PRIVATE ENTREPRENEURSHIP
AND SOCIAL CHANGE IN TRANSITIONAL ECONOMIES

THE SOCIOPOLITICAL IMPACT
OF PRIVATE INDUSTRY IN VIETNAM
- SIX THESES -

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1. Introduction

In the late 1970s and 1980s, two different development approaches emerged in the socialist world. The Soviet Union and Eastern Europe\(^1\) adopted an approach of radical political reform as a precondition of a successful economic reformation. A privatization program from above was initiated. Privatization from above means the legal change of the ownership structure of the state-owned sector.

In contrast, the Asian socialist countries of China and Vietnam followed their own gradualist path of economic changes without attempting to induce radical political reforms. The overall political goal was (and still is) to maintain political stability while promoting economic liberalization.\(^2\) Without any blueprint for an extensive privatization of the state sector, the privatization process took place spontaneously by the early illegal founding of new small enterprises. This widespread privatization process leads to a fundamental social and political change from below, that was neither foreseen nor intended at the beginning of the reform. Its dynamics make this process almost uncontrollable.

2. Research design

Since the economic, social and political subsystems of a society are interrelated, a fundamental change in one subsystem will cause changes in the other ones, too. Fundamental change refers to structural change, not merely to a technical one. Structural change occurs at a macro-level having an impact on the subsystems as a whole. In general, structural change in the economic, social and political subsystems is related to values, property rights, social stratification, emergence of a new or decline of an old elite, etc. Figure 1 presents schematically structural changes in all these subsystems and some causal relationships between them. As can be seen, sociopolitical change is a highly complex process that can hardly be analyzed in its entirety.

In Vietnam, the changes in the structure of property rights resulted among others in the resurrection of a private sector thus constituting a new economic elite of private entrepreneurs. New interest groups are formed in order to aggregate and articulate interests of new social groups like the entrepreneurs. These processes of change are accompanied by a change of the value system. The functions of institutions of the political system are changing in reaction to an ongoing marketization of the economic system. All of this constitutes a partial weakening of the economic and political power of the central government and thus political change.

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\(^1\) With the exception of Hungary.

Although economic studies on Vietnam are abundant, social scientists are slow in researching the sociopolitical consequences of the economic development. Especially the private entrepreneurs, one of the driving force of Vietnam's "economic miracle", escaped to a great extent the researchers' attention.

Figure 1: Structural Change in Vietnam

Therefore, in an empirical project on "The Private Economy in China and Vietnam and Its Economic, Social, and Political Consequences" we are analyzing comparatively the relationship between economic development and sociopolitical change in Asian transition countries. In China and Vietnam, our project focused on private industrial entrepreneurs and state cadres as two important social groups closely affected by the recent developments. In Vietnam, we concentrated on more developed geographical regions, since there the impact of the resurgence of the private sector is most visible. In 1996 and early 1997 we carried out surveys in Hanoi, Tien Son (Bac Giang), Danang, Duy Xuyen, Ho Chi Minh-City and Thu Duc. This paper presents some preliminary findings of our surveys in the urban regions of Hanoi, Danang and Ho Chi Minh-City.

The questionnaire for the entrepreneurs consisted of some 70 questions on economic, social and political topics. The first section of it was devoted to quantitative data on the enterprise (e.g., quantity of goods produced in 1995, turnover, taxes paid, number of workers). In the second section we asked for qualitative information on the operational status of the enterprise (e.g., external relationships such as business contacts to state-owned enterprises, internal relationships such as social insurance of the workers). Another section collected information about the personal characteristics of the entrepreneurs (e.g., age, education). In the largest section we posed questions on social as well as political issues (e.g., self-evaluation of status, opinion questions). A questionnaire took up to two hours and was followed by a discussion of the same length.
questionnaire with some 20 questions was distributed to cadres. Figure 2 breaks down the responses by geographical region and respondents.

*Figure 2: Surveyed Entrepreneurs and cadres by region*

3. Preliminary Findings

Since data processing is still ongoing, the paper presents only preliminary results in form of theses in order to give a rough idea of urban private entrepreneurs as a new social group and its political impact.

**Thesis 1: The Private economy has developed rapidly and plays an important role in today’s Vietnamese economy**

Vietnam has made remarkable economic progress in the last ten years. Until 1989, Vietnam had to import rice in order to feed its population. A few years afterwards, the country became the world’s third largest rice exporter behind Thailand and the USA. From 774.7% in 1986 the inflation rate dropped down to a modest 6% in June 1996. GDP growth rate rose from 3.25% per year during the period of 1987-90 to 8.2% per year in the period of 1991-95, indicating a high and continuous growth since introduction of doi moi in December 1986 (comp. figure 3). The average growth rate of industrial production was still higher: 13.3% for the period of 1991-95. The per-capita-income rose steadily to about 220 US-$ in 1995.

*Figure 3: Growth rate of GDP 1991-95*

**Source:** General Statistical Office 1996b: 40.

One key factor of the success of doi moi is the resurrection of the private economic sector. It plays a vital role in the mixed Vietnamese economy, contributing 57.8% to the GDP in 1995. From
1988-93 the non-state economic sector created 5.4 million new jobs while the state sector slashed 1.1 million jobs in the same period. By merger, liquidation and ownership changes the number of State-owned enterprises (SOEs) was reduced to 6,500. In contrast, the private sector expanded rapidly. In 1988 in the industry alone 318 private enterprises and private-state joint ventures as well as about 320,000 individual businesses had been registered. Until 1995, the number climbed to 5,152 and 517,418 respectively (comp. table 1).

Table 1: Number of registered industrial enterprises in the private sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of private enterprises</th>
<th>Number of individual enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>920</td>
<td>206,172</td>
</tr>
<tr>
<td>1988</td>
<td>318</td>
<td>318,557</td>
</tr>
<tr>
<td>1989</td>
<td>1,284</td>
<td>333,337</td>
</tr>
<tr>
<td>1990</td>
<td>770</td>
<td>376,930</td>
</tr>
<tr>
<td>1991</td>
<td>959</td>
<td>446,771</td>
</tr>
<tr>
<td>1992</td>
<td>1,144</td>
<td>368,000</td>
</tr>
<tr>
<td>1993</td>
<td>3,322</td>
<td>449,016</td>
</tr>
<tr>
<td>1994</td>
<td>4,909</td>
<td>493,046</td>
</tr>
<tr>
<td>1995</td>
<td>5,152</td>
<td>517,418</td>
</tr>
</tbody>
</table>


However, the official figures give only an incomplete picture of the actual situation. The conclusion of McCartney that "official Vietnamese data to 1991 can only be used in an indicative manner, that is, as little more than signs of possible or probable changes in the economy" has still some validation. The actual extent of the private economic sector seems for several reasons to be much larger than officially admitted:

1. Many of the SOEs are in fact operating like private enterprises: in the last years a very widespread informal privatization of state property mainly through the managers of SOEs and administration cadres occurred. The higher growth rate of the GDP in the state sector (cf. figure 3) is partly due to the fact that the figure includes the joint ventures with foreign companies. Furthermore, the reduction of the number of SOEs from 1988 on is related mostly to small loss-making enterprises.

2. In official figures, the ailing collective sector and the dynamic private sector are counted together in the non-state sector (cf. figure 3). Due to this the share of the non-state economy of the national GDP decreased "mainly due to sharp decline of collective economy".

3. Many private entrepreneurs have registered their firms either as state or collective enterprises in order to evade heavy taxation. Another reason is the official policy of promoting the development of the state economy or, as in Danang, of the collective sector.

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3 McCartney 1992: 5.
4 For different ways of informal privatization see Kolko 1997: 53-63. Ironically, as the author points out, this kind of privatization is a major obstacle to a formal, i.e. legal privatization, that would strip the managers of the control of the SOEs.
4. Impossible to estimate is the extent of the informal economy. Many of the registered enterprises grew out of the informal sector especially after 1992 due to the promulgation of a law on private enterprises and limited liability companies. According to Le Dang Doanh, the President of the Central Institute for Economic Management, over 1.1 million unregistered households were operating in 1996.\(^7\)

Therefore in economic terms the development is heading rapidly in the direction of privatization and more market.\(^8\)

**Thesis 2: Urban private entrepreneurs constitute a new social group clearly distinguished from other social groups in Vietnam**

Social groups can be distinguished by objective criteria such as level of income, occupation, etc., and by subjective criteria, e.g. group consciousness, self-evaluation with regard to social status, etc.

**a) Objective group characteristics**

Most entrepreneurs are in the middle ages. They established their enterprises after having several years of job experiences. Their previous occupation enabled many to develop a network of relations on which they partially rely in their business operations.

The educational level of the surveyed group is very high as compared to the entire population: 62.5% had finished high school against 4.5% of the national urban population according to the living standard's survey of 1992-93.\(^9\)

The urban private entrepreneurs belong to the highest income groups in Vietnam today. At least 6% of the surveyed people had an annual income of over 200 million VND (US-$ 18,182) in 1995. The largest group with 37% had an income of 21 to 200 million VND (US-$ 1,909 to 18,182). Since income is a very sensitive problem, the actual figures may be even higher. In Hanoi per capita income was about US-$ 245, in Danang US-$ 161 and in Ho Chi Minh-City US-$ 536 in 1994, according to a survey of the Vietnamese Institute of Sociology in Hanoi.\(^10\)

Also the monthly expenses of the surveyed group were fairly high as compared to the entire urban population. Households instead of individuals are the basic unit of our calculation. Almost half of the households had expenses above 2 million VND (US-$ 181) per month. The second largest group with 40% had expenses between 1 and 2 million VND. According to the living standards survey of 1992-93, on a national scale only 7% of the urban population had annual expenses of over 17 million VND.\(^11\) Even if we consider the inflation rate between the three different years of the surveys the expenditures of the entrepreneurs’ households are far above the average.

The property of the entrepreneurs is measured by the two categories of production means (e.g., fixed assets, capital) and family property (e.g., houses). Here, only the second category is of interest. 93.75% of the respondents owned at least one house for living. A comparatively high percentage of entrepreneurs (at least 34%) owned two or more houses. Again, this is a very sensitive issue. A survey of the National Center for Social Sciences and Humanities in Hanoi found that only 60% of the rich households lived in their own private houses in 1992.\(^12\)

31% of the entrepreneurs' parents once had their own enterprise. A remarkable number of the entrepreneurs seem to spring off from the capitalist class and the petty bourgeoisie of

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\(^7\) Le Dang Doanh 1996: 18, fn 3.
\(^8\) In different regions this holds true even for landownership. For details, see the interesting study of Nguyen Tri Khiem 1996.
\(^10\) Tuong Lai 1996: 5.
\(^12\) Trinh Duy Luan 1993: 65.
pre-revolutionary South Vietnam. Even in Hanoi this percentage was as high as 20%. The reason might be that a second or informal economy operated in the socialist North before doi moi.

Social background was divided into the categories "occupational mobility of respondent" and "most recent occupation of respondent's father". Almost 57% of the entrepreneurs were employees, managers or cadres predominantly in state or collective-owned enterprises and in state institutions. This number was lower for the respondents' fathers: roughly 36% had previous experience as employee.

b) Subjective group characteristics and group consciousness

Although the respondents for obvious reasons did not want to speak of a class of entrepreneurs, they nevertheless emphasized the existence of a new social group who could be clearly distinguished from other social groups. For lack of a better term one respondent in Danang characterized the entrepreneurs as "a new social movement". Interestingly enough, when asked for the characteristics of this new group most respondents did not cite material wealth in the first place but their high educational level, special abilities and a certain state of mind. According to them, not everybody might become a successful entrepreneur; especially the peasants would lack the required abilities and flexibility of mind.

Their self-consciousness is further reflected in their image of the Vietnamese society. Asked to view 10 different social groups and to pinpoint their own position in a ten-grading scheme concerning economic ability, social prestige and political status, they regarded themselves clearly as the most efficient and economic productive group. But in their self-assessment, neither the social nor the political status did correspond to their self-grading in the economic field. Obviously, the different self-grading in terms of economy, society and politics can lead to discontent with the status quo. In fact, some respondents accused the Communist Party of Vietnam (CPV) not to honour the entrepreneurs' contributions to the Vietnamese development.

Obviously, with 41% a relative high percentage of the surveyed entrepreneurs were self-confident enough to regard themselves as something like a shining example for the society.

Frequent exchanges of experiences between the entrepreneurs do strengthen their group consciousness. At least 25% met weekly and 47% held several discussions per month with other entrepreneurs.

**Thesis 3: With resurrection of the private sector, new interest groups are emerging who influence the political process**

In general, interest groups aggregate, articulate and realize the interests of a social subgroup through an association. In so far as they make an input into the society that influences either the output (i.e., political decision-making) or the outcome (i.e., results of implementation of a political decision), these interest groups have a political impact. The partial withdrawal of the state from the economic area during the reform process in general and the privatization process in particular, gives interest groups more room to maneuver thus increasing their autonomy.

In the private sector the demand for a non-governmental or at least semi-governmental association truly representing the interests of the private entrepreneurs seems to be very high. 25% of the surveyed entrepreneurs complained that the local administration did not consider their interests.

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13 For a Vietnamese view cf. Tran Phuc Thang 1994: 6-7 who calls this group frankly "the Vietnamese bourgeoisie". He predicts: "It will develop step by step, define its ideology, and then have its voice on the political scene. However, ... the bourgeoisie in our country cannot hold key economic positions, and control sensitive sectors of the economy, it cannot govern our country's economy". Tuong Lai, the former director of the Institute of Sociology in Hanoi, defines the entrepreneurs as part of a new middle class; Tuong Lai 1996: 14.

14 In China, the other successful Asian transition economy, the most successful entrepreneurs were of peasant origin. Compare Heberer/Taubmann 1998; Heberer 1999.
Even more entrepreneurs (77%) thought the government’s policy toward the private economy was poorly implemented. Almost the same number subscribed to the view that today too many restrictions hindered the development of the private sector. Out of this discontent arises the need for entrepreneurial interest groups. Accordingly, 76% of the surveyed entrepreneurs saw the founding of non-governmental business associations as absolutely necessary.

Asked for the functional purposes of such organizations, contacts to the administration in one or another way ranked at the first and third place of the responses. About 87% showed an interest in cooperation between entrepreneurs and the administration. 45% wanted a representative body of their interests toward the bureaucracy.

The demand for organized expression of the entrepreneurs’ interests leads to a relative high founding rate of business and professional associations. The specific hybrid character of the socialist market economy forces these organizations to follow a double-strategy: Although intended as interest groups of the private sector they also have SOEs as members. Thus they can avoid the accusation to be a mere pressure group of exploitive capitalists. Furthermore they can use the network of relations between SOEs and the administration to enhance their own interests.

One case in point was the Hanoi Business Club whose members came to a considerable portion from the state sector. To a long list of consultants belonged minister Phan Van Tiem, Chairman of the Enterprise Reform Committee of the Vietnamese government. Affiliated with the Club was the Center of Economic Training that organized training courses in market economy for administrative and party cadres.

**Thesis 4: Despite marked political interests there are no legal ways for the entrepreneurs to engage in politics**

Entrepreneurs showed pronounced interest in politics. 67% desired an active role in discussing the government’s economic policies, a rather understandable wish since the CPV and the government still define the limits of entrepreneurial activity. Nowadays, the entrepreneurs are self-confident enough to subscribe to the view that politics is not a playground for the Communist Party alone. Almost 35% thought entrepreneurs should "care" for politics.

In principle, there are only two ways to be active in formal Vietnamese politics: either through membership in the CPV or as delegate of the People's Councils at the different administrative levels. In fact, both ways are almost blocked for private entrepreneurs. Although not stated officially, the CPV does not grant membership to such "capitalists", at least not at central or provincial level.

At province level almost no entrepreneurs are represented in the People's Councils. The few who became delegates have only very limited direct political influence. Even as a delegate their actions depend on the consent of the CPV closely supervising all "democratic" institutions in Vietnam. Therefore, some of the respondents label the Councils a "political comedy" or "comical opera". Nevertheless, as delegates the entrepreneurs can get access to important information and to influential people thus enabling them to promote their specific interests (albeit in an indirect fashion).

Some of the entrepreneurs in Danang and Ho Chi Minh-City thought that the fundamental economic changes in present-day Vietnam will necessarily lead to the ultimate success of a capitalist system and a multi-party state "like in Western countries" as one respondent noted. In a capitalist Vietnam, one party would represent the private entrepreneurs' interests. One entrepreneur called this process a "silent capitalist revolution" coming about as a natural consequence of the fast growing private sector. By the sheer force of their number and their economic relevance, the group of private as well as individual entrepreneurs would slowly drive Vietnam towards that revolution. One entrepreneur commented: "If the Asian or the Vietnamese people want to make a revolution, they are working
beneath the surface, in a calm manner. It is not in the open like the Europeans in Eastern Europe and the Soviet Union". In the mind of these entrepreneurs socialism and market economy (i.e., capitalism) are mutual exclusive thus making a combination of both in form of the officially propagated hybrid socialist market economy impossible.

**Thesis 5: The political power structure at the local level is changing under the impact of the privatization process**

The economic success and the wealth of the entrepreneurs erode the power of the party as well as of the government at the local level. On the one hand, the entrepreneurs need political protection in a complex political environment without a clear uncompromising commitment to the promotion of the private sector. Furthermore, since the administration is still an important actor in the economy despite the introduction of a market mechanism, the entrepreneurs seek a close relationship to the bureaucracy. Both, protection and improved relations can be gained by ways of corruption and by a close personal relationship with influential people. Accordingly 91% of the surveyed entrepreneurs regarded a network of personal relations as important for business operations. The Vietnamese call the desired protection "umbrella" (o du).

In this manner entrepreneurs in fact exert power, influencing economic and political decision-making to a certain extent.

On the other hand, administrative and party cadres strive to have a share in the wealth created by the private sector. Either they engage themselves (or their relatives) in some kind of private business or they try to get some "donations" from the entrepreneurs in exchange for protection and access to information, needed state assets for production purposes, etc. 96% of the respondents had given some kind of donation to the local administration in 1995. In 40% of the cases the cadres had directly asked for the money. In one extreme case an entrepreneur in Ho Chi Minh-City complained bitterly about the cadres approaching him 70 (!) times in 1995. One out of four respondents admitted frankly to try to improve their relations to the administration by this way.

The engagement of party and administrative cadres in the private economy seems to be widespread although due to its often illegal or at least politically not desired nature it is difficult to estimate its extent. E.g., in Danang 1/3 of the official registered limited liability companies belonged to members of the CPV, despite the fact that their direct engagement in private business activities is prohibited by the party. Their "capitalist" activities set in motion a bottom-up oriented process of change, promoting values and behavior that are more suitable to a market-oriented economy. Their political and economic interests and objectives run counter to the original intentions of the Communist Party. In this regard the Vietnamese political system is actually changing at the local level.

**Thesis 6: Introduction of market mechanisms brings about a change of the value system**

The rapid economic development leads to a re-evaluation of values primarily connected with economic behavior but not necessarily confined to the economic area alone. The re-evaluation of entrepreneurship, wealth, earning money, luxury etc. breaks with the past socialist negative images and norms. To cite but few examples: 79% of the entrepreneurs took the difference between rich and poor in a society for granted. 88% subscribed to the market economy a positive effect on the economic development of Vietnam.

Even the surveyed group of administration cadres held almost the same views as the entrepreneurs in the cited examples. Almost all cadres proposed state support for further development of the private sector. A considerable portion of the cadres would like to engage themselves in the private sector provided they had the necessary capital to do so. Likewise, a survey of the Vietnamese Institute of Psychology conducted in Hanoi in 1992 demonstrated that 23% of the surveyed cadres intended to engage in some kind of private economic activities.
Changes in the value system are also reflected in the increasing stress of one's own abilities. The most cited reason for becoming an entrepreneur is the wish for self-employment. At third place for the reasons follows no opportunities to demonstrate their talent at the previous workplace. Out of nine factors determining economic success, one's own abilities ranked at the first place. This trend towards individualization of the value system finds also expression in the fact that 30% of the entrepreneurs regard pursuing their personal happiness as a very important objective in their life.\footnote{Cf. the results of Vietnamese surveys, e.g. Nguyen Quang Uan 1996: 43-44.}

4. Conclusion

As illustrated above a certain pattern of development emerged in Vietnam in the last years. The privatization process generated an evolutionary process that started predominantly spontaneously from the economic subsystem and led to structural changes in the social and political subsystems. One of the driving forces of change are - voluntarily or not - the private entrepreneurs. Their different behavior and values affect their social environment where they contribute to or even generate change in behavior and values of the non-entrepreneurial segments of the population. Since this occurs at many places simultaneously, the process of change at micro-level intensifies and develops its own apparently uncontrollable dynamics.

Insofar as the private entrepreneurs can be clearly distinguished from other social groups by subjective criteria (e.g., a new life style, a new system of values, different status symbols) as well as objective criteria (e.g., group consciousness, self-confidence, social capital), a new social group (stratum) emerges and alters the social stratification in Vietnam in a significant way. Especially the successful entrepreneurs constitute a highly self-confident group with a marked group consciousness. They see themselves as more thoughtful, better educated, and more flexible than the less successful entrepreneurs and the people in general. Some regard it to be natural that the introduction of market mechanisms does change the structure of the society, leading to the formation of different social groups and resulting in the long run in a capitalist multi-party system. They see socialism and market economy as not compatible.

The economic power and the steady expansion of the private sector put pressure on the political system, leading to political change at the local level. The local political elite of cadres and the new economic elite of entrepreneurs are often driven together by their respective interests; sometimes both elites may even merge.

REFERENCE:


