

Strengthening Public Administration Reform to Improve Institutions for Market Economy with Socialist Orientation in Vietnam

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ABSTRACT

Vietnam has been developing a Market Economy with Socialist Orientation (MESO). Strengthening public administration reform (PAR) can be an effective tool in improving institutions for MESO in Vietnam. This paper analyzes conceptual and practical issues related to PAR with reference to international experiences.

Key words: market economy with socialist orientation, public administration reform, Vietnam.

Introduction

Recognizing the importance of developing institutions for Market Economy with Socialist Orientation (MESO), the 10th Congress of the Communist Party defined that Vietnam shall urgently "*reform the state's institutions and modes of functioning and improve the institutions for market economy with socialist orientation*" regarding these works as important renovations and focal tasks in the coming time.

In order to implement the 10th Party's Congress Resolution, the Prime Minister issued Decision No. 136/2001/QĐ-TTg on the 17th September 2001, adopting the Comprehensive Public Administration Reform (PAR) Agenda for 2001-2010 period, and recently, stipulated Decision No.30 QĐ-TTg on the 6th of February 2006, approving the Proposal on Streamlining Administrative Procedures in the public sector for 2007-2010 period, in which PAR is determined one of the three priority political tasks in 2007 and for the 2007-2010 period.

As a contribution to implementation of the above-mentioned political tasks and reform agenda, this paper will focus on analysis of conceptual and practical issues related to PAR in Vietnam with reference to international experiences. The paper covers five topic areas and serves as the basis for recommended solutions to direct the PAR to best serve the improvement of institutions for MESO in Vietnam.

1. PAR should be seen as an integral part of the institutional reform, development and improvement of MESO

Both internationally and domestically, there are various definitions of public administration reform, depending on the political, economic and social context of each country, as well as the perspective and objective of research. Nevertheless, it is commonly agreed that PAR is a planned change, based on one or a number of specific objectives, and conducted by authorized public

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agencies to make this system become more effective and responsive to the needs of the people, organizations and businesses. PAR typically comprises four components: (i) institutional reform (in the narrow sense); (ii) reform of organization of administrative apparatus and public service; (iii) public finance reform; and (iv) reform and modernization of administrative procedures.

The comprehensive PAR agenda for 2001-2010 period also articulates four key elements of Vietnam's public administration reform, namely institutional reform; organizational reform of the administrative machinery; renovation and improvement of the public service quality; and public finance reform.

According to Hoang Phe (1992), institution, in a narrow sense, is defined as "the regulations and rules of a social regime that everybody is subject to". The authors of Ministry of Science and Technology (2005) define institution as "the way the society establishes its frameworks and orders, involving the relationships among people and mechanisms, regulations, powers and rule that operate the society". As such, both economic institutions in general and the institutions for MESO in Vietnam in particular involve the following three key components:

- The rules that form the economic "rules of the game", including the economic legal framework and social rules and norms on/or related to the economy, including informal rules or norms as well;

- The entities playing the economic "game", including state economic agencies and administrations, businesses, professional associations, the communities and the people; and

- The mechanisms and enforcement that operate the "rules of economic game", including the mechanisms of market competition, economic management decentralization, division, cooperation, participation, monitoring and accountability.

It is obvious that PAR, does not mean the same as the institutional reform in a narrow sense as agreed by a number of scholars in some countries, (referred to as "regulatory reform"), but is at least an important, integral part of economic institutional reform, in both broad and narrow sense. Only such a definition could help move away from simplification, merely focusing on streamlining administrative procedures but neglecting reform of policy and legal framework, organization and personnel, and so on.

2. Developing and improving economic policies and legal framework should be regarded as a regular, continuous job, based on renovation of both mindset and methodology for the whole process - from issuance and implementation arrangements to evaluation and adjustments or abolishment

The institutional reforms mentioned in the Comprehensive Public Administration Reform Agenda in Vietnam is *per se* reforms of the policy and legal system, of which the first and foremost are the economic policies and legal framework. For not only the transitional economies like China or Vietnam, but also the traditional market economies, including the members of Organization for Economic Cooperation and Development (OECD). The improvement of laws and policies and improvement of the business environment is always identified as a regular, ongoing work of the State to enhance efficiency and competitiveness of the economy, in order to adapt to the context of ever-deepening globalization and international economic integration. Australia is a good example. Being an OECD member with a developed market economy, in mid 2006 the Australian Government officially launched new institutional reforms with broad participation of the governmental and

non-governmental organizations, under the direct leadership of the federal and individual state government; in some states a dedicated agency working on institutional reform has been set up under the Government Office (the state of Victoria set up "The better regulation office" under the direct leadership of a dedicated minister).

Being a transitional economy, Vietnam needs to not only be more active and prompt in development and improvement of economic laws, but more importantly, make profound changes both in mindset and implementation methodology.

The MESO that Vietnam has been developing is new, unprecedented form of market economy. Therefore, while sharing common features of a modern market economy, the development and operation of Vietnam's economy is characterized by specificities that derive from its socialist orientation, as clearly pointed out in the 9th Party Congress Resolution, "as a set of economic settings which is subject to the rules of the market economy and at the same time governed by the principles and nature of the socialism".

In the context of economic globalization and the increasing pro-activeness and openness for more in-depth economic integration, Vietnam's MESO institutions need to have all the common features, criteria and requirements of a modern market economy. Vietnam can identify these in order to be pro-active and responsive by referring international experiences in developing the market economy and implementing integration commitments, with special attention to the ones under WTO, and the criteria of the "market economy status" for Vietnam as required by the European Union (EU) and the United States (US).

Therefore, the development and improvement of the market economy institutions in Vietnam would be most effective and rapid if the experiences of economic legislation in other countries are learnt in

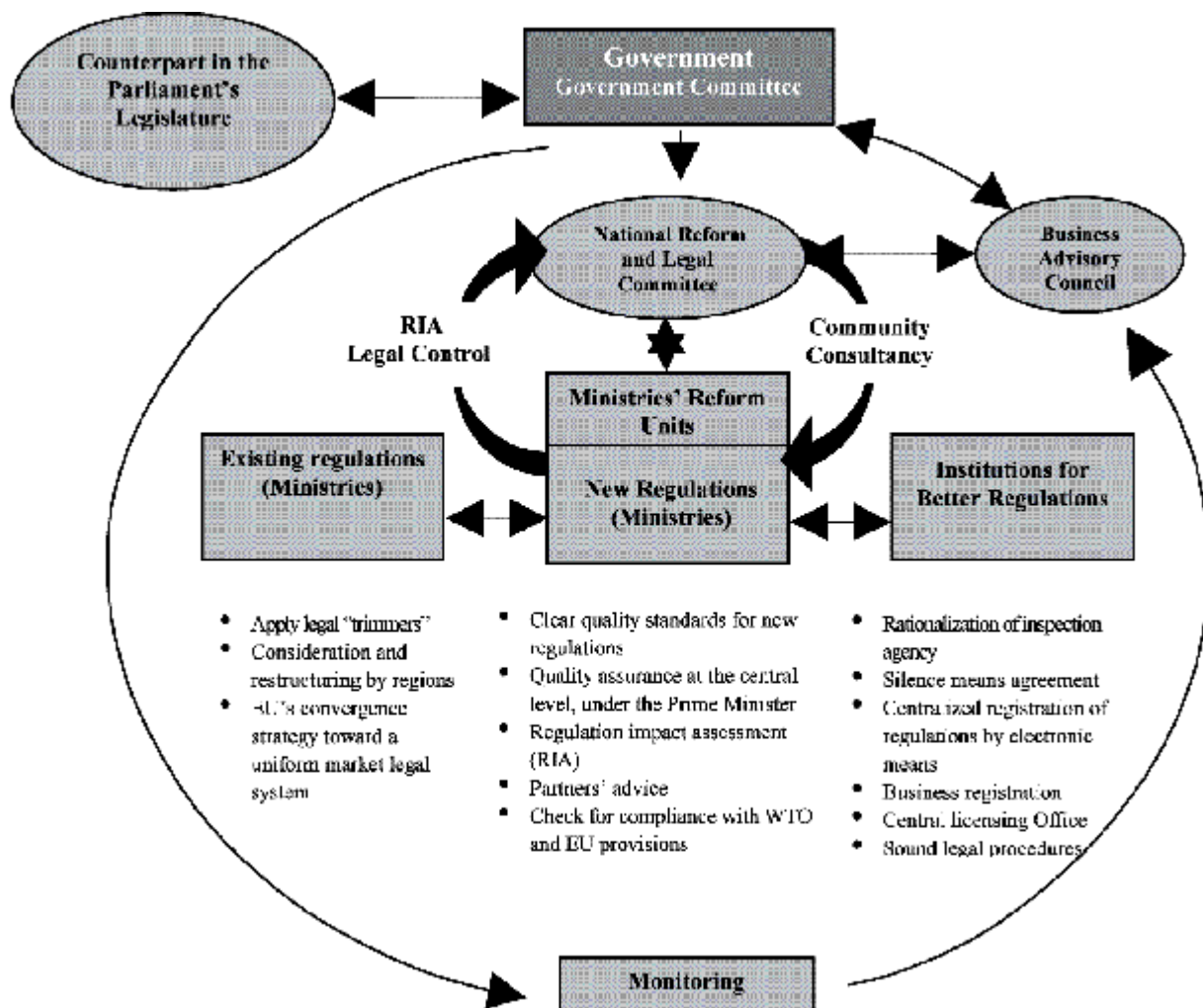
a wise and selective way. For example, both the EU and US require that the promulgation and enforcement of enterprise law be conducted in a transparent way, without discrimination so as to facilitate business management. Countries adopting a market economy model have promulgated company laws, which have evolved over years with similar stipulations on organization and operation of limited liability or joint stock companies. Failure to study these stipulations for selective incorporation into Vietnam's Enterprise Law would make the latter ineffective.

Socialist orientation is a unique characteristic of the market economy in Vietnam. For this reason, while respecting the "common" by inheriting the common values of human kind, it is necessary to build on the practical situation in conducting Vietnam's administrative and institutional reforms so as to ensure the socialist orientation of the economy.

As pointed out in the Party's Resolutions, the socialist orientation of the market economy in Vietnam is manifested by the goal of "rich people, strong country and equal, democratic and civilized society"; by building up the multi-stakeholder economy, in which the state's economy plays a dominant role, and the state's and collective economy are becoming a solid foundation of the national economy; the realization of social progress and equity in each step and policy of economic development and growth; and by the role in economic regulation and management of the ruled-by-law state under the leadership of the Communist Party".

On the basis of these new thoughts, it is important to renovate the method of institutional reform. In this respect, the international experience drawn by Jacob *et al.* in USAID (2007) is noteworthy. According to which, a successful reform process typically looks like the following model (Figure 1).

Figure 1: Model of successful administrative reform process



Source: USAID (2007).

As illustrated in the model above, the countries pay significant attention to the mandate and methodology of Regulation Impact Assessment (RIA), seeing it as a decisive factor to be undertaken by both government bodies and independent consulting organizations in development, promulgation and implementation of laws. It is also important to take care of both development of new regulations and documents (filtering before tanking) and deregulation, review, revision, amendment or removal of documents no longer appropriate (cleaning the tank).

3. Renovations of mandate, organization and operational mechanism of the government are a crucial pre-requisite for success of the public administration reform and development and improvement of MESO institutions in Vietnam

In a market economy, the government is defined as the highest administrative executive body. Therefore, in public administration reform, the first and foremost thing to do is to reform the Government. In the last twenty years of

economic renovation (*Doi moi*), the Government has changed significantly in both its mandate and organizational structure, and its operational mechanism, increasingly responsive to the development of the MESO in Vietnam. However, research and reviews of the public administration reform also reveal a number of shortcomings: the Government assumes too many functions; the machinery is cumbersome, lacking effectiveness and efficiency; mandates, functions and organization structures of ministries and ministry-like agencies are not clear and still problematic; division of labor and coordination within the Government, among the ministries and between the Government/ministries and local governments is also unclear, nor concrete or scientific. Especially, the mechanism of "the Party leads, the Government manages and the People masters" needs further research and improvement.

In this context, further renovation of the Government's mandate, duties, organizational structure and operational mechanism is required. The purpose of this process is to strengthen the Government's capacity and performance to meet the needs of the country's development of MESO. To this end, research is required to clarify the following:

Firstly, it is necessary to confirm that the renovation and improvement of the Government is an integral part of the renovation course for development of a socialist rule-of-law state under the leadership of the Government. Under this system, the Party leads the directions of national development, the socialist rule-of-law state defines clear and scientific division and coordination between legislation, execution and justice; the National Assembly - the most powerful body - focuses on legislative function; the Government is the highest administrative authority: on execution; the Supreme Court and Supreme Procuracy are the highest judicial bodies, playing an independent and objective role in litigation procedures.

Secondly, the Government needs to be reformed to perform better in both functions of state administration and serving socio-economic development through reforming and improving strategic planning and policy making in order to mobilize and utilize the country's resources in an effective manner, providing public services and public management services, including management and investment of the state's capital.

Thirdly, the Government should handle effectively the relationship between market and planning, and the one among state, market and society. The key difference between the market economy with socialist orientation and the one with free competition lies in the "reasonable" combination of the market and planning. While fully respecting the role of market in allocation of resources and regulation of economic activities with business nature, the Government should have a clear plan as to how far the market will be opened, and what specific policies are needed for sensitive sectors or the state natural monopolies such as land, electricity, water, insurance, health, education and training... The socialist orientation of the economy should be realized based on the state investment policies and plans to ensure sustainable development, social equity security. Domestic and international practices show that state resources, even in the centrally-planned periods have been limited, therefore the Government should be able to tap potential and resources in all economic sectors and social organizations, including professional associations and non-governmental organizations.

Fourthly, in the Government's organization structure, apart from ministries in the foreign affairs and national security sectors as present in all countries, other ministries in the socio-economic sector should be re-organized, re-structured so as to both fit the practical context of Vietnam and be compatible with partner countries to meet the integration requirements. The organization apparatus and staff of ministries should be strong enough to

assume the functions of administration, policy-making and provision of public services. For individual ministries in particular and the Government in general to have sound foundations for implementation of their mandates and functions, it is necessary to have a system of research and advisory as well as independent, objective regulatory and monitoring agencies that are strong enough in place. In the context of a transitional, multi-stakeholder economy with an increasing size and deeper integration, to continue renovation and sustain rapid growth it is necessary to give an emphasis on the role of a "Chief Commander in renovation and development" agency of the Party and the State, including the Government.

Fifthly, the Government's operation mechanism should be renewed in a way so as to have a clear definition of mandates and functions of ministries and a close coordination between ministries; strengthening at the same time decentralization to local governments and reformed planning.

A clear definition of mandates and functions of ministries and a close coordination among ministries will help overcome the overlap as well as the "gap" in functions among the Government's agencies. Strengthened decentralization to local governments in law execution arrangements does not only help the government to be closer to the people, more responsive to the people's needs but also helps bring into full play the initiatives/pro-activeness and emulation of the local governments. Maintaining while improving planning work, which is appropriate for the market economy, will help not only ensure the socialist orientation of the economy but also bring into play the positive aspects of the market economy, making the latter more dynamic, fixing the shortcomings of the previously centrally planned economy.

4. Improved capacity building for public service to meet the demand of the market economy is a decisive factor for the success of the public administration reform to serve the institutional development of the MESO

There is no doubt about the decisive role of the human factor for success or failure of doing things. While the role of the Party and the Government in training and improving expertise and ethics of the public service in the past years is undeniable, it should be noted that the current public service is not yet capable of meeting the requirements of a clean and strong government and the development of a MESO in Vietnam. At present, Vietnam lacks people who have knowledge and expertise of the market economy, therefore it is difficult to do well all the jobs of strategic planning, development of plans and development policies as well as a management mechanism for the market economy. It is urgent to provide refresher training to the current public servants to meet the immediate needs and successfully implement the Socio-Economic Development Plan for 2006-2010 period, and at the same time strengthening training of the future human resources beyond 2010. The training contents need to be renewed to cover not only the knowledge of the modern market economy but also be specific to each type of public servants.

Officials from minister, provincial party secretary and people's committee chairman rank upward should be equipped not only with the knowledge necessary for a politician, but also the knowledge of development economics, public and macroeconomic policies of the market economy. To overcome the "meritocracy disease" caused by the short-term nature of the official position, promotion of these personnel should not be based merely on the high economic growth achievements

or some impressive works in designated ministries/localities.

Officials from vice-minister rank downward and policy makers should be experts, who have acquired training in the modern market economy knowledge and immersed in the country's development reality, especially the renovation and transition from the centrally planned economy to the market economy.

Policy and law executive officers, including those charged with providing public administrative services should be trained and equipped with knowledge of laws and policies and have a serious attitude towards observing laws and regulations.

Together with education and training for improvement of competence and conducts/ ethics of the public service, it is also important to pay due attention to mechanisms for performance assessment, reward and punishment, bonus and promotion... Only through such policies can the public administration reform be successful and provide good support to improvement of the market economy institutions in the country.

5. Public finance reform should be linked with and provide support to improvement of the MESO institutions

In a simplified way, public finance reform does not seem to have any direct relation to development and improvement of the market economy institutions, as public finance has long been seen as the state finance, directly linked with the patronage system. Nevertheless, in market conditions, the concept and notion of public finance has been renewed and broadened. The state budget does not only pay for operation of the state machinery but also development investment, including business/production projects or state-owned

enterprises and public service providers such as research institutes, hospitals, schools and so on. Therefore, new ways of thinking about the mandates and role of the Government and the relationship between the Government, the market and the civil society as described above should serve as the basis for renewing thoughts, defining which public finance activities are to be undertaken in accordance with the centrally-planned mechanism and which ones follow the market mechanism. In such a way, Vietnam will make public finance to better link with and serve the improvement of the MESO in Vietnam.

Realizing the public administration reform policy of the Party and the Government in these five major directions will definitely help the public administration reform be better linked with and serve the development and improvement of the MESO in Vietnam. □

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