

What are Good Candidates for Vietnam's Economic Growth Drivers? A Discussion of Services, Informality and Economies of Scope*

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Abstract: This paper argues that more attention to economies of scope, especially in services production is needed to explain patterns of economic growth in Vietnam since the early 1990s. Existing studies have mistakenly focused on industrialization as a key growth driver, when contrary to policy, there has been servicization. By surveying some of the large relevant literature and data and discussing the resulting conceptual tangles, this paper argues that this mistake is in fact extremely common in analyses of global patterns of economic development. Other frameworks are clearly needed; therefore, it also considers the idea that analysis of Vietnam's economic growth should examine potential for economies of scope in traditional family joint production. It is argued that cultural factors support rational decision-making at this level despite absence of a clear cost function, and that this could help explain success and servicization. It then adds-in the issue of informality, to bolster a provisional argument that exploitation of economies of scope, especially in informal services sectors, offer strong explanations for Vietnam's rapid economic growth after the emergence of a market economy, and the slowdown from

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around the middle of the ‘noughties’. Further research is clearly needed, both into what caused Vietnam’s ‘economic miracle’ and why the expectation that it was industrialization came to dominate policy analysis.

Keywords: Vietnam, Transition, Economic Growth, Structural Change, Services Sector, Globalization, Economies of Scope

Introduction

From the early 1990s until the mid ‘noughties’ the Vietnamese economy grew quickly, since then growth has slowed. In the late 1980s Vietnam’s cities had food rationing, and the period also saw hyperinflation. From 1992, however, economic growth accelerated sharply, and the country entered middle income status around 2009: the period since 1992 therefore saw an ‘economic miracle’, though the Vietnamese do not appear to use this term. This poses questions of historical interpretation, analysis and a nuanced understanding of institutions and context. Here we encounter two closely related problems.

The first is that whilst almost all relevant analyses saw industrialization – in other words, manufacturing - as the natural driver of growth, in fact, structural change in Vietnam has seen servicization not industrialization (Fforde, 2016). The second problem is that this has been largely if not totally ignored, not only for the case of Vietnam, but also globally. Existing literature is problematic in typically asserting that development ‘must’ involve industrialization which, in effect, ignores servicization. A search of all the World Bank’s *World Development Reports* found no mention of servicization or tertiarization (Fforde, 2017 forthcoming). For Vietnam, it is possible that factors driving fast servicizing growth were more powerful in the early stages of the ‘economic miracle’. For example, some of the marked disequilibria in apparent factor rewards¹ apparent in the early 1990s had shrunk considerably some 20

¹ The term ‘disequilibria’ is used loosely, and refers simply to the apparent large variation in factor returns between subsectors implied by gaps in what we can see in the GDP data, which is, given the statistics we have, simply GDP/worker – and the data on workers is that of workers ‘over 16 years of age’. Generally,

years later – i.e. GDP per worker in ‘Accommodation and Food Services’ was 5.2 times average GDP per capita in 1995 but only 1.4 times in 2015 (GSO 2000, 2002, 2009, 2016).² But, with the research of servicization grossly limited compared with industrialization, such data is not part of mainstream narratives seeking to explain the ‘economic miracle’.

Vietnam's own history is also complex. In 1975, military forces organized out of Hanoi, supported by southern fighters whose ranks had been badly thinned by the previous years of violence, conquered south Vietnam. In 1976, the two parts of the country were placed under a single state, the Socialist Republic of Vietnam (SRV). At that time, Soviet thinking on how to grow an economy was oddly like that in the West, in that both stressed industrialization. Experiences in a range of Asian countries were starting to show that export-oriented industrialization (EOI) was a better bet than the import-substituting industrialization (ISI) that had been dogma immediately after WWII. Whilst there were many local variations, industrialization was often political: creation and management of an industrial working-class, perhaps through co-opted Trade Unions, or Social Democracy, or Keynesianism, all conceived in terms of a large mass of people coming ‘off the farm’ and into cities, working in factories, to be governed in various ways.³

In the second half of the 1970s, supported by both a skeptical but supportive Soviet leadership (Fforde and Mazyrin, 2018 forthcoming), Western aid donors, and initially China, the Vietnamese Communist Party (VCP) initiated a program of hardline accelerated development based upon

we lack the break-down of subsector GDP between returns to labor and returns to capital, though clearly there is, under Vietnamese conditions, much to debate about what exactly non-labor contributions to GDP are.

² The comparison between subsector GDP per worker and total GDP per capita is accurate enough to make the point but ignores such issues as changes in participation rates.

³ For striking similarities in very different contexts, see the discussion in Halberstam (1986) of how just after WWII Nissan factories in Japan were de-unionized, in part by direct actions against their organizers in workers’ dormitories, and in Tran (2013) on the tactics used by the Vietnamese Communist security forces to monitor and manage workers’ organizers independent of official Trade Unions in Vietnamese textiles factories in the ‘noughties’.

Soviet institutions. Though conditions in the north (the old Democratic Republic of Vietnam – DRV) before 1975 had not created a coherent and disciplined Party-State (Fforde and Paine 1986), contemporary dogma certainly suggested that forced collectivization of the Mekong, nationalization of industrialization efforts carried out in the South before 1975, and tight controls over free markets would, as in the USSR, create rapid industrialization. This program, however, collapsed in the late 1970s as the central-planning ‘rotted from within’ as, in the pithy Vietnamese phrase, State Owned Enterprises (SOEs) ‘jumped fences’, violated socialist norms and set in train powerful processes of commercialization (de Vylder and Fforde, 1986; 1996). With the state-sector highly commercialized, loss of the Soviet aid program in the late 1980s was shrugged-off and in 1992 the economy shifted to a rapid growth trajectory, helped by injections of hard currency as international relations with the West eased as the legacy of the Vietnamese toppling of the Pol Pot regime in 1978-79 was managed and Vietnamese troops could be withdrawn. By around 2009 Vietnam had attained middle income status, and her ‘economic miracle’ was a trophy that could be used to support policy solutions. However, this is where issues of analytical interpretation begin.

In the early 1990s, most Western donors aligned with the famous ‘Economic Miracle’ study of the World Bank (World Bank 1993) which talked about Newly Industrialized Economies (NIEs), identifying success with industrialization. As many donors in Vietnam moved to support the large Comprehensive Poverty Reduction and Growth Strategy (CPRGS), this also easily aligned with the VCP’s public position that asserted the slogan of ‘Modernization and Industrialization’. This bridged the VCP’s Soviet era and contemporary positions, defined as policy in the early 1990s and can be seen in a recent statement from the Party’s newspaper *Nhan Dan* on its application in university-level education dated 19/8/2015,⁴ where we find (after a statement about the slogan’s alleged universal meaning):

In Vietnam, the 7th Plenum of the VIIth Party Central Committee (7/1994) approved the line of industrializing and modernizing the country. Our Party laid down: in the process of development of our country in accordance with a socialist

⁴ <http://www.nhandan.com.vn/giaoduc/dien-dan/item/27199202-cong-nghiep-hoa-hien-dai-hoa-va-yeu-cau-doi-voi-giao-duc-dai-hoc-hien-nay.html> Accessed 9/3/2016

direction, industrialization and modernization are means and formula to attain the goal of a prosperous life that is daily better and better, for the liberation and all-round popular development ... (Section 1).

The 7th Plenum⁵ Resolution itself, discusses the concept in classic Marxist-Leninist terms, in a Section entitled - *The State of Industry, Technology and the Working Class*. It argues that despite many successes:

Industry, artisanal industry and technology in our country remain weak. By 1993 the proportion of industry only amounted to 20% of total national production and 11% of the workforce. Manufacturing and processing are a very small proportion. The capacity of industry to equip the national economy is still insignificant. ...

The Vietnamese working class through our vanguard Party has led our revolution for more than half a century and is now once again taking the lead in the task of reform and industrialisation and modernisation (Section 1)

‘Industrialization’, thus, conceptually fit the particular interpretation here of the causes and nature of economic development.⁶ But reality challenged this, not only in that many SOEs were highly capitalist, but also that that data shows that the Vietnamese ‘economic miracle’, being based on servicization, was not one that would create an industrial working class that could be corralled into official trade unions and factories, and, more fundamentally, the basic VCP development stance of ‘modernization and industrialization’ simply did not happen. In the early 1990s the economy was dominated by a combination of commercialized SOEs and complex market-oriented activities led by family-based economic organization. Families dominated agriculture, much trade, and organized an explosion of small-scale production that helped absorb labor shed by SOEs. Rapid growth in the early 1990s required relatively little additional investments, though this changed through the ‘noughties’ as the ratio of increased output

⁵ <http://dangcongsan.vn/tu-lieu-van-kien/van-kien-dang/nghi-quyet-bch-trung-uong/khoa-vii/doc-2925201510081046.html>

⁶ See Fforde (2016) for a more detailed discussion and Fforde 2009b for discussion of conceptual developments during the 1980s. Fforde 2007 is a detailed history of SOEs in Vietnam.

to investment fell sharply and the Vietnamese economy became far less efficient. In broad terms through the ‘noughties’, areas where old forms of family-organized economic activity had been relatively profitable saw increased competition, often at far larger scales with favorable access to resources. New forms of family-organized economic activity appear initially to have been relatively unsuccessful, such as family-controlled SMEs, at profitably exploiting new opportunities.

Around 2007, for political economy reasons, the ruling VCP moved to increase state support towards certain large SOEs at the cost of macroeconomic stability slowing growth. Further, around 2009, Vietnam started to transition *through* middle income status, thus confronting institutional challenges to enhance competitiveness querying the VCP’s capacity to deploy state policies to support economically competitive formal institutions. Public health and education came under increasing criticism, as did areas such as urban infrastructure. (Gill and Kharas, 2007; Fforde, 2009a). Of interest here are the causes of rapid growth over the period from the early 1990s, when the market economy finally emerged, to around 2007.

Comparing the two decades (1991-2001 and 2001-2011), yearly GDP growth accelerated slightly, from 7.6% to 8.0%. The key element of structural change in the Vietnamese economy was a substantial fall in the proportion of GDP coming from agriculture and related sectors, from 30.7% in 1991 to 16.1% in 2011. However, the dominant element of economic development was not simple industrialization, but a strong development of services sectors paralleled by moderate growth of industry (Fforde 2016).

The services GDP share thus *rose*, from 38% in 1992 to 43% in 2013. In addition, whilst the share of the broad category ‘industry’ over the same period rose from 23% to 29%, this growth was largely due to increased mining output. In 2013 mining – included in the industry statistical definition – was 12% of GDP yet under 5% in the early 1990s, so that the non-mining ‘industry’ share of GDP *fell* from around 18% in the early 1990s to around 17% in 2013 (GSO 1993 Table 18 and GSO 2014 Tables 66 and 68). The point to bear in mind is the public face of quantified economic change. If a speech is made in terms of successful ‘industrialization’ implying that this was the core, central driver of change, then it has either to argue that the fall in agriculture’s share and the rise of services’ share was dependent upon industry, likely avoiding the issue that

industry only grows as a share of GDP if you include mining, or another alternative explanation. This pattern is reflected globally (refer to Table 1).

There are in the literature broadly-speaking two different sets of explanations for Vietnam's rapid economic growth since the emergence of a market economy after around a 1980s of confused but active transformation (van Arkadie and Mallon, 2003; de Vylder and Fforde, 1996). The first tends to place a greater emphasis on state policy and prescriptions, the second upon endogenous 'social' factors to explain rapid growth and its broad characteristics. Because so much of the relevant English-language literature has been associated with aid donor activities and the concerns of the ruling VCP, a stress upon an allegedly important and proactive role for policy and the VCP state is understandable. However, amongst academic country specialists

Table 1.

Structural Change in Developing Countries' Economies, 1991-2013

	Percentages of Change in the measured countries share of GDP in the whole economy		
	A. Services	B. Industry	
Group 1 (less than 100% growth)	25%	+2.1%	+0.6%
Group 2 (100%-200% growth)	48%	+6.5%	+1.4%
Group 3 (200%-300% growth)	15%	+7.5%	-0.7%
Group 4 (more than 300% growth)	10%	+10.8%	+0.1%
All countries		+6.2%	+0.5%

Note: Averages are unweighted; data is for individual countries. Growth defined as change in current PPP US dollars. <http://data.worldbank.org/indicator/NV.IND.TOTL.ZS/countries> (24 November 2015). For discussion and details see Fforde 2017 forthcoming.

There has long been a significant minority view that change in Vietnam has a strongly autonomous flavor, somewhat independent of policy, an analytical stance that encourages examination of institutional, social and cultural factors – especially the informal - that evolve and may favor or harm growth. These two views inform each other, since policy must operate through institutional and social structures that may change under their own dynamics and affect the economy, but are sometimes antagonistic.

Analytical Issues: Some Broad Theoretical Insights

Large parts of services production involve joint production, that is,

production easily tailored to household-based patterns of transactions associated with joint production, and own-consumption (such as of the output of household white goods within the home). Whilst it is not easy to find systematic analyses of how such economies work, it does seem to be the case that these situations create fundamental problems at the theoretical level when applying the usual microeconomic models.

Standard economic analysis has difficulties dealing with situations of joint production and own-consumption, and there are strong arguments that, because there is no easily-derived 'cost curve', welfare-enhancing improvements in resource allocation will likely be created, socially, by other forms of economic calculation. The core argument here is that there are good reasons for supposing that in Vietnam in the early 1990s Vietnamese as individuals, families and members of wider communities were well-equipped to carry out such calculations, and so at a fundamental level the Vietnamese economy can be thought of as better, at that time, equipped to deal with such market failures. This then can imply that servicization can simply reflect effective economic calculation of relative costs and benefits in the economic conditions pertaining. It can further be argued, that tendency to servicization enhances the value of such socially-acquired forms of calculation: whilst a single-output factory or a monocultural field maps easily to standard economic theory. With a production function allowing inputs to be allocated in ways that maximize output by examining marginal returns, if there is joint production or own-consumption (as in traditional Vietnamese rural families), this form of calculation breaks down, implying less economic efficiency and so a weaker position in the natural competition between forms of economic organization.

Joint Production

Bailey and Friedlaender (1982) argue that, "traditional economic analysis of the theory of the firm has concentrated on single-product firms" (p. 1024). They focus on situations where production of different goods and services is treated as the combined activities of a single firm. This leads to the valuable concept of 'economies of scope'.

There are said to be positive economies of scope when a single firm can produce a given level of output of each product line more cheaply than a combination of separate firms, each

producing a single product at the given output level (p. 1026). But what is meant by 'more cheaply'? They confirm the problems encountered in constructing a cost curve:

In essence . . . conventional measures of average cost are not well defined for a multiproduct firm. There is no single economically meaningful way to aggregate output. (p. 1025-1026) ... There is no single meaningful definition of average cost since there is no meaningful way to aggregate {different outputs} into a single output measure (p. 1029) ... "there is no one correct way to allocate ... costs between the two (outputs)" (p. 1031).

This assumes that, with given proportions, in effect there is at that point only one product, which shows the problem rather clearly: if one assumes in effect there is just one output (definably constructed from its components), then any idea that relative price changes could change their proportions would violate the integrity of the single output - thus, there is no well-defined average cost measure. Jehle and Reny (1998), chapter on the "Theory of the Firm", reverts to a discussion of a single output firm when it must generate a cost function. The 'cost function' is defined as the relationship between a vector of inputs and their use to generate a single output (p. 230).⁷

Own-Consumption

The problems posed for rational economic calculation when joint production is relatively extensive arguably also happen in situations where producers consume significant amounts of what they themselves produce. This is most obvious in countries where there are many farmers. Bardhan and Udry (1999) observe that many people in developing countries earn at least part of their livelihood by working in their own enterprises (often farms) and often consume a significant part of their own output. They therefore:

... make simultaneous decisions about production (the level of

⁷ See also Baumol and Willig (1988) and Lloyd (1983 (Baumol's earliest article on this is Baumol (1977)).

output, the demand for factors, and the choice of technology) and consumption (labor supply and commodity demand). This mixture of the economics of the firm and of the household is characteristic of the situation of most families in developing countries. (p. 7)

They conclude that “in most developing-country contexts, the separation property seems more useful as a benchmark for comparison than as a basis for empirical work” (p. 11). By separation property, they refer to the argument that the algebraic model of consumption decisions may be kept separate from those of production decisions: that the decisions are separate, mediated through markets. This is like the assumption that a firm producing more than one input is in effect using two or more separate production functions, so that inputs used for one can readily be accounted for separately from those used for another. When such assumptions are reasonable, standard economic theory suggests economically efficient results. But:

the available empirical evidence casts serious doubt on the validity of the unitary model. While the available work is mostly supportive of the more general model of efficient households, there is some evidence, particularly in Africa, that calls even this weaker model into question. More research is required before the general validity of the efficient household model can be accepted. *If the efficient household model cannot adequately account for the intra-household allocation of resources, it appears that it will be necessary to move towards more detailed, culturally and institutionally informed noncooperative models of the interaction between household members* (p. 18, emphasis added)

These two insights from standard microeconomic theory are valuable, for they suggest that servicization poses challenges to economies ‘set up’ to produce goods and services close to the model’s assumptions of the dominance in the economy of things like single-product firms (or the monocultural farm producing something farmers do not themselves consume). We can find, however, possible ways forward in the existing literature, but we have to look for it rather hard. A prominent candidate is the idea of ‘economies of scope’, itself derived from consideration of the problems of analyzing multi-product firms.

Economies of Scope

Economies of scope are conceptually different from the far more familiar economies of scale. Indeed, Dollery and Fleming (2005) argue that this very different degree of familiarity can lead to major problems:

Given the fundamental importance of the distinctions between scale economies, size economies and scope economies for the debate over structural reform ... it is imperative that the current conceptual confusion be addressed.

Economies of scale refer to situations where the average cost of producing something falls as the scale of production increases. One classic reason for this is that entrepreneurs spread fixed costs (such as the purchase of a patent, or a bribe to acquire a business permit) over the higher volume, so that the cost per unit declines. Economies of scope, however, occur when there is joint production (as is the case with small peasant farmers consuming and selling what they produce, and using techniques where outputs are produced together (such as interactions between livestock, manure and feed):

Economies of scope occur when it is cheaper to produce two products together (joint production) than to produce them separately (Khemani and Shapiro, 1993).

An example given by Khemani and Shapiro is that of leather and meat – cattle produce both, and it would be far more expensive to have one herd to produce meat and the other to produce leather. Dollery and Fleming (2005) refer to the presence of economies of scope when a business uses one input in the production of more than one output (p. 13).

In outline, then, the suggestion would be that, under Vietnamese social and economic conditions of the 1990s, exploitation of economies of scope could have been a powerful support to economic change. Having learnt (or re-learnt) family-based business methods in the 1980s transition 'from plan to market', they were well set-up to spread transaction and other management costs across a range of activities, exploiting economies of scope. Intuitively, this fits with the observation above that disequilibria in factor returns were particularly high in subsectors such as accommodation and food services- an argument developed later in the paper. At this point we can now turn to examine ideas that explain the growth dynamics of servicization.

Modelling Servicization

Sheehan (2008) points to three elements of a popular account of industrialization as the key driver of growth, and reframes these as potential supports to servicization. Referring to Murphy, Sheifler and Vishny (1989), he argues:

the key mechanisms seen as driving the industrial take-off ...
in much of the related literature (internal increasing returns,
transfer of labour into higher value activities and pecuniary
externalities) are alive and well, and do not relate only to the
industrial sector (2)

Wood (1997), argues that under current global economic conditions industrialization, as a means for development, faces constraints. Sheehan mentions intensified competition in world manufacturing trade, fragmentation and increasing technological requirements in manufacturing, and the difficulties facing poor countries as a group in engaging in trade in this sector (continued success appears limited to a small number of countries – India, Brazil and South Africa (p. 11). This adds to the argument developed by Wood that technological trends in manufacturing have often aimed to reduce value-added and dynamic growth potential in poor areas.

Sheehan concludes that:

(In) earlier work (on development) ... the key elements are increasing returns, internal to the firm, in a modern sector; a substantial surplus labour in the traditional sector willing to move, with a wage premium to the modern sector; and pecuniary externalities between industries within the modern sector, whereby expansion in one sector increases the demand for the output of other sectors even if it is individually unprofitable. There is evidence that these conditions were met by the industrial sector during the development of key advanced countries, although in latecomers such as Korea the shift of labour into industry was reversed at a relatively early stage of development. *But there is nothing about these conditions that inherently relate to industry or manufacturing – any ‘modern’ sector meeting the conditions of increasing returns, labour shift to higher productivity uses and pecuniary externalities could drive sustained growth. These*

conditions could be met by many service industries. (p. 16 – emphasis added)

Now, Sheehan is reporting arguments and data that do not refer specifically to the informal sector, but to services. Neither conceptually nor empirically are there simple mappings between these two categories (Cling et al 2012b). Yet in the early stages of the Vietnamese 'economic miracle', perhaps epitomized by production of accommodation and food services, and further research is needed, such subsectors were clearly informal.

The essence of the position Sheehan is taking is that parts of the economy that add, within the economy's overall structure, to the potential for change, are simply that. They are not *necessarily* manufacturing industry - they may be 'manufacturing', or 'services' or 'the informal sector'. What we need to do is look for where and how resources shift into higher-value uses in relatively easy ways. There, actors will be experiencing increasing returns to such shifts and there is a cumulative momentum to such changes, so that expansion in one part of the forward group of sectors stimulates itself and other parts. This is what appears to have been happening in Vietnam from the early 1990s to around 2007. The failure to continue rapid growth after 2007 may reflect the changing drivers required for institutional change. Thus, we need to understand how analyses failed to grasp and support informality, a prerequisite to the development of suitable policy measures that could build upon the pattern of growth up to the start of the transition through middle-income status, and learn from informality how best to craft formal institutions.

The paper now develops further this search for suitable theoretical tools. It starts with a conceptual discussion of 'informality', and then discusses how such ideas can start to engage with production of a history of the 'economic miracle'. We start with a discussion of cultural attitudes.

Definitions and Definitional Issues – Services, Informality and Economies of Scope - The Problem of Conflation

A fundamental question identified in the literature argues that an important aspect of institutions is the nature of 'rules to change rules', *and this sits beside evidence that in Vietnam endogenous development of institutions is often a crucial part of economic history.* Therefore, a far

better understanding of ‘deep’ cultural and social Vietnamese characteristics should help us to appreciate how exploitation of economies of scope interacted with particular and time-dependent macro-economic and macro-political conditions to support, through ‘services’ and ‘informality’, relatively large contributions of exploitation of economies of scope to economic efficiency and growth. In this overall conceptualization, macro and micro cultural factors may interact with macro-economic settings in positive ways, to explain rapid growth. And why towards the end of the ‘noughties’, growth slowed as economic and political conditions shifted in ways now relatively unfavorable to exploitation of these particular economies of scope.

The term ‘informal economy’ became current in the 1970s as a label for economic activities outside the framework of bureaucratic public and private sector establishments. It arose in response to the proliferation of self-employment and casual labour in Third World cities; but later the expression came to be used with reference to societies like Britain, where it competed with epithets of deindustrialization – the ‘hidden’, ‘underground’, ‘black’ economy, and so on. (Hart, 2008)

The capacity to organize and mobilize resources into and through complex and interlinked production systems aligns with what most Vietnamese farmers and family businesses had been doing for centuries. Typically, such family farms are not monocultural. Cultural norms link these systems to markets through highly organized and gendered structures (stereotypically – females making small sales (e.g. eggs, vegetables), males making large sales (livestock)). Such experience is well suited to exploitation of economies of scope.

If there is joint production, so that economies and diseconomies of scope may arise, the standard framework, which is what drives simple rational behavior, cannot show how product costs link through output prices to consumer demand. It therefore is reasonable to suppose that families, if such issues can be managed culturally through a tight identification and merging of interests within the family despite differences in gender, age etc., will be better placed than other forms to exploit economies of scope (Fforde, 2013).

Informality - Why is the Contribution of the Informal to Growth so often Ignored and is Vietnam Different?

Mainstream approaches which have been bought into by Vietnamese policy makers via Western ideas are problematic. Cling et al (2012) point to three dominant approaches within the economic literature; first, 'dualist' approaches extend well-known dual economy models such as those of Lewis and Harris-Todaro and treat the informal sector as a residual – "subsistence economy that only exists because the formal economy is incapable of providing enough jobs" (p. 554). Second, 'structuralist' approaches that look at interdependencies between the formal and informal sectors, but see the informal sector as subordinate, dominated by the formal sector; third, 'legalist' approaches that view the informal sector as made up of business activities whose operators choose to remain informal to reduce costs imposed by legalization.

All these approaches are highly essentialist and devalue informality. The first two treat informality as negative, per se, and the third suggests, in a similar vein, that were legality to be as it should be, then businesses would be formalized. All three approaches view informality as indicating lower status and value. This is strikingly short-sighted in terms of analytical approaches, but consistent with dominant paradigms, where formality is associated with higher levels of development and social advancement, marked by language, forms of address, dress, marriage patterns etc.

As we have seen, notions of economies of scope are inseparable from ideas of joint production, and, in terms of standard accounts of economic behavior, modelling economies of scope is far harder than economies of scale. At the root of this is what happens when a single economic agent produces more than one thing at a time, and this means that a clear average cost function for output is hard to grasp, limiting discussion of trade-offs (Bailey and Friedlaender, 1982, p. 1025-6). At a field research level, those like the author who have interviewed farmers or villagers under conditions where such choices are present experience something close to this: if a farming family is operating a farming system made up of various sub-systems, so there is joint production, it is not clear just what the costs of a change in output are. Yet the farmer is making a series of choices, and has their own rationality. The problem is accessing it, *and the standard economic modelling framework cannot do this*, as Bardhan and Udry (1999) concluded.

Policy-makers thus confront the question of how to make sense of a situation that may appear to their Western-trained economists as an analytical challenge. Policy is under pressure to accept cultural factors (as Bardhan and Udry conclude), yet, these can be confronting. This then poses an intriguing question. This is whether the active and powerful presence of informality in Vietnam, which I have suggested reflects abilities to marshal economies of scope, has in some way to be matched by views of political order and policy that suit this apparent ‘living with ignorance’. A leading comparative scholar of Vietnamese and other Sinic cultures seems to confirm this in a study of non-Western modernities⁸ (Woodside 2006).

In discussions at an international conference where I presented an earlier version of this paper one could see differences between Vietnamese and overseas (mainly Western) views. The latter tended to view informality as part of a dichotomy, with the formal, but capable of independent existence. The ontological preferences of Western worldviews tended to the belief that things exist of and by themselves. Given the cultural negatives associated with the informal, this frequently led to the view that progress required a formalization of the informal. Thus, they tended to define informal labor markets as areas of weak regulation (by the state), lacking labor protection, proper contracting, and so on. Some Vietnamese academics (discussing the matter informally) saw this Western view as rather odd. Their view fitted cultural norms, and was that informality *co-existed* with formality in various relationships within a wider whole. Such co-existence was central - Vietnamese contains a single verb (*‘ket hop’*) that means ‘to bring together things so that the whole is greater than the sum of the parts’.⁹ In this way of thinking, any positive or negative value of informality would be assumed *contextual*, not essentialist, dependent upon how it interacted with other factors, such as the formal.

Results of Empirical Studies – Are ‘Economies of Scope’ Adequately Researched?

Early research into the characteristics of transactions in the emerging Vietnamese market economy argued that informality was very important. In a widely cited article, McMillan and Woodruff (1999) argued that “trading

⁸ Woodside’s focus is upon China, Japan, Korea and Vietnam.

⁹ This was the topic of a VISES informal workshop held in Hanoi in 2011.

relations in Vietnam's emerging private sector are shaped by two market frictions: the difficulty of locating trading partners and the absence of legal enforcement of contracts" (p. 1285). The first issue could be resolved up to a point by costly firm investments in networks and other institutional devices, some externalized through service provision by specialized firms to reduce search and other costs. The second is an example of how firms and their transaction partners (including workers) could draw upon cultural factors to construct – at relatively low cost - informal institutional methods of reducing contract risk. Cultural factors thus here are used to help explain Vietnam's relatively rapid growth. However, McMillan and Woodruff examine cultural factors in a very limited way. They do not discuss the attitudes of officials; nor do they engage with issues of gender and other aspects of Vietnamese kin and non-kin relationships. Another weakness is that they do not tell us enough about how informality works in terms of the macroeconomics of growth, and the potential role of service sectors in structural change, as stressed by Sheehan (2008).

Quantitative research by economists based on surveys tends to confirm the above picture but has tended not to link economic growth issues to the wider cultural frame. In a detailed analysis of "formal and informal institutions in a transitional economy" Steer and Sen (2010), also largely ignore cultural factors, for example mentioning neither corruption nor rents. This can be compared with Rand and Tarp (2012a), whose analysis goes deep enough to suggest that net returns to bribes may be less than possibly imagined, because "the magnitudes of bribes are distinctly higher for firms, which get preferential tax benefits and government contracts" (p. 583). This supports research by Malesky and Taussig (2009) suggesting that whilst the gross costs of bank credit were indeed lower for firms with political connections, they were not that much lower compared with likely bribe costs. Steer and Sen (2010) do however conclude that "informal institutions remain important as mechanisms of risk management as formal institutions begin to emerge" (p. 1612), confirming that informality is important.

Textured analyses that link to cultural issues are available. Belton (2012), in comparing fish hatchery sectors in Thailand and Vietnam, both of great importance to the highly profitable aquaculture industries in both countries, concludes that the detailed case studies "highlight the importance of culturally mediated, informal personal relationships in facilitating the establishment of new hatchery enterprises" (p. 133). More recently, studies

within a French-led research program have confirmed the importance of the informal sector and thrown light upon its internal dynamics and logic. For example, Castel and To (2012) analyzed wages and social security tax evasion in Vietnam, which was then widespread and tolerated “wages reported to social security represent on 32.5% of wages actually paid” (p. 616). The picture shows collusion between workers and employees since “enterprises evade, and under-report wages pay higher wages, there is no evidence of employers’ appropriation of the unpaid social security contributions” (ibid). We may see a certain institutional equilibrium, given a largely free labor market, where negotiated outcomes suit both workers and employees, given their own perceptions of costs and benefits (p. 629-630). This points again to cultural factors supporting informality. This conclusion is also supported by an analysis of differences between wages in formal and informal employment, which concludes that the gap is “due to observable characteristics (endowments), in particular firm size, workforce characteristics and location. Thus, traditional wage determinants seem to play an important role in explaining the higher wage returns in formal firms” (Rand and Torm 2012b, p. 560) (these were some 10-20% higher than in informal firms).

One possible conclusion from these studies is that there is considerable choice in institutional form, including the choice between formality and informality, and such choices, driven by economic calculation, exploit cultural factors that encourage and tolerate choice which is expected to vary according to context: to return to the point made above, neither formality nor informality are treated *essentially* – their value depends upon context, both for direct participants and for observers.

The next section opens the discussion to consider historical, cultural, gender and cognitive aspects of economic organization aimed at informality and services in Vietnamese development. This discussion is exploratory.

Valuing the ‘Informal’ – Some Evidence

The Vietnamese transition to a market economy in the 1980s arguably drew upon well-established cultural patterns of ‘softness’ in hierarchy relations that influenced economic practices (de Vylder and Fforde, 1996). From this, there emerged processes like those described by Naughton¹⁰

¹⁰ Naughton’s work (for example, Naughton 1994), argues for evolutionary

and others for China, of 'endogenous', or largely 'spontaneous' change during which institutions emerged rather than being designed and deployed by the state. For example, two key institutions, the 'output contract' system in agriculture and the 'three-plan' system in SOEs, were legalized after the fact through policy in 1981, which thus accepted and offered a rationalization for what was already happening (de Vylder and Fforde, 1996; Fforde, 2009b).

Toward the end of the 1980s, leading Vietnamese economist Vo Dai Luoc¹¹ argued that the formal statistical definition of the 'free market' as the 'unorganized' market was quite incorrect, as it was far better organized than that run by the state and collective economies. In this sense, the 'informal' was more rational than the 'formal', operating according to 'law' (in social science terms), that he, with other reformist colleagues, viewed as more orderly and reasonable, and indeed 'civil', than the 'formal' – the 'organized' – but seen as chaotic – sectors containing state and collective trade. This was an argument for its tolerance, as VCP Communist rhetoric argued that such activities were backward, opposed to the class interests of the ruling Party, workers and peasants.

Vo Dai Luoc's remark was part of a reformist world-view, and within Vietnam by the late 1980s this view had become dominant in various debates (Fforde, 2009b). However, we find cultural norms urging acceptance of violations of central norms in other accounts of other periods. There, issues such as the pre-eminence of local ('communal') legal norms vis-a-vis those of Kings and Emperors are taught as normal, and thus, as guides to officials and subjects as to what constitutes good governance (the widely-quoted 'the writ of the King bows to the customs of the commune' - *Phep vua thua le lang*). These are all indicators of deep cultural specificities.

If these arguments suggest elite positive valuations of the 'informal', especially by reformists as they gauged the forces driving commercialization during the 1980s, by the late 'noughties' different views start to be recorded. Further research is needed to examine the possibility

processes in the case of China, as does John McMillan (McMillan 1994). For a discussion of such processes in pre-Gorbachev USSR, see Prostiakov 1998.

¹¹ Personal communication; Dr Luoc was for many years Director of the Institute of World Economy in Hanoi and was at the time of writing with the Centre for Development and Integration (in Hanoi).

that ‘formality’ was increasingly imposed, partly perhaps on gender grounds, for it has been argued that whilst the 1980s saw women push entrepreneurial activities in the transitional economy, in the 1990s family views ‘reverted to type’ and asserted that men, not women, should run family companies (Martin, 2013).

Gender issues also engage with informality. Contemporary research into gender relations in Vietnam has tended to stress analytically ‘easy’ issues such as so-called Confucian-based patriarchy – and its possible recovery – and the effects of market economy, through such mechanisms as advertising and commoditization of sex.¹² Often, these notions set about a reconstruction of women’s roles and identities to argue that they benefit ‘men’, construed as a somewhat homogeneous group. Efforts to ‘deconstruct’ such categories have tended to examine such groups as homosexuals and sex workers. However, in this research there is evidence that male discussions of changes in male identities and self-perceptions during the market economy period often link to reported memories of mothers and other older women playing active and creative roles in informal sectors throughout the turbulent 1980s. By contrast, such accounts also report fathers and other older men – usually in formal employment – as passive in the face of change.

Informality: Farmers Informal Groups

Many have argued that Vietnamese rural communities’ *traditional* institutions, dating back for centuries, especially in the north and center, possessed strongly ‘communal’ aspects permitting farmers to organize to their advantage. Counter-arguments query images of a traditional rural life of ‘villages’ (Kleinen, 1999). Nevertheless, in areas such as the treatment of land and an apparent facility with manipulation of formal structures (such as Party-sponsored cooperatives) to turn them into ‘interfaces’ between local interests and external powers, it is relatively easy to point to

¹² There is a rich literature here – see for example Nguyen-Vo 2008 for a considered analysis of links between free market thinking and possible tensions between the social control of sex workers and the ‘freedom’ of their commercial activities. I am grateful here to access to PhD research by Philip Martin at the University of Melbourne (Martin 2013).

experience with addressing issues that are seen to affect group interests. Scott's (1976) work on the 'moral economy' of the peasantry shows this.

Perhaps 25% of rural land was in some sense 'communal' in the 19th century. During the period of Communist agricultural collectivization treatment of the so-called '5 %' land (the Vietnamese Communist equivalent of Stalin's 'private plots') also often involved local collusion against external pressures (Fforde, 1989; Vickerman, 1986). Field research by the author in the late 1980s, when much of the cooperative structures were no longer doctrinally-supported, could find both farmers and cadres gleefully report that in their cooperative/ commune the '5 %' land was far more than '5%' of the agricultural land area.

In the 1990s informal organizational responses by farmers to market failure grew strongly. Around 2000, a rich map of informal farmers' groups (IFGs) could be seen, so that by the middle of the 'noughties' it could be reported that:

(Areas surveyed) In a village of around 100 families, one could expect easily to find 6 or 8 credit IFGs with 10 members each, perhaps as much as dozen labour IFGs of various types, 2 or 3 artisanal IFGs and, depending on the situation, 'quasi-public asset' IFGs. This suggests that there are at least a dozen people acting as IFG leaders, soundly entrenched in these local informal organisations, negotiating, convincing, winning and losing arguments. (Fforde, 2008:29-30)

If the study of farming families and rural community organization suggests considerable facility for local proactive informal organization for economic advantage, then what may we say about SOEs? Research arguing that the real nature of state property (SOEs) has itself also been highly informal posits that the real motor, in economic as well as political economy terms, of the Vietnamese 'transition from plan to market' of the 1980s was a commercialization of SOEs (Fforde, 2007). By the end of the 1980s, at times endorsed by policy and at times opposed by it, SOEs had become highly market-oriented. Commercial activities, legalized in 1981, had a long history, and these were largely informal. With profits from market production seeking investment outlets, and pooled with families' savings, informal capital markets evolved so that by the 1990s many SOEs were 'virtual share companies' (Fforde, 2007).

Conclusions

If we try to place attempts to analyze the Vietnamese experience into a wider context, the following remarks seem appropriate. First, at least for the Vietnamese, but also (Table 1) globally, the name of the game on average is no longer industrialization, but servicization.

Second, servicization is under-studied, widely treated as an anomaly (Fforde, 2017 forthcoming) and not therefore the focus of mainstream development policy, which can be said tends to lean towards positively valuing the ‘formal’. This may have important political effects, as, like the VCP has found, reality confounds state development strategies, which is a global pattern.

Third, standard microeconomic theory suggests that if there is own-consumption or joint production, markets can face problems as theory suggests there is no clear cost-curve for a given output. As Bardhan and Udry (1999) point out, other factors should then drive analysis and explain how economic choice works.

Fourth, great care is advised in assessing the growth opportunities of regions that, like north Vietnam after 1975, find massive changes in economic opportunities and institutional choice.

This paper concludes that a better understanding of Vietnam’s recent economic growth and her ‘economic miracle’ needs to include analysis of how Vietnamese cultural factors have at times encouraged more pro-growth institutional choice along the axis of formal-informal, and how these have interacted with the role of the services sector in economic growth and structural change. Further research is much needed. We need to understand better how, whilst growth benefited from informal rather than proactive policy solutions to economic organization, gains from this started to run up against constraints from around 2007.

In addition, there are persuasive reasons for taking ideas of economies of scope particularly seriously in the case of Vietnam. They may help explain why informality was at times very important in driving growth. Scope economies, the pattern of servicization and the changing role of informality may also illuminate future strategic issues such as the effects of competition in traded service sectors as global technology adapts, as Wood 1997 argued it has done in the case of manufactures, seeking to site important shares of value-added in richer countries.

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