2002, Vietnam's overall balance of payments remained in surplus, despite a current account deficit of USD 458 million after three consecutive years of surplus as consequence of a considerable deficit in the trade account. FDI disbursements were estimated at USD 1,200 million, lower than the USD 1,300 million of 2001. The bulk of foreign loans continued to be medium- and long-term loans.

The total state budget revenue in 2002 was estimated to have climbed by 7.8% in comparison with that of 2001, accounting for nearly 21.0% of the GDP. While revenue from crude oil declined, revenue from other sources grew by 10.2%. State budget expenditure was in 2002 equal to 26.3% of the GDP – a rise by 8.8% in comparison with that in 2001, which is much lower than the 17% growth rate achieved in 2001. Similar to previous years, tax revenue was in 2002 sufficient to cover recurrent expenditure and debt service (and aid) only. Meanwhile, capital expenditure was kept at a high level. As a result, the overall budget deficit deepened to reach nearly 5% of the GDP, i.e. a higher rate than that reported in 2001. The huge losses in capital expenditure

from previous years were still not properly addressed.

In 2002, thanks to prudential monetary policy, the economy was successful in maintaining monetary stability, curbing inflation and contributing to the acceleration of economic growth. These results were achieved through some adjustments and flexible use of monetary policy instruments (reserve requirement, recapitalisation, open market operations, interest rate regulation, and foreign exchange control). The growth rate of total liquidity (M2) declined slightly from 25.5% in 2001 to 24% in 2002, and there was a sharp fall in the growth rate of total foreign currency liquidity. Credit grew by 27% in 2002 in comparison with 23.1% in 2001.

VND interest rates also rose slightly. The monthly deposit rates went up in November 2002 from 0.45% to 0.58% for 3-month term deposits, from 0.6% to 0.63% for 6-month term deposits, and from 0.65% to 0.67% for 12-month term deposits.

In 2002, Vietnam had 40.7 million economically active people aged 15 and above, an increase of 3.0% compared with 2001. Workers in rural areas accounted for 76.1% of the total labour force. Mismatch between a strong growth in manufacturing and construction and their capacity to absorb additional employment led to a sluggish shift in employment structure, resulting in increased urban unemployment and rural underemployment during the past few years. Most employment creation in 2002 came from non-state sectors, representing 79.1% of the total of 1.42 million newly created jobs. The unemployment rate among the urban working-age population fell from 6.3% in 2001 to 6.0% in 2002, while in rural areas the ratio of actual to total avail-

able working time of people in the working age was 75.4%, an increase of more than one percentage point compared with that in 2001. The year 2002 also witnessed a continued improvement of education attainment of the labour force, but at rather slow rates. The overall level of salaries and wages improved, but there was also a widening gap in wages between employees in different sectors and regions.

Finally, among additional structural issues discussed in-depth in the 2002 report, it is relevant to highlight issues such as the competitiveness of the entire economy, macroeconomic risks, the current situation of the real estate market, and public investment programme. In all of these areas, Vietnam is facing significant challenges.

The Future

It is clearly extremely difficult to make predictions of future economic growth. The global and regional economic situation is complex, characterized by instability and unpredictability. Nevertheless, the 2002 Vietnam Economy report contains an overview of what can be said from a Vietnamese perspective. On this basis, it is predicted that growth will continue to be higher than 7%, but the need for continued structural reforms is also highlighted.

The coming period in Vietnam is critical as the mid-term point towards realising the five year economic plan for the 2001-2005 period. Yet, it certainly appears as if the government is actively pursuing a comprehensive set of measures to ensure that established targets are met. All of this is discussed in detail in the report, which is by now a standard reference for all of those interested in Vietnam and the ongoing reform process. ■

Vietnam: How Do We Go from Here?

By Henning Tarp Jensen and John Rand

A 2000 Social Accounting Matrix is used to identify structural weaknesses in the Vietnamese economy related to regional trade integration, slow reform of enterprises and commercial banks, and lack of investment in rural infrastructure. The Vietnamese government is pressing ahead with necessary trade and enterprise reforms but rural poverty and increasing inequality remain to be addressed. Social stability therefore requires complementary short term compensation of rural households and a more comprehensive longer term development plan to increase rural market opportunities.

After 10 years of economic difficulties, the Government of the unified Socialist Republic of Vietnam decided to abandon central planning as their main economic policy tool. Structural reforms known as *doi moi* liberalized trade by introducing market based policy instruments such as tariffs, and encouraged private economic activity culminating with the dismantling of agricultural cooperatives in 1989. Sustained reform efforts during the 1990s provided the basis for continued economic growth averaging more than 7 per cent per year over the period 1988–2000.

Nevertheless, important structural weaknesses remain in the Vietnamese economy, including the continued dominance of state-owned enterprises (SOEs) and commercial banks (SOCBs), which account for 40 per cent of total GDP, and external pressure stemming from the recent accession of China to the World Trade Organization (WTO). The Vietnamese government acknowledges the existence of these problems. It has recently committed to further trade liberalization through trade agreements with the US, the Asia-Pacific Economic Cooperation (APEC), and the ASEAN Free Trade Area (AFTA), and WTO accession is pursued vigorously. Moreover, while the government is intent on maintaining the

state-owned sector, it has started to address major weaknesses such as non-performing loans between SOEs and SOCBs. The main policy question is therefore not so much where do we go from here – but rather how do we go from here?

SAM/CGE Methodology

Appropriate policy advice cannot be formulated without adequate information on the structure of the economy. One particularly strong tool for answering this kind of question is the so-called SAM/CGE methodology which consists of a Social Accounting Matrix (SAM) data set, and a Computable General Equilibrium (CGE) economic model. In the following, we will discuss the structural weaknesses of the Vietnamese economy as they emerge from Vietnamese SAM data for the year 2000.¹

A Social Accounting Matrix is a framework for organizing economy-wide data, where linkages between activities, commodities, factors, enterprises, households, government and foreign institutions become transparent and amenable to economic analysis, including multiplier analysis and CGE modeling. It employs macro- and micro-economic accounting identities to ensure consistency at all levels of aggregation. In the case of the Vietnamese

SAM, this implies that aggregate public and private investment expenditures have to be exactly consistent with (i) domestic and foreign savings inflows, and (ii) GDP and other final demand components. A similar example at the mesa-level is that foreign remittances to Female-headed Farming Households in the Northern Provinces (FFNP – one among 16 household categories) have to be exactly consistent with (i) other income and expenditure sources, including wages, profits, savings and tax payments by FFNP households, and (ii) the overall balance of payments. Finally, an example at the micro-level is that (net) exports of coffee (one among 112 production activities) have to be exactly consistent with (i) the production and domestic (household) demand for coffee, and (ii) the overall trade balance. The above examples provide a glimpse of the wealth of information contained in the 2000 Vietnam SAM.

Macroeconomic Balance, But ...

The data set provides a picture of a relatively well-balanced Vietnamese economy for the year 2000. The trade account remains close to being balanced, interest service payments are manageable, and foreign direct investment flows and unrequited transfers, including foreign aid



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John Rand is a Ph.D. student at the University of Copenhagen. He has worked as a research fellow at the Central Institute for Economic Management (CIEM) with SAM/CGE modelling. He is currently working on a study of the transformation and dynamics of small and medium scale enterprises in Vietnam and their role in urban and rural employment and income generation in collaboration with the Institute of Labour Studies and Social Affairs (ILSSA).

and remittances, remain high. Investment expenditures account for a reasonable 30 per cent of absorption, while public consumption at 12 per cent of absorption leaves reasonable room for private consumption at 58 per cent of absorption. However, the composition of GDP shows that more than 60 per cent of the population living in farming households account for less than 25 per cent of GDP, indicating that Vietnam remains an agrarian society with high poverty and increasing inequality. Furthermore, significant marketing costs (20 per cent of GDP) mean that home consumption of own production is very high (20 per cent of private consumption). Thus, increased infrastructure investment has the potential to significantly increase efficiency in the marketing of goods and the allocation of scarce resources.

Trade Openness, But ...

Another important structural characteristic which jumps out of the data is the impressive openness of the Vietnamese economy. Exports account for more than 50 per cent of GDP, and overall trade accounts for around 110 per cent of GDP. This is particularly impressive considering the very low level of trade at the outset of structural reforms, and it indicates the focused nature of the chosen export-oriented development strategy. Foreign owned enterprises account for more than 20 per cent of total enterprise profits, and more than half of state-owned enterprise profits. This further indicates that Vietnam has been very successful in attracting foreign direct investment during the reform period. But it also points to the vulnerable nature of the strictly outward-oriented development strategy, whereby the system of

state-owned enterprises has been sustained through partnerships with foreign companies. In particular, the continued dominance of state-owned foreign trade companies represents a potential problem for making adjustments to new trade relations and increased competition.

On the positive side, the data show that exports are relatively diversified. A couple of sectors, including oil and gas (20.5 per cent) and clothing (11.4 per cent), account for 32 per cent of total export earnings, while another couple of sectors including leather products (9.8 per cent) and seafood (7.7 per cent) make up another 18 per cent. However, no other sector accounts for more than 4 per cent of total exports, indicating that external shocks, except from changing oil prices, are unlikely to significantly affect the Vietnamese economy. Nevertheless, important export sectors such as clothing and leather products will clearly face increased future competition from China, now a member of WTO. Moreover, the seafood sector is likely to face increasing future trade disputes related to sanitary and phyto-sanitary issues, and this is likely to result in significant economic losses without access to settlement mechanisms available within the WTO system.

Fiscal Reform and Reduced Protection

Another pertinent issue relates to the fact that import tariffs account for 15 per cent of total tax receipts, and that 75 per cent of total tariff income stems from tariff lines with effective tariff rates above 5 per cent. Since most official tariff rates will have to be reduced to levels below 5 per cent as part of ongoing trade reforms, trade liberalization will necessarily have to be accompanied by fiscal reform. However, trade

liberalization is also likely to provide a broader tax base, implying that a moderate increase in sales tax rates might be sufficient to make up for lost tariff revenues.

The reduction in tariff rates will also have implications for current protection levels of domestic production. The data indicates that around 20 per cent of total production and value added are generated in sectors with effective tariff rates above 5 per cent. However, the most important (protected) sector, namely oil and gas, which accounts for 5.5 per cent of total production and 9.5 per cent of total value added, is unlikely to be affected by tariff reductions, since oil and gas production is mainly exported and since petroleum products are likely to remain exempt from tariff reductions.

Increasing inequality

The issues surrounding enterprise sector reform, and trade liberalization and integration, are all recognized by the Vietnamese government. However, the main objective of the government is to implement reforms without disrupting social stability and undermining the position of the ruling party. In this respect, it is of the essence that poverty continues to decrease and that income inequality is kept under control. Looking at the data, it is clear that poverty is mainly a rural phenomenon in Vietnam. The average income in urban areas is approximately three times as high as in rural areas, where 80 per cent of the population earns less than 60 per cent of household income. Reforms therefore have to be implemented in such a way that they are beneficial to rural households in both the short and longer term. Trade and enterprise reforms will therefore most likely have to be

to be continued on p. 22

Vietnam and the WTO: Opportunities and Challenges

By Dinh Van An

Vietnam is preparing herself for WTO membership. Reaping the potential economic benefits from increased integration in the global economy depends on a combination of international and domestic economic reform, with sound macroeconomic management also essential. WTO accession poses challenges as well as opportunities for Vietnam in the years ahead.



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Vietnam is in transition from a centrally planned to an open market economy. During more than 17 years of reform (*doi moi*), Vietnam has achieved respectable progress. GDP grew at an average rate of 7% during 1990–2002, one of the highest growth rates in the region. Moreover, in terms of international economic integration, Vietnam has established trade relations with more than 165 countries and signed bilateral trade agreements with over 72 partners (including a bilateral trade agreement with the United States in 2001). Vietnam also became a member of ASEAN (1995), ASEM (1996), and APEC (1998). Application for WTO membership is yet another step in seeking deeper international economic integration.

Vietnam submitted her application to the WTO in 1995 and obtained observer status. The WTO working group on Vietnam accession was established in February 1996, and in August of that year Vietnam provided the WTO with a memorandum on Vietnam's foreign trade policies. Five rounds of multilateral talks were held between 1998 and 2002 in which more than 1,700 questions were answered to clarify Vietnam's foreign trade policies. This completed the first stage of market access negotiations, and Vietnam entered the second stage. In round 6 in 2003, Vietnam started the multilateral and bilateral talks regarding the opening of Vietnam's markets

and discussions on the tariff rate offer made by Vietnam. At the end of the last meeting in May 2003, Vietnam was requested to clarify many issues such as trading rights for foreigners and foreign companies, technical barriers to trade, quantitative restrictions on imports, agricultural subsidies, and intellectual property. Thus, Vietnam has yet to overcome many difficulties in order to become a WTO member. Especially the EU, China, US and Australia brought up many requests.

Opportunities of WTO Membership

The Vietnamese Government is strongly determined to obtain WTO membership before the completion of the Doha negotiation round, expected by 2006, and there are many advantages this might bring:

First, a large market of 146 WTO members, accounting for about 97% of total world trade, would become open for Vietnam's goods and services. This is very important since exports account for about 45% of Vietnam's GDP, and exports are considered to be one of the growth engines for long-term development. Many kinds of Vietnamese goods could be exported in increased quantities if there were no quota system and tariff rates were lower.

Second, Vietnamese consumers would benefit from cheap and diversified products from other countries. Presently,

the tariff rate on goods and services imported to Vietnam is quite high. WTO participation would force Vietnam to reduce her tariff rates to the level where domestic prices are in line with those in international markets.

Third, as a WTO member, Vietnam could try to settle trade disputes according to WTO regulations in a transparent and fair manner. A vivid example of the opposite is the case of tra and basa fish exports from Vietnam. In this recent dispute between Vietnam and the US, Vietnam lost as US law was applied. However, the former general director of WTO, Mr. David Hartridge is of the view that this would not have happened had Vietnam been a member of the WTO.

Fourth, implementing the commitments under the WTO will bring fresh impetus to Vietnam's reform process. For example, WTO accession will force the Government to abolish domestic protection measures, in turn forcing Vietnamese firms to improve their competitiveness and performance. Along with 16 other agreements under the WTO (e.g. TRIPS – Trade-Related Aspects of Intellectual Property Rights) Vietnam will be required to become more transparent in macroeconomic policies and build a legal framework consistent with international standards.

Fifth, WTO membership will improve the image of Vietnam in the eyes of international investors. This will

create good conditions for Vietnam to draw in more investment from other countries. The results of 17 years of reform show that foreign investment plays a very important role for economic growth in Vietnam. It contributes approximately 14 % to GDP and accounts for about 28% of total investment and foreign investment is expected help shift Vietnam's economic structure towards that of an industrialized economy.

Challenges

Nonetheless, WTO membership will not be without its challenges:

First, being a WTO member, Vietnam will have to open the economy to other countries while the competitiveness of goods and services and of the nation as a whole are still weak. At present, not many of Vietnam's goods are competitive in the world market. Vietnam's exports are mainly natural resources, raw materials and low-value-added goods. According to the assessment of the World Economic Forum, Vietnam only ranked 65 among 80 countries in 2002 in terms of competitiveness.

Second, Vietnam is at an early stage of industrialization and modernization, even if the target is to become an industrialized country by 2020. As a result, many industries are at the 'infant' stage and need the state protection for some time. The WTO will hardly allow this, so there is a risk of falling into a 'low wage trap', where Vietnam specializes in low-wage industries while new and high-value added industries have no chance to advance.

Third, Vietnamese firms are young compared to those in market economies, and the performance of the state firms has been disappointing. Moreover, some 95% of its firms are small and medium

sized enterprises with a registered capital of less than USD 600,000. The capital market is poorly developed, so also this is a big constraint for further development.

Fourth, Vietnam is in a transition period where the legal system, policies and even people's behaviour are somehow out of line with international standards. It will take time for Vietnam to transform herself to comply with regulations in the WTO and the market economies.

Fifth, an immediate challenge for Vietnam's Government is the reduction in state budget revenue since Vietnam relies significantly on import taxes. Cutting the tariff rate under the WTO agreements will tighten the budget while expenditure needs are increasing.

Economic Projections

In order to assess the long term economic effects of Vietnam's accession to the WTO, a CIEM-NIAS Analytical Model (CNAM) was built. This is a multi-sector, dynamic applied general equilibrium model. The model is calibrated to a very detailed social accounting matrix for Vietnam, representing 97 production activities and commodities, 13 factors of production (labor and capital), 5 household types, and 94 international trading partners. Because of the high level of detail in the SAM database, the CNAM is implemented with a flexible aggregation facility that consolidates data for more focused individual research activities. For the WTO assessment (see CIEM-NIAS Discussion paper 0204), the model was implemented with an aggregation of 18 sectors including important sectors at the present early stage of

economic modernization, including food grains, textiles, and apparel.

Using CNAM, the results indicate that Vietnam would, in general, benefit from accelerating its participation in a more open multilateralism. However, these benefits will remain modest unless Vietnam adopts a proactive international economic integration strategy. In particular, the results of the model stress the following points:

First, Vietnam's WTO offer represents a substantial reduction in nominal import protection and other barriers to trade, but the gains which the country could enjoy from external liberalization will be seriously limited unless they coincide with comprehensive and sustained domestic economic reform.

Second, our results indicate that the current WTO offer reduces average protection levels incompletely but substantially, and such a reduction could realize about 80% of the gains from complete removal of protection. Thus, this first phase of trade liberalization is by far the most important for the Vietnamese economy. However, the need for complementary domestic reforms is even greater if external liberalization is more gradual.

Third, in the absence of other measures, the offer will lead to intensification of Vietnam's traditional comparative advantages. This would narrow the basis for development, modernization, and productivity growth, and not be in the economy's best long term interest. It could be avoided by complementary policies that promote economic diversification and negotiated external market access. Particular attention should be paid to intensifying bilateral and

Bilateralism and Globalism in East Asia

By Pham Lan Huong

The agenda of open multilateralism, as enunciated by the WTO, and a myriad of regional trade arrangements, gives little direct attention to the issue of bilateral trade. Despite this, however, most countries must undertake multilateral trade initiatives within a mosaic of established bilateral ties, especially with neighboring countries with which they may share deep historical and political relationships. The new Doha Round in general, and China's WTO accession in particular, have intensified interest in East Asian regional trade patterns. While the long-term prospects for regional trade appear positive, there will be substantial adjustments in the short and medium term. Most dramatic shifts will take place in bilateral trade patterns, especially in bilateral trade with the region's most dynamic economy, China. For this reason, more attention to the bilateral implications of trade liberalization generally and in the East Asian context specifically seems justified.

The above kinds of issues were examined under the CIEM-NIAS project, using a dynamic computable general equilibrium (CGE) model to elucidate the bilateral effects of trade liberalization on China and two of its most populous neighbors, Vietnam and Japan. The latter two countries represent very different stages of economic modernization and diversification, and one might expect the course of trade-induced adjustment to vary between them.

The results were published as DP0303 under the title

“Dragon by the Tail, Dragon by the Head, Bilateralism and Globalism” in East Asia, and the CGE model used to carry out the policy experiments is the so-called Linkage Model. This is a global, multi-region, multi-sector, dynamic CGE model (directly inspired by the RUNS model and the OECD GREEN model) with 30 sectors including agriculture and other sectors of importance to the developing countries (rice, other grains, textiles, and apparel). The model was calibrated for 1997–2020 to a 1997 reference global data base obtained from

the so-called GTAP 5.0 international data base on trade.

Reasonable criteria for bilateral complementarity in trade were proposed to identify conditions where trade would grow faster for each country than their total trade, yet contribute to balance of payments stability. Seven policy scenarios, consisting of one calibrated baseline, three bilateral scenarios, and three multilateral arrangements were simulated to identify the impact of various trade arrangements on the three countries.

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regional arrangements with prominent trade partners.

Fourth, expansion of trade, via WTO accession and other negotiated arrangements, will not confer all its economic benefits on Vietnam unless capital markets are reformed to allow more efficient allocation of investment across the economy and greater foreign capital inflows.

Fifth, the Doha ‘Development Round’ put emphasis on the importance for developing

countries of WTO policies toward Trade and Investment, Trade and Competition, Transparency in Government Procurement, and Trade Facilitation. Each of these four components is of considerable relevance to Vietnam and should be on the agenda for future discussions with the WTO Secretariat.

Last but not least, the most important insight emerging from the model is the essential

complementarities between domestic and external economic reform. Both are necessary – but neither is sufficient – to realize the great economic potential of Vietnam. To put it another way, the effort to reform internally cannot be fully rewarded without external reform and, conversely, external reform efforts (like WTO accession) cannot be fully rewarded without commitment to complementary domestic reforms. ■

Results

The results indicate that differences in initial conditions do matter, and an apparent hierarchy emerges among Japan, China and Vietnam along lines that might be predicted by traditional notions of comparative advantage. In the present case, it is noted that trade between these partners grows faster than average trade in most scenarios, whether the liberalization undertaken is on a unilateral, bilateral, or multilateral basis. While this could be desirable, it is also found that, other things equal, bilateral trade imbalances are likely to be amplified in this process, and this has a favourable impact for the richer country and adverse implications for the poorer one in both cases in the absence of policies that promote trade complementarity. For Vietnam in relation to China, as well as for China in the case to Japan, traditional patterns of comparative advantage may intensify, increasing dependence on relatively low wage output and employment and dependence on higher value added imports.

In a sense, this confirms the fears of those who see trade liberalization as a trap for countries that specialize in low wage exports, although such thinking ignores the long term benefits of endogenous growth effects. In the present case, this reasoning apparently applies with equal force to Vietnam and China, but in different contexts. Vietnam runs bilateral deficits with China under all scenarios, and these imbalances appear to grow faster than both total and bilateral trade. In its trade with Japan, China adopts a similar defensive position, with nearly universal bilateral deficits that also exhibit more volatility than either bilateral or total trade.

Japan appears to be at the top of the trade “food chain” with robust bilateral surpluses vis-à-vis China, while the latter maintains like surpluses with Vietnam.

Thus Vietnam is pushed down the value added ladder because of its relatively weak skilled labour endowments and capital insufficiency. The opposite occurs for Japan, which specializes in high-skill intensive products in bilateral trade with China. If China’s high-skilled labour supply cannot grow in tandem with its trade, this imbalance will certainly intensify.

In this sense, Japan might be said to be holding the head of the dragon, while Vietnam is holding the tail.

An interesting fact is that, in all three countries, bilateral imbalances are more volatile as a percent of GDP than as a percent of total trade. This is not surprising, since these are trade liberalization experiments and trade is growing much faster than GDP. Japan actually experiences some very small contractionary effects under tariff removal, a result of adverse terms-of-trade adjustments. Finally, it is worth noting that all three countries can obtain most of the gains from global trade liberalization in a comprehensive East Asian FTA.

With respect to China, Vietnam’s net import dependence is very pervasive, and this country’s overall trade balance must be sustained by exports to other destinations. In the case of Japan, however, trade balances are much more diverse, and in two senses distinctly favourable to Japan. It is

expected that the aggregate bilateral balance is positive for Japan, but closer inspection also indicates that Japan’s sectoral balances favour higher wage manufacturing activities in all scenarios. This means that the value added trade balance is even more favourable to Japan.

Conclusion

The results summarized here clearly mandate the future extensions of the analytical work – to examine the components of the adjustment process more closely and identify policies that can capture the benefits of liberalization while offsetting its adverse effects. In other words, how can the attention shift from a focus on comparative advantage in a static sense to how comparative advantage can be changed in a dynamic and a forward looking manner. The change should occur along lines that improve the quality of trade from a productivity and total factor return perspective.

It is highlighted that passive liberalization may not yield desired results. The poorer countries should develop a comprehensive and coherent development strategy to promote trade complementarity. For Vietnam, this might be technology transfer through FDI and joint venture promotion, increased infrastructure investment to reduce distribution margins, and investments in human capital. In any case, the results obtained reinforce cautionary notions about trade liberalization. Like most economic policies with extensive and generally irreversible indirect effects, it is best undertaken as part of a more comprehensive scheme to advance national development. ■

In the Middle of Difficulty Lies Opportunity: Reforming the Vietnamese Financial Sector

By Jens Kovsted and Nguyen Dinh Tai

This article reviews what was learned under the financial-sector reform component of the CIEM-NIAS project. To succeed the government will have to simultaneously relinquish direct controls and build the capacity to supervise and regulate the resulting autonomous institutions.

Autonomous financial sector institutions undertaking the mobilization, allocation and monitoring of capital in a stable and transparent environment is an important prerequisite for sustained high rates of economic growth. Consequently, financial sector reforms have taken centre stage in the efforts to transform the Vietnamese economy from a centrally coordinated system to a more market-oriented economy.

In this context, updated information and data in combination with recurrent independent analyses of financial sector performance is an essential prerequisite to the evaluation and possible adjustment of reform efforts. In Vietnam this was not the case in 2002, where the last comprehensive World Bank study of the financial sector was from 1995. In order to fill this gap a CIEM and NIAS joint research team was established with the objective to remedy the shortage of comprehensive financial sector analyses in Vietnam. From the outset, the objective of the CIEM/NIAS analysis was not to follow-up to the 1995 World Bank report – the World Bank has subsequently produced their own financial sector review in 2003 – but rather to concentrate on performing in-depth analyses of a number of

selected issues of prominence and importance for the future success of the reform process.

In addition to consulting recent research on financial sector regulation in transitional economies, the process of collecting and analysing data and writing the report was based on both desk studies in Copenhagen, field trips to Vietnam and the involvement of two local Vietnamese consultants. The final report (CIEM-NIAS Discussion Paper DP0301) should be viewed as a first step towards establishing an open dialogue about the nature and speed of the financial sector reforms in Vietnam based on recurrent independent assessments of financial sector issues and problems.

Past Reforms

Banking reforms were an integral component of the first phase of the Doi-Moi reforms, resulting in the creation of a two-tiered banking system through the separation of the large state owned commercial banks (SOCBs) from the State Bank of Vietnam (SBV). The entry of joint stock banks (JSBs), joint-venture banks (JVBs) and foreign bank branches (albeit under restrictions) also helped introduce some element of competition into the system.¹

The cautious, gradualist

approach to the banking reform during the 1990s has proven successful in some respects – the number of credit institutions has risen substantially and confidence in the stability of the local currency and the banking system has been improved. Nevertheless, Vietnam remains far from having a modern market-economy financial system.

Although the absence of a liberalized capital account in combination with an inconvertible currency spared the Vietnamese banking system from the direct effects of the East Asian Financial Crisis, the subsequent regional crisis and loss of international investor confidence in the Vietnamese economy, which already experienced a slowdown of growth prior to the crisis, brought financial sector reforms to a virtual standstill.

The Ninth Party Congress in 2001 marked a turning point with respect to obtaining a renewed commitment to financial sector reforms. A first priority was to restructure and strengthen the JSBs – many of which had run into serious problems of mismanagement, non-performing loans, and low earnings. An SBV assessment of the JSBs resulted in a number of them being placed under special supervision/control while others had their licenses revoked or



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were forced to merge with other JSBs following failure to comply with the prudential ratios dictated by the SBV.

The renewed propulsion in the reform process did stop with the (still ongoing) JSB reforms. In 2001, the Vietnamese government approved an overall framework to reform the SOCBs whose operational efficiency has been severely hampered by the deadweight of non-performing policy-dictated loans to state-owned enterprises (SOEs) and excessive red-tape and regulation of lending procedures. Following the 2001 plan, each of the four large SOCBs will, conditional on satisfactory performance and progress, undergo a phased recapitalisation whilst the non-performing loans (NPLs) will be acquired, managed and sought recovered by specialized Asset Management Corporations (AMCs) – a standard international response to NPL problems in financial sectors.

The Will to Reform

Analysing financial sector reforms in Vietnam it is important to realize that the reform process is currently at the end of the beginning rather than at the beginning of the end of reforms. The majority of the fundamental and technically difficult reforms involving the construction of autonomous and capable financial institutions is still at an initial stage or have yet to be considered.

The expectation that the current and future reforms will be demanding in terms of the skills and knowledge required by the financial sector and regulatory staff is, however, not the only challenge that can potentially obstruct their implementation. Although direct control and policy induced lending has been

abolished, the Vietnamese government continues to exert considerable influence over central financial sector institutions such as the SBV and the four large SOCBs. If the financial sector reforms are to succeed the government will have to simultaneously relinquish its direct control over the aforementioned institutions and build the capacity to supervise and regulate the resulting autonomous institutions. This implies that the official commitment and resolve towards reforms in Vietnam will be tested in the years to come and that the Vietnamese government is as much part of the problem as of the solution.

One can identify a number of reasons for the government reluctance towards further liberalisation of the financial sector. One originates in the fact that the financial sector represents a nexus of control, which enables the government to both raise subsidies and allocate funds to special programmes and state-owned enterprises. Second (and directly related to the current reform agenda), the financial sector and the SOCBs in particular contains 'an uncollected bill' for past lack of efficiency and/or failures in the state-owned sectors.

Historically, the state-owned bank system has been used as an instrument of public policy and much of its lending is still influenced by non-economic criteria. Although reforms have resulted in increased lending to private firms, the SOEs, which dominate the key industries but have to deal with problems of low productivity and bad debt, remain the key recipients of credit from SOCBs. Depending on their true magnitude, addressing and resolving the non-performing loans held by

the SOCBs can result in the destabilisation of both the financial sector and the economy at large. While this, in no context, should be accepted as an excuse for failing to address the problem in a gradual and transparent manner, it is clear that the Vietnamese government will think twice before risking squandering its performance legitimacy obtained as the facilitator and provider of high rates of economic growth.

Both of the above mentioned factors are very difficult (if not impossible) to influence for outsiders, making it clear that any desire and perceived need for in depth reforms of the financial sector have to come from within the Vietnamese government itself. This does not, however, imply that all reforms are blocked and that non-governmental agencies and observers should refrain from doing anything.

Current Reform Issues

In addition to the above mentioned issue of the NPLs and whether or not this problem can be efficiently addressed through the chosen AMC setup, the CIEM/NIAS analysis focused on the enforcement mechanisms and powers of the central regulatory and supervisory institution in the Vietnamese financial market, namely the SBV. The 1998 Law on the State Bank did not provide for profound changes in the way monetary policy is carried out. The supremacy of control-oriented rather than market-based instruments is still largely intact. Here it was concluded that the SBV at present couldn't effectively develop and execute national monetary policies, as it is still operationally and politically dependent upon support from other government agencies.

Hence, although the 1998 Law on the State Bank represented a step back in terms of restricting stipulated independence compared to the situation prior to the passing of the law it appears more likely that lack of especially political but also operational independence are the more binding constraints.

The plans to privatise the SOCBs and continued presence of foreign banks in Vietnam will result in a gradual build-up and strengthening of a non-governmental lobby for an independent central bank, which entails that the government will have to address the issue of central bank independence at some stage. If realised, the equitization of the SOCBs will also increase the pressure for establishing and ensuring the independence of the institution responsible for financial sector supervision, implying that pressure upon the government to address this issue is likely to mount as well.

These complementarities between increasing reliance on private incentives and the market mechanism on one side and the need for increased supervision and control on the other is a central aspect of financial sector operations, which in turn implies that the forthcoming reforms cannot be addressed in a piecemeal or constrained manner.

There remain three issues of high priority for Vietnam's financial reforms: (i) the bank supervision function of the SBV must be strengthened; (ii) the legal framework for the financial system has to be developed further and; (iii) the process of institution building must be advanced without delay.

In conclusion, the CIEM/NIAS analysis of Vietnamese financial sector reforms bore testament to the statement that liberalising a financial sector is not solely a question of limiting and/or restricting government influence, in some areas such as,

for example, the regulation and supervision of the financial markets it might in fact be the direct opposite, namely that the influence and power of government controlled institutions should be increased and strengthened. Whether or not the Vietnamese government is able to strike a balance between relinquishing direct control, while simultaneously establishing the necessary regulatory and supervisory framework will be of crucial importance for the country's ability to maintain the current high rates of growth in the future. ■

Note

¹ At present the Vietnamese banking system consists of 5 SOCBs, 36 JSBs, 4 JVBs, 1 social policy bank, 26 branches of foreign banks, 5 leasing companies, 7 finance companies and over 900 people credit funds.





Rural Development and Employment in Quang Nam Province

By Chu Tien Quang

This article reviews information gathered at the national, provincial, district and commune level on land, labour and credit issues relating to Quang Nam province in Central Vietnam from a comparative perspective. Recommendations from this project are also summarized.

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The initial suggestion of this study, which was an integral part of the CIEM–NIAS project, was focused on the mobilization and allocation of land, labour and credit for economic development, employment creation, and the improvement of income for farmers in rural areas of Vietnam. Specific activities under these headings included to

- (i) uncover positive and negative behavioral factors among different farming households
- (ii) assess the role of state agency levels and social organizations, and
- (iii) formulate recommendations and solutions for improving efficiency in resource use.

Quang Nam

It was decided to focus on Quang Nam province since it is economically marginalized compared with the economic centers of Vietnam. Quang Nam is also located in central Vietnam, 680 km south of Hanoi, and 865 km north of Ho Chi Minh City. National Highway 1A and the Trans-Vietnam railway pass through the province, and Quang Nam National Highway 14 connects Quang Nam with the west highland province of Tay Nguyen. Quang Nam consists of 12 districts and two towns, and the province is also famous for its two World Cultural Heritage sites: My Son and Hoi An.

The province covers an area of 10,046 km² with a population of over 1.4 million people. Quang Nam province is divided into the following distinct zones: mountainous land, midland, plain and coastal area. Diverse conditions of nature, ecology, demography, customs, and cultivation practices are found in the province and its local people. These diversities make Quang Nam a relevant area to study because different living standards and customs have a variable impact on resource mobilization and allocation for employment creation and income improvement.

Quang Nam is also the province that suffered greatly from widespread destruction during the war before 1975. All of Quang Nam districts and cities have been awarded military honours, and the province is home of more than 6,000 so-called Hero's Mothers. In addition, natural calamities occur regularly every year; these impose stringent living conditions on Quang Nam's population.

Before 1997 Quang Nam province formed part of Quang Nam Da Nang province, and this fact explains many of the problems that the newly established province faces – insufficient infrastructure, general economic difficulties, and shortage of provincial cadres. The people of Quang Nam have made concerted

efforts to overcome their difficulties, mobilize available resources for socio-economic development, and create new employment. Praise-worthy achievements attained, including a stable economy with high growth rate and a clear focus on economic development.

Methodology

The survey was carried out as an interdisciplinary study bringing together a group of people including specialists from the Department of Policies on Agriculture and Rural Development under CIEM, *Communist Review*, the Institute for Agricultural Economics, National University of Economics in Hanoi, Vietnam Farmers' Association, and cadres from the Quang Nam Department of Planning and Investment as well as co-operation with NIAS.

The data were obtained from many different institutions ranging from national and provincial headquarters through district and commune levels to private households in a representative pattern. This methodology represents a new way of working within the CIEM research tradition, and has been referred to as an 'institutional trans-section'. Almost all data were collected through open-ended (or semi-structured) interviews directly with farmers and agencies.

Conclusions

Through discussion with state agencies and households as well as through direct observation, the research team revealed a variety of constraints to creating employment and increasing the income of people in Quang Nam. In particular, while the economy of Quang Nam province is based mainly on agriculture and forestry production (these account for 40.2 percent of GDP), the efficient use of land in production and a clear identification of land used for developing the non-agriculture economy in rural area appears as urgent needs. It is therefore critical to reexamine and supplement ongoing land-use master-planning, implement measures to facilitate greater effectiveness of agriculture land usage, and ensure a proper distribution of land in rural and urban areas.

The results of the survey show that the number of people participating in economic activities in Quang Nam is about 87–88 per cent of the total working age population. As such, an estimated 13 per cent are unemployed. Opportunities for creating new jobs must be found in both agriculture and in the expanding non-agriculture activities in rural areas. (these are mainly implemented in new industrial zones). Besides many efforts of local authorities to further the creation of employment opportunities, flexibility and concerted efforts by rural people in job searching remain necessary. Recommendations by the research team on further steps include initiatives to: (i) enhance the spread of information on job creation, (ii) suggest that the government authorities in Quang Nam province and at district levels take great care to define a sound

direction for its economic development, (iii) pursue policies to ensure a better balance between training demand and supply, (iv) approve investment projects and labour use plans of enterprises simultaneously in order to ensure balance in labor demand and supply, (v) stimulate vocational training and provide favorable employment conditions for newly graduates, and (vi) implement specific measures for employment creation in each locality.

The research also revealed that rational allocation of government investment at the provincial level and in each district has a critical impact on creating new jobs, and the same goes for private business engaging in production and business. Also, mobilization of savings by the banking system has mainly been from internal sources rather than from outside the province. For example, the Vietnamese Bank for Agriculture and Rural Development and the Vietnamese Bank for Investment and Development have increased their savings mobilization by nearly seven times during the past five years, but capital from outside increased only a little.

Non-market credit sources (i.e. credit mechanisms not based on market principles) include institutions such as the Bank for the Poor, the Fund for Investment Assistance, state programs with job creation targets, state programs on permanent agriculture and permanent settlement, Programs on social development in extremely difficult communes, and some programs with other specific objectives. The survey indicated that these kinds of capital resources are allocated through different channels and rely on different mechanisms

with no collaboration from provincial authorities. This gives rise to the following recommendations: (i) reorganize the methods used in approaching the poor through organizations such as the Farmers' Association, Women's Union, and Mutual Help Union, and (ii) enhance mobilization of capital from humanitarian organizations. Moreover, instead of depending on the state budget only for direct investment, it should be permitted that the Vietnam Bank for the Poor puts in investment resources with the state providing subsidies for any remaining shortages. This would imply that with a specific sum funded by the state, there will be a bigger capital resource to invest by the poor. Investment resource management should also be enhanced and loans and other services to the poor should become better focused. This implies specializing more in providing credit in a proper market-oriented way so as to underpin the development process. For targeted state programs, the best way to advance in terms of efficiency is to organize a set of co-ordination committees and unify capital sources of the various programs at provincial level. This, in consultation with the Provincial People's Committees, would help successful implementation. ■

Vietnam Bank for Agriculture and Rural Development

By Lotte Isager and Luu Duc Khai

This article presents findings related to household mobilisation and allocation of credit by focusing on the achievements and problems of the Vietnam Bank for Agriculture and Rural Development (VBARD). The article discusses how people access loans from the bank, how the bank operates and what are the most important problems faced by the bank personnel and the borrowers.



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Luu Duc Khai, Bachelor of Agricultural Economics and Bachelor of Law from Hanoi University, has worked for thirteen years at CIEM. His research interests include the role of AFTA (ASEAN Free Trade Area) and WTO in Vietnamese rural development. Currently, Mr. Khai is studying for an MBA at Southern Cross University in Australia with financial support from the CIEM-NIAS project.

The national economy of Vietnam is closely tied to agricultural production, but Vietnam is an agrarian economy in transition. The reform programme known as *doi moi* has changed the collective system and returned agriculture to family farming on the basis of long-term leases. Price setting has been liberalised and, in 1990, the single state bank was split up into sector banks, including an agricultural bank that offers credit not only to state enterprises and collectives but to individual family farms as well.

In order to better understand the dynamics of these changes, CIEM and NIAS joined forces during 2002 to study the effects of rural reforms in Quang Nam Province. During a five week long field trip to the province, researchers from CIEM and NIAS collected information and conducted interviews with household representatives as well as a range of political leaders and civil servants at province, district and commune level. The main purpose of the study was to investigate how rural groups mobilise and allocate resources – mainly land, credit/capital, and labour – and how the roles of various government institutions affect these processes.

The Rural Financial Sector and VBARD Achievement

The rural financial sector in Vietnam is comprised of many formal and informal

institutions. Different state-owned and private banks lend money to enterprises and households. Many government agencies are involved in credit activities as managers of targeted programmes. Organisations like the Women's Union, the Veterans' Union, and the Farmers Association serve as credit advisors and guarantors for their members. Some co-operatives and non-government organisations provide credit to households. In addition, there are local rotating savings and credit associations and a substantial informal credit market where people mobilise capital through relatives, neighbours or private moneylenders.

The Vietnam Bank for Agriculture and Rural Development is the biggest formal credit provider to rural households in Vietnam. It is a commercial bank, set up in 1990, to meet funding needs for rural families. However, as discussed below, the term 'commercial bank' is not entirely appropriate. After its establishment, the VBARD mainly provided loans to co-operatives and state-owned enterprises, but nowadays most loans go directly to households. At national level the household share of the total loans increased from 10 to 73 per cent in the period 1992–97. The government simplified the procedures for borrowing and application procedures are now

less complicated. For example, according to the bank regulations, loans of less than 10 million VND do not require any collateral.

In Quang Nam province, there are 33 branches with a total of 292 employees. Loans are provided for productive purposes only, but government employees are allowed to borrow for consumption purposes as well. Until 2002, according to central government policies, eighty per cent of the total lending was supposed to be on market conditions while twenty per cent were earmarked for policy purposes or for victims of natural disasters. In this respect, until 2002, the VBARD was not fully functioning as a commercial bank.

The VBARD's interest rates are determined within the interest rate framework specified by the State Bank of Vietnam (SBV). Since 1996, the SBV has only set the ceiling for lending and abolished that for deposits. The lending rate of the VBARD has gradually decreased during the past years. In Quang Nam during April–May 2002, monthly interest rates in rural areas varied from 0.7 to 0.9 per cent for short-term VBARD loans, even though the official rate should be 0.7 per cent. The bank provides three kinds of loans: (i) short-term, less than 12 months (58 per cent of total loans in Quang Nam Province), (ii) middle-term, between 12 months and 5 years (35 per cent

of total loans), and (iii) long-term, more than 5 years (7 per cent of total loans).

Since the VBARD was established in Quang Nam in 1997, the bank's mobilisation of deposits has increased from 148 billion VND in 1997 to 972 billion VND in 2001. 70 per cent of the mobilised funds are deposited on a short-term basis and deposits from a range of sources have increased year by year as individual people, enterprises, and mass organisations have developed a trust in the bank's operations. This trend resembles the findings at national level, where the total deposits in VBARD doubled between 1994 and 1998.

Altogether, these data suggest some major achievements of the VBARD. The bank has managed to reach rural households. The procedures for borrowing have been simplified, which makes the bank much more accessible for people. Interest rates for lending have decreased over the years (this might not be a good thing for the bank, but it is certainly welcomed by the borrowers). Deposits are increasing, which shows a growing public confidence in the financial systems of the country.

Problems

During interviews, bank staff mentioned irregularities in the flow of funds from the central government in Hanoi through the provincial government in Quang Nam and shortage of staff as their two main problems. Staff regularly complete paperwork only to find that no money is available at the time of need. Since most loans are linked with agricultural production where the timing of investment may be crucial, the irregularity of funds is considered a major

problem. Moreover, in Quang Nam, it is common that one staff member must look after more than 1,500 borrower households. This explains why borrowers often experience a poor quality of services. It might also, in combination with the low education level of staff, be the reason why the VBARD rarely coordinates its own work with that of agricultural extension officers, even though everybody agrees that the efficiency of credit would increase if borrowers had access to advice on, for example, animal raising at the time of receiving a loan. Lack of staff might also explain why the bank personnel have difficulties assessing many proposed projects from borrowers. Another plausible reason is that banks have little genuine ability to assess commercial risks.

Interviews with private households showed that people found the size of loans offered too small and the duration of the loans too short. Besides these two complaints, it was mentioned that the bank staff are inflexible when the credit worthiness of people and the potentials of their proposed investments are assessed. Finally, fear of borrowing – that is, fear of potential repayment problems – was identified as a main constraint for many people.

Collateral

Even though the bank regulations state that collateral is not required for loans below 10 mio VND, the bank staff in Quang Nam often demand it. Usually, land use certificates ('red books') are used as collateral, so people without such certificates face problems when applying for a loan. As certificates are almost always issued only in the name of the male household heads, women

are formally excluded from accessing land use rights and thereby access to credit from the VBARD. In Quang Nam, there are other reasons why some people do not possess a land use certificate. Sometimes, lack of cadastral staff in a district and/or lack of guidelines from central government (for example, about how to issue certificates for forested areas) imply that no certificates are issued by the authorities. In other cases, people's unwillingness to pay for the certificate is the reason. In 2002, out of 240,095 land-use certificates issued in the province, 77,885 certificates remained uncollected by their owners.

Repayment Procedures and Funny Mathematics

Repayment of loans follows different models. In mountainous areas, interest is paid quarterly while in the more accessible lowland areas bank staff will collect interest monthly. Normally, the principal of the loan is repaid at the end of the term. According to data from various VBARD branches in Quang Nam, the repayment rate for loans is around 99 per cent. In the mountainous and very poor district of Tra My, where only 62 per cent of the loans were reported as commercial loans, 99.7 per cent of all loans were reportedly repaid. During interviews with bank personnel it turned out that the exceptionally high repayment rates are results of the common practice of VBARD branches to extend the duration of loans that are not repaid in time. By rescheduling loans, official repayment rates are maintained at an unrealistic level. This practice means that the VBARD is not functioning on strictly commercial terms.

The study tour to Quang Nam showed that nobody seems to know for sure how the VBARD is actually performing. No data about the extent of rescheduled loans are available from the bank and it is even unknown whether such data exist anywhere within the system. Besides, it is unclear from the data we did obtain from the bank whether some bad debts arising from commercial loans are, in fact, accounted for as policy loans.

These and other similar examples of 'funny mathematics' encountered by the CIEM/NIAS study team in Quang Nam Province appear to be characteristic of the Vietnamese public sector as a whole. In the case of VBARD, researchers are left with the impression that many positive achievements have been made since 1990. Still, the lack of reliable data available for researchers and, presumably, for bank personnel and leaders, raises questions about the transparency and rationality of the bank's accounting procedures and about the very sustainability of the VBARD's operations. The future development of reliable accounts and valid databases should be a task of utmost importance for Vietnamese leaders if the reform process initiated in the 1980s is to continue in a fruitful direction. ■

continued from p. 10

complemented by income transfers to compensate rural households in the short term, while a determined rural development strategy is needed to ensure rural income growth and poverty reduction in the longer term.

In relation to spatial inequality, the data further indicate that 87 per cent of income is spent on consumption in rural areas compared to 73 per cent in urban areas. This indicates that (precautionary) savings among poor rural households are very small. Moreover, home consumption is strictly concentrated in rural areas, where it accounts for 25 per cent of total consumption. Increased market opportunities are therefore indispensable for poor rural households to take advantage of economic reforms. This point is underscored by the fact that home consumption is widespread not only among farming households (25–30 per cent), but also among self-employed and wage-earning households (10–20 per cent). Rural areas are characterized by severe underemployment and a general lack of opportunities, and there is a strong need for increased infrastructure investment, as a long-term complement to pressing short-term trade related reforms, to help integrate rural areas with the rest of the economy.

How do we go from here?

The Vietnamese government has over the past 15–20 years concentrated almost exclusively on structural changes to complement a focused outward-oriented development strategy. Market based policy instruments have been introduced and partnerships between foreign and domestic companies have been encouraged. Nevertheless, Vietnam fundamentally remains an agrarian society with an economy dominated by state-owned enterprises. Our analyses based on a 2000 Social Accounting Matrix show that the Vietnamese economy is balanced at the macro level, but we also see structural weaknesses related to trade integration, slow reform of enterprises and commercial banks, and lack of investment in rural infrastructure. Pressing trade and enterprise reforms are likely to increase spatial inequality. The Vietnamese government is therefore going to encounter increasing social difficulties unless reforms are complemented by short term compensation of rural households, and a more comprehensive longer term development plan to increase rural market opportunities. ■

Note

¹ The SAM was developed by the University of Copenhagen and the Central Institute for Economic Management (CIEM) as an integral component of the DANIDA funded CIEM-NIAS project.



Fieldwork Methodology and Practice in China

The Workshop 'Fieldwork Methodology and Practice in China' was held at NIAS 2–3 October. The workshop was concerned with the ethical and practical issues that arise for researchers engaged in fieldwork in the People's Republic of China. There is often a gap between fieldwork theory and practice, but unfortunately this gap is generally not widely talked or written about. Usually any fieldwork difficulties are brought up in the methodology section of a book, or in the appendix, but quickly dismissed as difficulties not weakening the result of the study.

The point of departure of the workshop was that voicing and debating fieldwork problems is conducive to both the credibility of researchers and the quality of projects, and that a public discourse will enable us to make better compromises between ideal methodology and actual practice. The main aim of the interdisciplinary workshop was to identify and discuss problems arising in fieldwork and to learn about each other's strategies to overcome problems. Participants related theoretical knowledge of methodology to their practical experience and discussed how some methods are better than others when confronted with hard

practical and ethical choices in the field. For paper abstracts see the website <http://www.nias.ku.dk/chinafieldwork>.

The workshop brought together political scientists, sociologists, anthropologists, economists, sinologists and others from Finland, Norway, Sweden and Denmark as well as keynote speakers from China and the USA. The workshop was supported by a generous grant from the Danish Social Sciences Research Council. Dr Maria Edin, Uppsala University and Dr Stig Thøgersen, Århus University will edit a volume of selected workshop papers.

Due to a strong interest in the workshop among MA students, NIAS will convene a one-day seminar on China-related fieldwork methodology for MA students in early 2004 in collaboration with the Nordic Association of Chinese Studies. The seminar is primarily aimed at MA students who are planning fieldwork in China. For more information contact Nis Høyrup Christensen nhc@nias.ku.dk or Elin Sæther elin.sather@sgeo.uio.no ■



Dr Stig Thøgersen,
Århus University,
addressing the workshop
participants

NIAS Grants

Guest Researcher Scholarships for Nordic Scholars

This type of scholarship is designed for senior researchers and doctoral candidates based in the Nordic countries. It offers researchers an opportunity to work at NIAS as an affiliated researcher for 2 or 4 weeks. A scholarship includes inexpensive travel to and from Copenhagen and accommodation with full board in a NIAS room at Nordisk Kollegium. The guest researcher enjoys full access to the Institute's library services and research tools, computer facilities, contact networks and scholarly environment. Stays are arranged subject to a time schedule administered by NIAS.

The application form is available at
<http://www.nias.ku.dk/activities/supra/NIASNordicGuestResearcherSch.doc>

Contact Scholarships for Nordic Graduate Students

These scholarships are designed to make NIAS's library and other resources accessible to graduate students in the Nordic countries. A scholarship covers inexpensive travel to and from Copenhagen and accommodation with full board in a NIAS room at Nordisk Kollegium for a period of two weeks. Stays are arranged subject to a time schedule administered by NIAS.

The application form is available at
<http://www.nias.ku.dk/activities/supra/NIASContactScholarshipsAppli.doc>

Øresund Scholarships

Researchers and students from Lund and Roskilde universities are invited to apply for NIAS's 'Øresund Scholarships'. The candidate will be seated in the library's reading room and will be offered the same extended library services as the regular holders of contact scholarships. Only transport costs are covered by the scholarship. Accommodation costs and incidental expenses are not covered. Stays are arranged subject to a time schedule administered by NIAS.

Find the application form at
<http://www.nias.ku.dk/activities/supra/NIASresundScholarshipAppliac.doc>

Application Deadline

Monday, 5 April 2004 for scholarships during the period May–June, and August–September 2004.

Further information on NIAS's scholarship programme on the web:
<http://www.nias.ku.dk/activities/supra/scholarships.htm#students>.



Erik R. Skaaning can be contacted for further information on NIAS's scholarship programme at erik@nias.ku.dk

Staff News



Marianne E. Nielsen, head of the NIAS Library & Information Centre, left NIAS after eight years of service, for a leading position in the Danish public library system. Marianne's new position will enable her to realize her dream of living full-time in her cottage in the countryside. During her years at NIAS, Marianne was instrumental in transforming the library from a traditional academic library into a modern library and information centre. As a good colleague and also staff representative in the NIAS Board she played a key role at the institute; she will be truly missed.

We wish her all the best in her new position.



Mads Nyvold Christensen, a student at Copenhagen University's Department of Political Science, has a "studieplads" at NIAS until May 2004. Mads Christensen is writing an MA thesis on *Local Elections in China*.

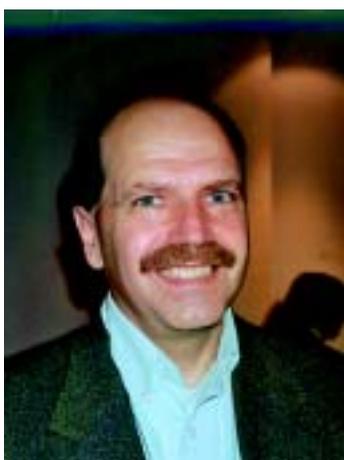


Mads Kjeldsen from the Department of Political Science at the University of Aarhus has been awarded a NIAS "studieplads" for five months, starting 1 October. He is writing an MA thesis on *State Capacity and the Centre-Provincial Relationship in China*.



Leena Höskuldsson, senior editor of NIAS Press and editor of *NIASnytt*, celebrated her 30th anniversary at the Institute on 6 November. Her reception attracted a large crowd of friends and colleagues that recalled with high humour many incidents from NIAS's past involving Leena.

Recent Visitors



Dr Andrew Kipnis, Australian National University, Canberra, visited NIAS and gave a presentation on *Social Connections in China: Recent Social Science Debates on the Significance of Guanxi* at Copenhagen Business School, on 3 November.



Dr Indrajit Banerjee, School of Communication and Information, Nanyang Technological University, Singapore, Ms Jenifer Lasimbang, PACOS Trust, Sabah, Malaysia, and Dr Ang Peng Hwa, School of Communication and Information, Nanyang Technological University, Singapore, gave presentations at the workshop *Democratic Transitions? Will the Internet Bring About More Democracy and Better Governance?* arranged jointly on 24 September 2003 by NIAS, Aalborg University, The Digital North Denmark, the Danish Centre for Culture and Development, MODINET (Media and Democracy in the Network Society) and the Danish Association for International Cooperation (MS).

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Erik Skaaning

NIAS Update: NIAS's monthly electronic newsletter of Asian studies events in the Nordic countries and beyond

NIASNytt – Asia Insights: a quarterly with thematic articles on current Asia-related issues by both Nordic and international experts

NIAS Press Book Catalogue: annual presentation of new and backlist titles published by NIAS Press

NIAS Press Book Alerts (from January 2004): electronic news on new and forthcoming books from NIAS Press

New Books in the NIAS Library and Information Centre, NIAS LINC: electronic list of new acquisitions in the library, sorted by region and country and issued more than 50 times a year

NIAS SUPRA Database: NIAS's Support Programme for Asian Studies is open to students residing in the Nordic countries, who have been admitted to a university MA or PhD program. The students must be actively carrying out thesis work on an Asian topic. Services offered are: interlibrary loans, NIAS scholarships, information services, thesis advice, international research workshops-cum-training courses, publication of dissertations, discount on NIAS Press titles, *NIASNytt*, SUPRA News.

For more information on SUPRA , please contact **Erik Skaaning** at erik@nias.ku.dk or visit <http://www.nias.ku.dk/activities/supra>.

NIAS Curriculum Vitæ Database

NIAS wants to develop an up-to-date database of Asia researchers within all academic disciplines in the Nordic countries. (Researchers from elsewhere will also be welcome.) NIAS is involved in or facilitates many collaborative research projects and engages in research-based consultancy for international development organisations. The purpose of the database will be to maintain up-to-date information on researchers interested in working with NIAS in such collaboration and assignments. The information will be confidential; however, researchers registering their information will be asked whether the information can be made available to our partners within the European Alliance for Asian Studies.



Carol Richards

If you wish to avail yourself of one or more of our services, please register in the NIAS Contact Database at <http://www.nias.ku.dk/contact/contactdb.htm>.

For more information on the CV Database, please contact **Carol Richards** at carol.richards@nias.ku.dk.

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Please note that subscribers who don't check or update their information at least once a year will be deleted from the database.

For more information on NIAS's Contact Database and related services, please visit <http://www.nias.ku.dk/contact/contactdb.htm>.

Recent Visitors



Patrik Ström, Göteborg University, held an Øresund Scholarship in September. He is carrying out a Ph.D. project on *Internationalization of Japanese Professional Business Services – Geographical Patterns and Processes*.



Tom Morell from the Office of the President, Stockholm University, visited NIAS in November. The purpose of his visit was to study the organization and functioning of NIAS's programmes and activities.



Christine J. Nissen, University of Aarhus, held a Contact Scholarship in September. She is writing an MA thesis on *The Impact of and Attitudes towards Corruption in Cambodia*.



Sami Petteri Leino, University of Oulu, had a Contact Scholarship in October. He is working on an MA thesis on *The Image of Japanese Prostitution in Western Books of the Meiji Era*.



Randi Mørk Lildballe, University of Aarhus, held a Contact Scholarship in October. She is working on an MA thesis on *The Sangh Parivar Family and the Future of Indian Secular Democracy*.



Katja Koponen, University of Tampere, and **Jan Kanne Petersen**, University of Aarhus, held Contact Scholarships in November. Katja's Ph.D. project is on *The Effect of Population Growth and Urbanisation on the Sustainable Development in the Mekong River Basin. The Environmental Governance and Management in Ho Chi Minh City, Vientiane and Bangkok*. Jan is writing an MA thesis on *Aspects of Tradition and Modernity in Indonesia*.



Elin Sæther, University of Oslo, held a Contact Scholarship in September. She is writing a Ph.D. thesis entitled *A Critical Press in China: Independent Journalists or Government Watchdogs?*



Farhat Taj, University of Bergen, held a Contact Scholarship in September. She is working on an MA thesis on *Women and Women Police Station, Peshawar: Confronting 'Honour' and Violence*.



Professor Duncan McCargo, University of Leeds, gave a seminar presentation on *Southeast Asian Political Studies: Trends and Trajectories* on 2 September.

Marko A. Kauppinen, University of Jyväskylä, and Staffan Appelgren, Göteborg University, held Contact Scholarships at the beginning of October. Staffan's Ph.D. project is on *Consuming Other's Culture in Japan* and Marko's on *Politics of Spectacle: The 16th National Congress of the CCP*.



Synnøve Aasland, University of Bergen, held a Contact Scholarship in September. She is writing an MA thesis on *Consumption and Identity among Chinese Students at Fudan University, Shanghai*.

Bu Wei, Chinese Academy of Social Sciences (CASS) in Beijing, visited NIAS in September – November. She is collaborating with Cecilia Milwertz on the research project *Organizing for Gender Equality in China*.



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Jussi Tapio Lehmusvaara, University of Turku, and Tomas Miniotas, Vilnius University, held Contact Scholarships in November. Jussi's MA thesis is on *The ASEM Process and Global Information Society – The ICT Policies of Southeast Asian Countries*, Tomas's on *Perspectives of Reunification of the Korean Peninsula: The View from Beijing*.

Challenges of Sustainable Development in Vietnam

Melanie Beresford and Tran Ngoc Angie

*There have long been doubts about how Vietnam could sustain its rapid rate of growth in order to 'catch up' to its Southeast Asian neighbours. Even before the onset of the Asian crisis in 1997, questions were being raised about Vietnamese market institutions, in particular, and their suitability to support long-term development. Economic recovery across the region – and in Vietnam – has not stilled the questions. This edited excerpt from the authors' introduction to their forthcoming book, *Reaching for the Dream*, explores a few of these issues.*



Melanie Beresford is associate professor in economics at Macquarie University in Sydney, Australia. Among many other publications, she is author (together with Dang Phong) of *Authority Relations and Economic Decision-Making in Vietnam*, published by NIAS in 1998 and described by *Asian-Pacific Economic Literature* as "a little gem of a book ... It is hard to find fault with this monograph".



Tran Ngoc Angie is associate professor in political economy and director of the Pacific Rim Studies Institute at California State University, Monterey Bay, U.S.A. She has written extensively on Vietnam's economy and especially on its textile and garment industries.

Since the failure of centrally planned economies to produce sustainable growth over the long term, it has become conventional wisdom that market economies produce better results, from the points of view of both individual and social welfare. What remains controversial, however, are questions such as: how, exactly, do markets function to produce such superior results?

Mainstream economic theory has long assumed that markets are better, but it is largely an ideological assertion. There is plenty of evidence that some capitalist economies, the early industrialisers, have performed better in the long-term growth stakes, but there is debate about why this should be so. Equally many capitalist economies have performed dismally, and the social welfare and environmental outcomes are patchy in all of them. Moreover, there is now a voluminous literature indicating that 'market failure' has been at least as important, if not more pervasive, than 'government failure' in some of the East Asian late industrialisers.

So how do markets work? What are the essential relationships between social institutions of the state and markets which tend to promote long-term and equitable development rather than hinder it?

This book addresses these relatively old questions in the social sciences within the new settings: the transitional economy of Vietnam as well as the impacts of the Asian economic crisis at the end of the 1990s.

Transition economies give us the opportunity to study some fundamental questions about the nature of markets, and the Asian economic crisis adds urgency to understand them for sustainability goals. How do they arise and do they necessarily follow the same *modus operandi* as markets in other countries? How does the state influence the development of markets through its policies and institutions? How does the opening of the economy to global market influences affect the processes of institutional change, human development and working conditions? How do people respond to both internal and external influences? How do the various cultural practices and expectations within a society explain the dynamics of development politics? And how, in the context of an underdeveloped transitional economy like Vietnam, do such influences affect the prospects for sustainable and equitable development?

Generally the literature on sustainable development is very broad, though tending to fall

into a range of fairly specialised categories including feminism, environmental politics, environmental economics and the global political economy perspective. The literature generally provides a 'technological critique' of existing capitalist practice. There is a common assumption that development cannot be defined solely in terms of economic growth. Sustainable development involves qualitative improvement beyond the singular focus on quantitative growth (with its common indicator, GNP) that characterises much of development economics. Mainstream economic analysis, on the other hand, considers the question of sustainability largely from the point of view of maintaining macroeconomic stability and growth of national income.

The lack of concrete analyses of sustainable development in specific institutional settings is a major shortcoming of the literature which this book attempts to redress. Much of the existing literature locates the problem of sustainable development within a dichotomous North–South (or developed and developing country) framework and does not, therefore, shed light on the specific problems of a socialist transition economy like Vietnam. Moreover, despite the evidence of East Asia in past decades, this sustainable

development literature tends to discount the role of national governments as weak and co-opted. National states, however, clearly do have an influence both on the patterns of integration into the global economy and the ways in which these patterns are experienced by the population as a whole. Local transformations can be achieved at the national and sub-national levels which, while they may not upset the overall balance of global economic power, may significantly affect the terms on which social classes, ethnic minorities or men and women can achieve sustainable development. ■



Reaching for the Dream

Challenges of Sustainable Development in Vietnam
Edited by Melanie Beresford and Angie Ngoc Tran

Focuses on the differentiated ways in which the double transition in Vietnam – from central planning and from under-development – affects the population.

NIAS, January 2004, 304 pp., illus.
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Better to Rely on Ourselves

Changing Social Rights in Urban China since 1979

Hatla Thelle

Danish Institute for Human Rights, Copenhagen

This study analyses changes in the protection of social rights in China since 1979 for the middle-income level of the urban population, based on family interviews and documentary studies. It tells how conditions for employment, housing, social security and education have undergone a complete transformation as a consequence of the transition to a market economy. While the individual citizen has benefited from more freedom of choice and movement, there is less stable protection of the right to work, health care, housing and education. Moreover, channels of popular participation in the decision-making process remain fragile and knowledge of complaints mechanisms and legal remedies is poor.

NIAS, February 2004, 288 pp.

Hbk • 87-91114-26-8 • £50, \$54

Teaching and Learning in Tibet

A Review of Research and Policy Publications

Ellen Bangsbo

A literature review of research and policy publications related to basic and primary schooling and quality education in the Tibetan Autonomous Region. These have been collected from selected official Chinese sources, Tibetan NGOs outside Tibet, international news agencies and Chinese, Tibetan, and international scholars with knowledge of social and educational issues in China and Tibet. The study is in two parts. Part I is a review of research and policy publications related to basic and primary education in Tibet/China. Part II is an annex with a list of literature, websites and journals, and other statistical information.

NIAS, January 2004, 160 pp.

Pbk • 87-91114-30-6 • £14.99, \$18

Ebk • 87-91114-31-4 • DKK60

Modernization and Effeminization in India

Kerala Cashew Workers Since 1930

Anna Lindberg

University of Pennsylvania, USA

The South Indian state of Kerala is well known for its progressive policy, high social indicators, and comparatively high women's status. Processes of modernization, however, have had an ambiguous impact on women. This study of female cashew factory workers in Kerala combines meticulous historical investigation with anthropological research, including a wealth of in-depth interviews. The author traces changes since the 1930s in gender relations among low-caste men and women by examining processes of modernization in the organization of work, trade union activities, and ideologies regarding marriage and family life. Her main conclusion is that women have obtained better absolute conditions at work and in society but – due to a process of effeminization – they are now seen as being weaker and more dependent on men than in earlier decades.

NIAS, February 2004, 288 pp., illus.

Hbk • 87-91114-21-7 • £50, \$60

The Indonesian Military After the New Order

Sukardi Rinakit, Centre for Political Studies, Jakarta

Key Points

- First study to address the role of the military in Indonesia since the fall of Suharto.
- The military is an integral part of Indonesia's power structure, hence of interest to anyone studying Indonesian affairs.
- The author, as a former ghostwriter at the Indonesian Ministries of Home Affairs and Defence, has been privy to the internal dynamics of the military and has personally interviewed untouchable figures such as former President Suharto.
- An up-to-date, well-informed study providing a useful contribution to the literature, particularly with regard to the younger generation of the military.

This study identifies the factors behind the Indonesian military's decision to reposition its dominant role in socio-political affairs after the fall of Suharto. It covers the contestation between the military and the new civilian regime under President Abdurrahman Wahid (Gus Dur) over its altered role, and the military's part behind his fall. Finally, the military's future role under President Megawati is assessed, together with the possibilities of it resuming power.

Contents

1: Introduction • 2: The Military During the Pre-Reform Period • 3: Towards the New Paradigm • 4: The Military During the Presidency of Abdurrahman Wahid • 5: The Military During the Megawati Presidency • 6: Postscript • Bibliography • Index

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Hbk • 87-91114-05-5 • £40, \$60
Pbk • 87-91114-06-3 • £15.99, \$22.95

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