Why the Next Asian Tiger Remains a Cub

Alexander L. Vuving

A review of

Lan Nguyen
Guerilla Capitalism: The State in the Market in Vietnam

For nearly two decades, Vietnam has been seen as a likely successor to the “Asian tigers,” a handful of countries including South Korea, Taiwan, Hong Kong, and Singapore that successfully and spectacularly industrialized during the late twentieth century. In the 1990s, it was widely thought that the Asian tigers’ success was due to their Confucianism—and since Vietnam was as Confucian as the four Asian tigers, the country was fully prepared for an economic take-off. Although today belief in the Confucianism thesis has faded and Vietnam has yet to tell a success story, the country stays high on the radar screen of international investors. Vietnam is now given the respected title of an “emerging market” and, according to a study by Goldman Sachs, exhibits “both the potential and the conditions” to rival some of the current major economies.¹

This new expectation is based on an analysis of benchmarks that growth literature has identified as determinants of economic growth. These benchmarks, collectively termed by Goldman Sachs as the “growth environment score,” range from macroeconomic health to technological capabilities, human capital, and political conditions.² Although the intuition that supports this expectation may prove right, the Goldman Sachs projections, which also underlie the now popular concept of the BRIC countries (Brazil, Russia, India, and China), suffer from an analytic weakness—this analysis relies too much on short- and medium-term variables to forecast long-term trajectories. The indices of Vietnam’s macroeconomic stability, for example, have deteriorated

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sharply since the release of the 2007 study. Behind the façade of Vietnam’s high-growth rates, there lurk dismal inefficiencies.¹

Can Vietnam still join the top twenty economies in the coming decades? Can it write a success story similar to those of the Asian tigers? To answer these questions, a study of the institutional, cultural, historical, and political aspects of the country’s business environment may be better than a quantitative study that relies on indicators of Vietnam’s macroeconomic and technological situation. Lan Nguyen’s *Guerilla Capitalism* provides such qualitative research. It is a magisterial study of both the rules of the business game and the behavior of state-owned enterprises (SOE), which are the dominant economic players in Vietnam. For Nguyen, the business environment is a socially constructed reality that is weaved by habits and beliefs, ideas and values, practices and norms, institutions and ideologies, and laws and policies. Some parts of this reality can be changed overnight (for example, laws and policies), but the bulk of it can only be changed incrementally. Some parts (for example, ideology) are embedded in other parts (for example, policies and practices); and what people are doing today depends much on what was done in the past. This conception of the business environment, even though not comprehensive, allows *Guerilla Capitalism* to give deep insights into the economic potential and conditions of Vietnam. Although Nguyen does not make predictions, his book provides a good starting point for long-term forecasts about Vietnam’s economic performance.

*Guerilla Capitalism* is both solid and theoretically innovative. Nguyen took on the tough task of integrating insights from different theories into a coherent framework of analysis, and he succeeded. The insights range from János Kornai’s soft budget constraint to Richard Cyert and James March’s principal-agent problems and Max Boisot and John Child’s transaction-governance structures, Geert Hofstede’s cultural dimensions, and institutional theory, just to name a few examples. These insights are not adopted at face value but rather are carefully evaluated and then selectively integrated into a comprehensive theory of organization. The analytical pivot of this theory is Douglass North’s institutional matrix. Shaped by culture, politics, and history, this matrix includes formal and informal rules of the game, which in turn shape the pattern and internal structure of the firms. With this approach, Nguyen is able to show how ideas and values work in institutions and rules without reifying the former.

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Nguyen also refuses simple thinking about culture and ideology in Vietnam. In his story, Marxism still permeates the economic environment in Vietnam not so much because people dutifully apply it but because it lives in the concepts they employ to think about problems and find solutions—for instance, in the guiding ideas that shape the payment practice in Vietnam’s state sector (chap. 10). With regard to culture, Nguyen refutes a popular view that in Vietnam subordinates tend to respect their boss by showing that “subordinates respect their boss only if the boss is charismatic and ethical.” In fact, they listen to and follow their boss because the latter is powerful (pp. 152–53).

In Guerilla Capitalism, there are interesting solutions to several puzzles. For example, why has socialism never been successful economically in Vietnam despite the fact that its ideals and outlooks are compatible with Vietnamese culture? The answer is that the Vietnamese do not usually extend their trust beyond a small circle of family members and close friends. In socialism the owner is the ambiguous entity called “the state,” which is represented by the government. But in Vietnam, the government does not trust its officials and these officials do not trust each other, unless they are family members or close friends. As a result, Vietnam’s SOEs suffer from a lack of cooperation among firm managers, over-centralization, and government policies that discourage risk-taking and entrepreneurial behavior. This situation is self-perpetuating inasmuch as lack of cooperation justifies the need for more centralization. Yet why do some of Vietnam’s SOEs still perform very well given how extremely inefficient they are? The reason is likely that the real power in the firm is shared by a small group of family members or close friends who thus trust each other and cooperate well. These people run the enterprise as if it were a family business and practice a form of corruption by which their real income is paid as a certain percentage of the output rather than as a salary (see chap. 9).

Nguyen argues that the “ideal type” of the Vietnamese firm is a small-scale, family-controlled enterprise that operates with short time horizons and little fixed capital. This guerilla form of capitalism results from an institutional matrix that is characterized by high transaction costs, insecure property rights, and a family-based, rural way of life (see chap. 6). Under these conditions, “informal networking, personal trust, flexibility, and self-financing should be the order of the day” (p. 163).

Nguyen describes this practice as “embedded materialism,” but I think “embedded Marxism” would be a better term.
Nguyen offers “a unique approach to SOEs, reading SOEs through the language of the ideal type” (p. 185). The “ideal type” is a model of firm that is constructed to “capture the essential features of the Vietnamese institutional matrix” (pp. 187–88). Nguyen argues that “the institutional matrix in Vietnam is more likely to produce, or be most ‘suitable’ or ideal for, a special form of capitalism, guerilla capitalism” (p. 111, emphasis in original). If this is the case, multiple ideal types are possible. The Vietnamese institutional matrix may be equally suitable for several types of firms.

The ideal type of firm constructed by Nguyen is clearly a product more of traditional Vietnamese culture than of contemporary Vietnamese politics. While Guerilla Capitalism addresses many features of Vietnamese politics, its institutional matrix emphasizes culture at the expense of politics. This leads the book to neglect an additional ideal type that gains its distinctive features from its perfect adaptation to the mixture of communism and capitalism that Vietnam has been experimenting with for more than two decades. Imagine an SOE whose director has secured his job by sharing a part of his unofficial income with all his bosses. This director then runs the firm as his own business, sharing a part of the firm’s profits with the boss of a state-owned bank in order to secure easy loans from the latter. He also shares a part of his money with the chief of the local government, who then extends to the firm the right to use large pieces of land at insignificant prices. This model applies to private firms and foreign investors as well.5

Under such conditions, can Vietnam sustain high-growth rates in the long run? The answer is “no, but yes if...” This “if” includes, but is not limited to, a radical restructuring of the state sector. Parts of this reform must include, according to Nguyen, giving families ownership of firms and giving firms autonomy in choosing who to employ and how to pay those employees.

Guerilla Capitalism is an inspiring book that can be read from many angles. It provides a solid theory to explain firm behavior, a concise survey of the Vietnamese cultural matrix, and an in-depth analysis of Vietnamese SOEs. It is a must-read for anyone who is either curious or serious about business in Vietnam. ◊

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