The Politics of New Industrial Policy: 
Sectoral Governance Reform in Vietnam’s Agro-Export Industries

by

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ABSTRACT

Research on new industrial policy suggests that developing economies’ ability to enter and upgrade in new export industries in the context of globalization depends significantly on the existence of supporting institutions and services, developed through public-private collaboration. Yet despite the consensus that “good” sectoral governance matters, we have little understanding of how it emerges, particularly in countries that lack the prerequisites for successful industrial policy. What drives sectoral governance reforms – defined as shifts in sector-specific institutional arrangements or regulations that lower barriers to entry and/or provide collective resources to support firm-level upgrading – in export industries in developing economies?

Through a comparative and longitudinal study of variation in governance outcomes within and across the seafood and rice export sectors in Vietnam, this dissertation develops a political framework to explain why some export sectors, at some moments in time, develop nimble, market-responsive governance and others do not. The argument revolves around three factors: industry stakeholder pressure and buy-in, bureaucratic space, and sectoral policy entrepreneurs.

By examining variation in governance outcomes, this research moves beyond describing new industrial policymaking to explaining its political origins. It seeks to update literatures on business-government relations and the politics of industrialization to account for a broader set of cases, and in so doing to identify new opportunities for developing economies to take advantage of trade liberalization and globalization, particularly in the growing global food trade. The dissertation draws on data collected during eight months of fieldwork in Vietnam involving 160 interviews with firms, government officials, industry associations and global buyers.

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1 Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of the National Science Foundation.

2 Amsden (1989, 143) says, “The first industrial revolution was built on laissez-faire, the second on infant
Chapter 1: Introduction and theory

I. Introduction

This dissertation examines the politics of governance reform in agro-export sectors in Vietnam. In the era of globalization, economic development requires firms that can produce value-added goods and export to the world (Hausmann, Hwang, and Rodrik 2007; Commission on Growth and Development 2008). But producers in developing economies, including in agricultural sectors, face myriad market and government failures that inhibit the growth of new export industries. Their ability to enter and upgrade on global markets depends significantly on the emergence of local sectoral institutions, created by public and private actors, that can coordinate and provide services including technical assistance, market information, export promotion, applied research, quality control, and monitoring, testing and enforcement of standards (Sabel 2012; Rodrik 2008; Perez-Aleman 2003; McDermott 2007; Jespersen et al. 2014; Pipkin 2011; Schmitz 2004). Yet little is known about how or why these sorts of institutional responses to market challenges emerge.

Theories of “new” industrial policy generally argue that good sectoral governance is an essentially a matter of designing institutions that allow business and government to exchange information and collaborate to resolve binding constraints to growth (Schneider 2015; Rodrik 2008). But, unlike research on late development in the 20th century, discussions of activist states in the era of trade liberalization and globalization largely fail to provide a political explanation for such state behavior. Why would sectoral policymakers be receptive to working with the private sector? Why would they respond nimbly to market challenges? In particular, how is such behavior sometimes possible in developing economies and non-democratic contexts where weak market institutions, cronyism and low government accountability — political conditions that are generally viewed as antithetical to development (Acemoglu and Robinson 2012) — often prevail?

This dissertation is about sectoral governance in one such context, Vietnam. Vietnam is ruled by a “market Leninist” regime that views its large state-owned sector — over 30% of the economy — as its core business constituency (London 2009). The Communist Party has an uneasy coexistence with its private sector (Vu-Thánh 2015). The state is fragmented and commercialized, acting as a market player and a regulator in many sectors (Pincus 2015a), and it has residual command planning instincts. Business and industry associations, often key purveyors of sectoral collective resources and advocates for firms’ interests, are congenitally weak due to political interference and individualized linkages between business and government. These conditions should militate against the emergence of effective sectoral institutions of the type envisioned by the new industrial policy scholarship cited above, which are characterized neither by old-fashioned state intervention (quotas and price controls, monopoly, fiat), nor by atomized producers competing in unfettered markets.

Yet a close look at Vietnam’s agro-export sectors reveals significant variation in sectoral governance reform — this study’s dependent variable — which is defined as the
creation of sector-specific institutions or regulations that lower barriers to entry and/or provide collective resources to support firm-level upgrading. This variation occurs both across sectors and within sectors over time. Since the country embarked on market reforms beginning in the mid-1980s, some of Vietnam’s major agro-export sectors have seen the creation of effective, competitiveness-promoting governance institutions that enabled firms to meet standards and enter new markets (outcome 1), while others developed institutions that effectively supported market entry but later faltered when firms faced new competitive challenges, resulting in liberalized markets without coordinating capacity and a chaotic race to the bottom (outcome 2). Still other sectors have remained dominated by legacy, state-owned monopolists and lacking in supporting institutions (outcome 3). Vietnam’s seafood processing industry in the 1990s and 2000s illustrates the first outcome: the state initiated early and comprehensive reforms that liberalized entry, withdrew regulatory powers from a state-owned monopolist and created a sectoral business association and food safety regulator that aided producers to improving production processes and developing new commercial channels. The catfish export industry after 2010 presents a case of the second outcome: the state attempted to institute minimum quality standards to drive upgrading and reduce harmful intra-industry competition, but failed. And in the rice export industry, an example of the third outcome, a state-owned monopolist, barriers to entry, and a deficit of sectoral institutions persisted, stymying private sector growth and upgrading. This dissertation seeks to explain this variation.

Existing explanations for governance innovations in export sectors focus on state effectiveness, information availability, and efficiency-enhancing pressures from international markets. Alone, however, these explanations cannot sufficiently account for the empirical variation in sectoral governance and upgrading outcomes observed in Vietnam’s agro-export sectors. Nor do they provide a political explanation for state behavior – a core objective of the earlier developmental state literature (e.g. Johnson 1982; Amsden 2001). Instead, based on the cases presented in this dissertation, I argue that successful sectoral governance reform depends on three core factors.

First, sectoral governance innovations require pressure and buy-in from industry stakeholders who have a strong interest in resolving an industry’s collective challenges. Industry stakeholders include firms as well as other actors who can aggregate business interests, including associations, political parties, or, in the case of Vietnam, local governments. Stakeholders pressure policymakers for policy support or institutional change when faced with a threat or barrier to sectoral growth, whether new competitors (international or domestic), new import market standards, or a distributional inequities in existing institutional arrangements. Industry stakeholders matter not only because they generate momentum through pressure, but also because they supply information to policymakers and participate in governance institutions. New sectoral governance institutions will not succeed without their buy-in (Fuentes and Pipkin 2016).

Second, successful reform requires that policymakers have sufficient discretion to make changes, which I call bureaucratic space, meaning an absence of high politics from a sector. In the context of a statist economy like Vietnam’s, bureaucratic space implies
the absence of politically protected incumbent state-owned enterprises or strategic direction from the top echelons of the party-state. Within that space, reform is realized by *sectoral policy entrepreneurs*, state actors who, for reasons of values, career trajectories or training, understand firms’ perspectives, seek out new information from industry stakeholders, and advocate for new forms of sectoral governance, whether against entrenched incumbents or conservative opponents within the state.

A brief review of dissertation’s main cases helps to illustrate the argument, which is explained in detail in Section IV below. The first case study examines successful reforms in Vietnam’s seafood processing sector. In the early 1990s, a monopolistic central state-owned exporter dominated the sector, but provincial governments and their local state-owned enterprises – industry stakeholders – advocated for freer access to export markets. Their cause was adopted by a cadre of sectoral policy entrepreneurs within Vietnam’s Ministry of Fisheries, a peripheral ministry of little strategic importance to Party development strategy. These reformers, who had had careers that were unusually closely linked to processing sector they regulated, used this bureaucratic space to seek out new know-how about foreign market standards and initiate a series of institutional reforms that helped to spark the seafood processing sector’s entry and growth in new global markets. The second case study, which examines a failed regulatory reform in response to crisis in the catfish export sector in the 2010s, shows again that key industry stakeholders – farmers and provincial governments in catfish-producing provinces in the Mekong Delta – played a driving role in initiating governance reforms. The Ministry of Agriculture and Rural Development (which had absorbed the Ministry of Fisheries), however, lacked the same sorts of policy entrepreneurs. Key sectoral policymakers distrusted the business sector and did not incorporate information from firms, provoking a backlash that ultimately lead to the reform’s demise. Finally, in the third case study on rice export, the importance of rice policy to the Communist Party’s food security strategy quashed bureaucratic space and muzzled stakeholder support for changing the status quo, contributing to the outcome of non-reform.

Developing economies’ ability to construct sectoral governance institutions that support skill and technological upgrading has important implications for their ability to benefit from trade liberalization and globalization. By examining the politics of sectoral governance reform, this dissertation seeks to makes several contributions. First, it moves beyond describing sectoral governance innovations in countries that lack the standard prerequisites for industrial policy to actually explaining them. Second, it problematizes the role of the private sector in industrial policymaking (Evans 1995) by widening the scope of actors that can aggregate interests and provide policymakers with market information to include local governments. Third, it demonstrates that state-led institutions may be effective in solving one variety of collective challenge like market entry, but fail in addressing later stage challenges like quality upgrading, in line with the findings of an emerging literature on the politics of the middle-income trap. Finally, it sheds light on the core political challenge of transitional socialist economies, namely how the state transitions from being a market player to a market regulator.
The remainder of this chapter proceeds as follows. Section II reviews the literature on new industrial policy and upgrading, specifically with reference to agro-export industries. Section III identifies existing explanations for sectoral governance reforms, then Section IV presents this dissertation’s alternative argument, outlines its contributions and explains the choice of research context. Section V lays out the empirical strategy, which involves a comparison of subnational, sectoral case studies, and research methods. Section VI provides a plan of the dissertation.

II. New industrial policy and upgrading

Recent years have seen a revival of interest in the state’s role in economic development, coalescing around a “new industrial policy paradigm” (Fuentes and Pipkin 2016, 154). If in the 20th century import-substitution industrialization policies aimed to catapult countries into heavy industries dominated by advanced economies using protection and subsidies (and, in the case of East Asia, export performance standards), the new or open economy industrial policy emphasizes more modest transformative goals: capturing more value from existing economic activities and promoting incremental structural diversification into nontraditional exports (Hausmann, Rodrik and Sabel 2008; Devlin and Moguillansky 2012; Lin and Monga 2012). Active sectoral policy, the thinking goes, can accompany international integration and low tariffs (Schrank and Kurtz 2005), but just as the goals differ, so too do the tools. The role of the new activist state is to furnish supply-side interventions intended to foster new investments by remediying market failures, facilitating coordination, and improving the provision of public inputs like infrastructure, education and training, and R&D (Birdsall and Fukuyama 2011; Wade 2012). The end goal is to foster a process of search by firms for profitable new business models and activities in global markets (Hausmann and Rodrik 2003; Rodrik 2008; Sabel 2009). The World Bank (2009) describes what it calls “soft” industrial policy as follows:

[Its] goal is to develop a process whereby government, industry, and cluster-level private organizations can collaborate on interventions that can directly increase productivity. The idea is to shift the attention from interventions that distort prices (i.e., “hard” IP) to interventions that deal directly with the coordination problems that keep productivity low in existing sectors. Thus …we think of programs and grants to, for example, help particular clusters by increasing the supply of skilled workers, encouraging technology adoption, and improving regulation and infrastructure.

This understanding of new industrial policy is echoed in research on upgrading (Gereffi and Sturgeon 2013; Paus 2012) and clusters and competitiveness (Porter 1998; Schmitz

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1 Amsden (1989, 143) says, “The first industrial revolution was built on laissez-faire, the second on infant industry protection. In late industrialization the foundation is subsidy—which includes both protection and financial incentives.” Hirschman (1977) spoke of certain sectors creating a “multidimensional conspiracy” for development.
2 Hausman, Rodrik and Sabel (2008) also use the term industrial policy “in the small.”
3 Upgrading is defined as “shifts, based on growth in local innovation capacities, from lower-value to higher-value economic activities within global commodity chains” (Doner, Ritchie and Slater 2005).
2004), which offers case studies of local firm networks and state support enabling developing country producers to build firm-level capabilities and capture higher gains in globalized industries. Research on global value chains has also pointed to the role local collective action and regulation can play in shaping firms’ and countries’ economic (as well as labor and environmental) outcomes, even in some highly buyer-driven industries like garments or seafood (Ponte et al. 2014; Tewari 2008; Pipkin 2011; Gereffi and Lee 2014).

A novel feature of this research is that it extends to agricultural export sectors. Exporting primary products has long been considered developmentally disadvantageous (Prebisch 1950), and the main purpose of traditional industrial policy was to use state intervention to shift production away from areas of natural comparative advantage with declining terms of trade and into industries that require technological and managerial know-how (Amsden 2001). But the explosion in the volume and variety of global food trade since the 1990s—driven by low transport costs, advances in refrigeration and changing consumption patterns—has altered this equation. In 1980, coffee, cocoa, tea and sugar accounted for 39% of exports from developing economies, while fish and horticulture made up 21%; by 2000, the proportions were reversed, with 41% of exports in fish and horticulture, and only 19% in traditional commodities (Jaffee 2005a).

Seafood, now the single most traded food commodity, accounts for $130 billion in annual global trade. Producing such high-value, fresh or processed agricultural goods is qualitatively different from exporting primary products (Perez-Aleman 2000, 44). The proliferation of sanitary and process standards dictated by foreign regulators and buyers, as well as wider arrays of value-added products and consumer tastes, sustainability and organic certifications, geographical indicators, and traceability requirements have differentiated these once undifferentiated commodities, creating opportunities to “pack more value” into agro-exports.⁵

Like in manufacturing sectors, exporters in agro-industries need certain capabilities to meet buyer standards of quality and efficiency. Rodrik (2007, 100) notes that “There is no evidence that the types of market failure that call for industrial policy are located predominantly in industry.” In Chile, for example, normally seen as a paradigmatic case of market reforms, associations and export promotion agencies were involved in the emergence of major new export-oriented agro-industries, including salmon and processed and fresh fruit and vegetables (Perez-Aleman 2000). Like higher-tech manufacturing sectors, agricultural and processing sectors can suffer from low productivity and technology, and can become vulnerable to new, low-cost competitors (Doner and Ramsay 2004; Fuentes 2014). Summarizing findings on a range of new agro-and manufacturing export sectors in Latin America—“export pioneers”—Sabel (2012) concludes that

Even with regard to products with relatively short supply chains and well-established, fully open markets—cut flowers, for example—the accumulation and linkage of the capacities needed for export production is arduous, and typically

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⁵ This phrase was used by Salo Coslovsky. Talk at Judith Tendler Festschrift, 2011, https://www.youtube.com/watch?v=jqA9hgujdDo.
time-consuming—often taking years, and in the case of the ‘reinvention’ of established products, a decade or more.

In other words, while the technological gaps are certainly less pronounced than in higher-tech industrial sectors, the challenge is also not completely dissimilar: how to develop the technological and commercial knowledge to sell to demanding export markets.

Among the most prominent upgrading challenges faced by small agro-exporters in the WTO-era trading regime are food safety and sanitary standards (SPS) (Athukorala and Jayasuriya 2003; Henson and Loader 2001). Farmers and agro-processors face a thicket of transnational trade rules, creating barriers to entry for developing country producers (Jaffee 2005a; Humphrey 2006). Ability to meet standards is a often condition for market access and can bring new rents. Conversely, inability to meet standards, whether due to shortfalls in know-how, infrastructure, capital, or coordination, can result in high rejection rates, missed trading opportunities, and exclusion from lucrative markets and supply chains, costing tens or hundreds of millions of dollars in lost opportunities for exporters of fruit, nuts, and other foods (Henson and Olale 2010). Compliance, in short, has become a core capability in the high-value food trade, one that can “form a basis for the competitive repositioning and enhanced export performance of developing countries” (Jaffee 2005b, xi). Bruszt and McDermott (2014) aptly term this phenomenon the “regulation-upgrading nexus.”

Other common collective challenges for agro-exporters relate to reputation and marketing. Reputation for quality is a common pool resource for commodity exporters because one producer’s failure to meet minimum standards creates a reputational liability for all others (Doner and Schneider 2000, 268). Less scrupulous producers can free ride off of an industry’s reputation, creating a problem of national dimensions for products that consumers tend to identify by national origin, rather than by individual brand name. Another challenge for small producers is establishing channels for commercialization and connections to foreign buyers (Perez-Aleman 2003; Tendler 2002). Sabel (2012, 7) finds that commercial linkages do not occur automatically even for ostensibly simple agro-exports like blueberries, saying that “… the ‘world market’ is not a market for things the whole world wants, but rather an institution for connecting very particular consumers with producers specialized in the particular things those consumers (come to) demand.”

Perhaps the central axiom of new industrial policy research is that effective institutional responses to market challenges depend on the state’s capacity to collaborate with the private sector. Rodrik and his coauthors assert that open economy industrial policy is not a specific policy but rather a mechanism for intensive public-private communication and collaboration (Hausmann, Rodrik, and Sabel 2008; Rodrik 2008).

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6 Coslovsky (2014, 33) summarizes empirical studies with findings on both sides of the debate over whether SPS standards are “barriers” or “catalysts.” Studies in the late 1990s and early 2000s tended to argue that SPS standards are the major non-tariff barrier to developing country exporters (Henson and Loader 2001; Anders and Caswell 2009), while more recent studies demonstrate that food safety standards have diverse distributional impacts on developing country exporters: losers are smaller firms, poorer countries, and firms exporting perishable commodities, and winners are larger firms and richer countries (Hansen and Trifkovic 2014; Henson and Jaffee 2008).
this formulation, firms have knowledge, but the state has power: “The new industrial policy will depend on public-private partnerships, where private or local knowledge helps steer the exercise of authority that, in many cases, only government can legitimately exercise over private interests” (Sabel 2009). Case studies of agro-export sectors likewise find that “complex coordination” among “diverse actors in the private and public sectors” can transform sanitary standards from “barriers” to “catalysts” for growth, underpinning industrial restructuring through shared information and learning (Sabel 2012; Anders and Caswell 2009; Henson and Jaffee 2006; Coslovsky 2013; Perez-Aleman 2013).

Many scholars have emphasized that firms and business associations, not the state, are the key actors in local upgrading stories, providing a needed corrective to the developmental state literature’s overweening focus on the state (Lund-Thomsen and Nadvi 2010; Nee and Opper 2012). Yet absent certain social preconditions like trust (Farrell 2005), or Olsonian (1965) conditions of a small number of large firms in a concentrated industry, intra-private sector collective action tends to rely on the state acting as a third party enforcer. To raise quality standards in Thai rice or Colombian coffee, for example, the state granted peak associations responsibility for labeling and enforcing product standards (Doner and Schneider 2000, 268). Locke (2001) illustrates how in cheese and fruit clusters in Italy and Brazil, labeling schemes and technical assistance to protect quality were developed by large firms in exclusive associations, à la Olson, then expanded to all producers through conditional state support. Studying furniture clusters in Brazil, Tendler and Amorim (1996) shows that local governments offered technical assistance and support for market development in exchange for producers meeting minimal quality standards, spurring upgrading and growth into new markets. In Vietnam’s Leninist political context, industry associations are weak and thoroughly penetrated by the state, rendering intra-private sector cooperation difficult. In short, cooperation among competitors is the exception, not the norm, and the state tends be an indispensable player, whether directly or indirectly.

In sum, scholars have revealed an association between sectoral governance innovations and agro-export upgrading, particularly in moments of crisis or when sectors are incipient. Yet the literature has little to say in the way of explaining variation in the emergence of new sectoral institutions. One reason for this oversight is that scholars have focused largely on positive case studies, as opposed to explaining variation, often with the objective of demonstrating that pro-developmental behavior is possible without preexisting state capacity or social trust. In addition, we know little about the importance of sectoral institutions over time. Studies of market entry or upgrading tend to look at industries and institutional arrangements at a single moment in time, in response to some sort of industry crisis. But associations or public sectoral institutions may fade in relevance as markets mature. Even after exporters successfully enter demanding new global consumer markets, they face evolving competitive challenges, new competitors, and technological changes (Knorringa and Nadvi 2014, 3).

Institutional support with

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7 Coslovsky (2014), McDermott (2007) and Cammett (2007) are exceptions.
8 For example, in a study of Pakistan’s medical instruments cluster, Nadvi (2004) shows that local policy networks mattered for initial adoption of ISO 9000 standards but were then replaced by market providers of technical assistance.
applying basic technical standards and developing market channels may not translate into overcoming later stage competitive challenges like quality upgrading. Why is it that states often respond effectively to this earlier set of challenges but falter when faced with the later one (Doner 2009; Sen 2013)? Answering this question requires studying not only cross-sectoral variation, but variation within export sectors over time.

This dissertation thus aims to address a series of questions: what conditions make institutional responses to market challenges in export sectors more likely? What drives sectoral governance reform, defined as a shift in sector-specific institutional arrangements or regulations that lowers barriers to entry and/or provides collective resources to support firm-level upgrading? Are sectoral governance institutions adaptive? By posing these questions, I shift the focus of explanation (Figure 1.1). The new industrial policy literature has endeavored to show how certain policy outputs (middle box) produce economic outcomes (right box) (e.g. Stiglitz and Lin 2013). This dissertation is motivated by an interest in upgrading and growth outcomes, but its analytical focus is on explaining on the politics that produce those governance institutions, policies and collective resources (left and middle boxes). In defining the dependent variable in this way, I follow other studies on good governance and industrial development, which take as their outcome of interest a bundle of institutions and public goods or services that often occur together (Putnam 1993; McDermott 2007; Berger and Locke 2001).

**Figure 1.1: Sectoral governance reform in agro-export sectors**

![Diagram showing sectoral governance reform in agro-export sectors](image)

Before shifting the focus, though, a note on the relationship between governance and upgrading is needed. The idea of governance driving growth has been at times ill-defined and insufficiently empirically investigated (Grindle 2007; Fukuyama 2013), and risks reviving the old state-versus-market debates over East Asia that sometimes obscured the real site of empirical interest: firms, which drive the production and growth outcomes that motivate our interest in industrial policy in the first place. Economic and industrial upgrading are complex, multi-causal phenomena. Firms acquire skills and
technology through many different channels. State industrial policies influence the
development of firm-level capabilities (Amsden 1989; Breznitz 2007), but can do so in
often unpredictable ways (Nahm 2015). Moreover, a domestic political lens can obscure
global commercial drivers of technological and skill upgrading. Know-how can be
transmitted to developing country firms through global production networks, whether by
buyers (Gereffi 1999) or capital equipment suppliers (Steinfeld 2015), or by skilled
individuals in a country’s diaspora (Saxenian 2006). Moreover, product, process and
functional upgrading can take many different forms. Even within agricultural sectors, it is
not always evident “which way is up” in upgrading (Ponte and Ewert 2009), and in any
case, the end point of industrialization is supposed to be moving out of agriculture and
food processing into higher-productivity activities. Within the bounds of established
global supply chains, developing country firms tend to be relegated to lowest value
activities in increasingly concentrated industries controlled by lead firms, which raises
the vexing, and more fundamental, question of what exactly be the objective for twenty-
first century industrial policymakers should be (Nolan, Zhang, and Liu 2007; Steinfeld
2004).

This dissertation does not address in detail the full scope of upgrading outcomes
and drivers. Instead, it aim to explain the emergence of governance arrangements that
assist agro-processing firms with resolving a specific set of upgrading challenges:
entering new markets by meeting standards and developing commercial channels,
building reputation, and raising quality. Within each case study, I specify the particular
ways in which institutional arrangements influenced producers’ ability to access markets
or improve product quality. In the case of the seafood sector’s successful market entry in
the late 1990s and early 2000s (Chapter 3), the connections between governance and
upgrading are clear, because the first Vietnamese seafood factories permitted to export to
Europe participated in a state-led technical assistance program, and a modern state food
safety management system was a precondition for Vietnamese exporters to gain
preferences on the European market. These were not the only relevant changes going on at
the time – Vietnam was also liberalizing its trade regime and legalizing private
enterprise – but sectoral reforms were necessary, if not sufficient, for seafood producers
to thrive on international markets because of the highly regulated nature of the global
marketplace. In the case study of failed governance reform in the catfish export sector
(Chapter 4), we can only intuit the counterfactual, i.e. what impact the new quality
standards could have had, had they been implemented. The counterfactual is supported
through international comparisons that reveal that minimum quality standards often
underpin sustained competitiveness in agro-export sectors.

My intention is not to claim that sectoral governance institutions are the sole
cause of export growth; rather, it is to provide evidence that sectoral governance
impacted upgrading outcomes at a particular moment in time – or in the cases of failed or

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9 For example, meeting a foreign regulator’s standards for chemical residues can be a prerequisite for
market access, but not necessarily result in higher prices, while environmental or organic certifications
could yield higher prices without altering the actual product. Another example is that diversifying markets
and product mixes can also help producers to survive and develop national brand name recognition, even if
it involves moving into lower value, higher volume products.
non-reform, would have had an impact – as a way of motivating a political analysis of its origins. This is dissertation’s core analytical project. To that end, each chapter is divided into three sections, with the first discussing industry background and upgrading outcomes, and the second and third examining key institutions and their political drivers. The goal is to empirically identify the political processes by which these governance institutions are constructed, and in so doing to shed light on broader questions about opportunities and constraints to development in the context of economic globalization.

III. Existing explanations for sectoral governance reforms

By contrast with newer research, the “developmental state” literature on industrial catch-up in East Asia does grapple with politics. Aiming to explain variation in states’ ability to construct institutions to coordinate industrial transformation, developmental state scholars posited conditions including state-capitalist alliances (Kohli 2004; Evans 1995; Haggard 2004; Chibber 2003), bureaucratic capacity and its origins in colonial and post-colonial legacies (Woo 1991; T. Vu 2010; Kohli 2004; Johnson 1982), external security threats and resource scarcity (Doner, Ritchie, and Slater 2005), organization of the business sector (Kang 2002), and the power of developmental ideology (Sikkink 1991).

Yet, because these theories operate at the level of national polities, they have limited ability to explain within-country, cross-sectoral variation, which leaves little room for developmental successes in what Peter Evans terms “intermediate” states: those whose “structures do not categorically preclude effective involvement, but they do not predict it, either” (Evans 1995, 12). Most states, of course, diverge from the ideal type of the Korean or Japanese developmental state, with its strong, centralized bureaucratic capacity to direct industrial resources, resist distributive and rent-seeking pressures, and discipline the business sector. But even within a single national political economy, some localities and sectors succeed in developing meso-level sectoral institutions that generate capital, skills, and supportive policies while others do not (Locke 1995). How can we explain sectoral governance reform within states that seem to lack national-level conditions like “right” kind of business-government relations?

The new industrial policy literature offers three explanations, implicit or explicit, for responsive industrial governance: state effectiveness, information availability, and international market pressures. First, some authors fall back on Weberian state effectiveness. Birdsall and Fukuyama (2011), for example, suggest that to promote industrial development countries “will need to reform their public sectors” because “bureaucracies often serve governments that are rent-seeking coalitions acting according to self-interest, instead of an ideal of impersonal public service.” Rodrik (2008, 116) identifies the need for “pockets” of bureaucratic capacity, a common item on authors’ lists of preconditions for new industrial policy to work (Leonard 2008). Evans goes beyond Weberian bureaucracy by identifying the importance of state-society relations, but he calls bureaucratic coherence an “essential precondition for the state’s participation in external networks” (1995, 50). Yet states sometimes respond effectively to specific

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sectoral challenges in contexts of otherwise low capacity (Coslovsky 2014; Locke 2001). Setting autonomous bureaucracies as a precondition for pro-developmental behavior tends to obscure more than it reveals by categorically ruling out positive outcomes in most of the world’s states (Amengual 2016).

Second and relatedly, scholars have suggested that sectoral governance reforms are a chiefly a problem of information exchange. Policymakers’ information constraints are a central problem in industrial policymaking (Pack and Saggi 2006, 15–17), all the more so because globalization has “rendered the challenges of state intervention into the private economy through industrial policy more complex, delicate, and information intensive” (Schneider 2015). Firms naturally have the most sophisticated and nuanced understanding of their costs, opportunities and constraints. For Rodrik (2008), the objective of business-government collaboration is for the state to acquire information about firms’ binding constraints in order to make policies that internalize the information and coordination externalities that inhibit entrepreneurship. For Evans (1995, 50), the main function of embeddedness is to “facilitate the exchange of information and build consensus.” An analytical focus on information, in turn, suggests that the key policy question is how to organize business-government relations to ensure a flow of relevant information to policymakers (Hausmann 2008).

Clearly, gathering information from private actors is critical if sectoral policymaking is to respond to development challenges on the ground (Ostrom 1990). But the information story is incomplete, because it relies on an assumption that, given the right kind of information, states will behave flexibly and nimbly, working with the private sector to resolve the identified market challenges. Policymakers can have access to information without acting on it. State behavior cannot be explained simply by the presence or absence of technical know-how, particularly when the action in question is potentially costly or otherwise incentive incompatible (Geddes 1994). In an export sector with a relatively small number of firms, a single associational representative and single state agency, the exchange of information may not be particularly complex or difficult. State agencies may have information and, for a variety of reasons, simply choose not to use it. Thus, in addition to studying how states acquire information about sectoral needs and conditions, we must also look at whether and how it is used.

Third, sectoral studies identify the importance of crisis, competitive pressures or shocks from international markets in helping to promote productive, as opposed to rent-seeking, interactions between business and government. International market pressures, authors argue, shape both business and government behavior. A classic formulation is Katzenstein (1985), who argued that the vulnerability inherent in economic openness unified elites in small European states around competitiveness-promoting corporatism. In a study of local industrial policy in China, Thun (2004, 1304) suggests that openness forces state officials to be adaptive in their approaches to industrial policy by “prevent[ing] the gap” between sectoral development and sectoral institutions from “growing too large.” International market exposure shapes the policy preferences of exporting firms, militating against collusion and incentivizing firms and associations to lobby for technical assistance, improved regulation, infrastructure or other
competitiveness-enhancing goods (Doner and Schneider 2000; Sabel 2012). Market pressures can spur firms to engage in systematic search for new markets and business models, prompting “desperate searches for solutions to these new challenges” (Fuentes and Pipkin 2016, 166).

Search-inducing competitive pressures can occur on the demand or supply side. Demand shocks like import market bans or regulations, shifting consumer preferences, or negative media exposure often precede upgrading-oriented transformations in sectoral institutions (Tendler 2002; Lund-Thomsen and Nadvi 2010). In Bolivia, for example, brazil nut exporters responded to a new EU zero tolerance policy for a common form of mold by revitalizing an industry association and developing testing capabilities, while the state instituted export standards and granted the association the right to license exports (Coslovsky 2014). Likewise in the Thai shrimp sector, an extensive system of public labs to provide testing and diagnostic service was developed in response to an EU ban on several aquaculture chemicals in the early 2000s (Manarungsan, Naewbanij, and Rerngjakrabhet 2005). New competitors or rising input costs can cause a supply side shock. In the Sinos Valley footwear cluster in Brazil, for example, firms and associations only pursued functional upgrading directed toward the domestic market after a major U.S. buyer shifted production to China (Bazan and Navas-Aleman 2004). One common collective challenge for agro-exporters, discussed in Chapter 4 on Vietnam’s catfish sector, comes from within, when new entrants rush into a profitable new sector and drive down prices, creating a strong incentive to adulterate quality, in turn creating a reputational liability for the entire sector (Locke 2001).

But market pressures do not lead automatically to institutional change. This dissertation is about export-oriented industries, which all face some level of competitive pressure from international markets, but not all of which organize successful responses. While the Bolivian brazil nut exporters studied by Coslovsky successfully organized in response to new EU standards, their Brazilian competitors did not, allowing Bolivian producers to capture the market. Likewise, McDermott (2007) finds that two neighboring Argentine provinces attempting to revitalize their stagnant local wine industries had divergent growth outcomes due to different policy approaches. The government of one province, San Juan, pursued a conventional strategy of arm’s length investment incentives, while the governor of neighboring Mendoza deployed a participatory approach to restructuring, creating new deliberative organizations and pushing firms to cooperate in research, quality control, and product development, which enabled knowledge sharing, rapid experimentation, and firm learning. This raises the question of when, why, and how states respond to industry crises. In their study of policymaking in developing economies, Grindle and Thomas (1991, 14) suggest that, to a certain extent, crisis is in the eye of the beholder: “Many reforms emerge and are considered in which policy elites believe that a crisis exists and they must ‘do something’ about the situation.” In short, competitive pressures are necessary for sectoral governance reforms, but their impact is mediated through politics.

11 Treisman (2007) finds that trade exposure is one of the few variables that is robustly negatively associated with corruption (see also Olson 1982). But trade and investment openness is not necessarily an inoculation against cronyism (for example, on Indonesia see Robinson and Hadiz 2004).
In sum, there are three existing explanations for sectoral governance reforms: state effectiveness, information availability, and international market pressures. Each points to an important issue, but none is individually sufficient. Sectoral governance innovations can emerge even in absent broader bureaucratic coherence. Information is a necessary input, but it is of little use if it is ignored by the state. Competitive pressures spur firms in inertial environments to search for solutions and can militate against rent-seeking. But such searches are not always successful, and state responses are uneven. The next section turns to the dissertation’s main argument.

IV. An alternative explanation

In this section, I develop an argument about sectoral governance reforms in export industries that identifies two driving factors, which be thought of respectively as the demand and supply sides of institutional change: bottom-up pressure and buy-in from industry stakeholders, and a combination of bureaucratic space and sectoral policy entrepreneurs within the state. This section presents the argument, its contributions, and an explanation of the choice of research context.

Industry stakeholder pressure & buy-in

In intermediate states, top-down efforts at industrial transformation tend to be ineffectual because of state incoherence or resistance by business (or both) (Chibber 2003). In such contexts, sectoral governance reforms require that industry actors press the state for support with competitive challenges. Industry stakeholders – actors with a direct stake in an export industry’s growth outcomes – push sectoral policymakers to resolve problems that they believe they cannot solve alone by aggregating interests and information, creating momentum and pressuring the state for action.

Scholars of new industrial policy have tended to conceive of industry stakeholders in very general terms as the “private sector.” But other sorts of actors can also aggregate industry interests, and indeed can play an equally or more important role in advocating for sectoral policy. This is because states vary in the channels that they create for firms to influence policy (Schneider 2004, 4–5). One category of industry stakeholders is associations. Corporatist systems, for example, institutionalize the role of peak associations, while pluralist systems create channels for a plethora of interest groups (Berger 1983). But other, less obvious groups can also aggregate or articulate industry interests and information: regional or local governments, political parties, or even international donors. Depending on the political system, these actors may have more voice than firms, leading firms to rely on them to advance their interests with national governments, instead of (or in addition to) lobbying the state themselves.

Which actors have access and influence in sectoral policymaking is a matter of context. In Vietnam, provincial governments are key industry stakeholders. While Leninism limits the private sector’s channels of influence, Vietnamese communism has always had a strong element of localism, and provincial governments exercise significant influence in central policymaking (central-local politics in Vietnam are discussed further
in Chapter 2) (Abrami, Malesky and Zheng 2008). One way that they use this power to advocate for competitiveness-enhancing reforms in local export industries, sectors that may be relatively unimportant for a national government managing an entire economy but whose growth outcomes are extremely important for localities. Particularly in rural provinces that depend on a small number of agro-exports, like those in the Mekong Delta, local governments can have powerful incentives to advocate for the interests of major local exporters, both state-owned and private. Local leaders’ motivations, explained further in Chapter 2, involve a combination of impersonal incentives – tax revenue, employment generation – and personal interests through their embeddedness with local business, including family or direct ownership of companies. Lacking sufficient political influence by themselves, firms appeal to local governments to amplify their voices with the central state.

I find that provincial governments in the Mekong Delta played a central role in pushing for sectoral governance reform on behalf of local seafood exporters (Chapters 3 and 4) and, at certain points, rice exporters (Chapter 5), advocating at some points for liberalization and lowering barriers to entry and at other points for tightening central government control. On the one hand, provincial governments pushed for liberalization when the market power of central SOEs disadvantaged important local firms. As is explained further in Chapter 2, the early days of Vietnam’s market reforms (called đổi mới or “renovation”) saw the proliferation of local SOEs in many sectors, including agricultural exports. These local interests came into conflict with central SOEs that used their monopoly positions and regulatory power to discriminate against the provincial firms. This central-local distributional conflict created a local “state business interest” in further liberalization (Fforde 2007). On the other hand, provincial governments in the Delta pushed for tighter central government regulation when they perceived that intense domestic competition was damaging important local export firms – for example, when rice or catfish companies were locked into price competition with firms from neighboring provinces.

Industry stakeholders are not just pressure points: they also provide information for, participate in, and ultimately provide the buy-in that sustains governance arrangements. These mechanisms are represented in Figure 1.2. These stakeholder dynamics change as industries develop. Industrial policy scholars have argued that information exchange is the key function of business-government interactions, but actually the source of informational inputs to industrial policymaking can change over time. When firms are small and the key challenge is entering new global markets, know-how can come from multiple external sources, including foreign donors, who may know more about codified import market standards than small domestic firms. The modernization of Vietnam’s seafood regulatory structure, for example, involved technical assistance from the Danish government. Private sector information and buy-in, though, becomes increasingly important after industries have scaled up. This is for two reasons. First, as argued by Rodrik and others, larger, globally networked firms have knowledge about their costs, customers and markets that the state doesn’t. Upgrading involves

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12 This point bears some similarity to Oi’s (1992) argument about local state corporatism in the 1980s in China; differences are developed in Chapter 2.
complex policy tasks like setting standards, implemented by numerous actors inside and outside of the bureaucracy; for such policy tasks, participatory policymaking is critical input because it generates information that policymakers would otherwise lack (Moffitt 2014; Perez-Aleman 2003). Second, though, is clout. Large, well-resourced firms with global markets constitute a new interest group that does not exist when an export sector is incipient. As Hirschman (1968) argued about import substitution industrialization, growth creates new constituencies that can prove a political obstacle to future industrialization. Authors have identified the power of incumbents as a barrier to industrial policymaking in democracies (Almeida and Schneider 2012), but even in authoritarian contexts, large business constituencies exercise de facto power that SMEs do not.

Once the private sector has influence, sectoral policymakers refuse to take in information at their peril, and reform efforts can become susceptible to political resistance. This is scenario is examined in the case study on Vietnam’s catfish sector. A period of rapid growth between 2000 and 2010 led to a rash of product adulteration, creating a reputational liability for the sector and generating stakeholder demand, particularly from local governments in catfish-producing provinces, for a new framework of minimum standards. But when the Ministry of Agriculture and Rural Development set the new standards, it did not incorporate industry know-how about foreign buyers’ demands for quality, instead relying on an internal bureaucratic process that resulted in overly strict, one-size-fits-all quality standards that the industry viewed as commercially unviable. By not incorporating what firms considered to be crucial information, policymakers caused stakeholder buy-in to disintegrate. The reform was contested, leading to all-out battle between firms and their local government allies and ministerial policymakers that ultimately resulted in reversal or withdrawal of key parts of the reform. This scenario is illustrated in the bottom feedback loop of Figure 1.2.
Building stakeholder buy-in

Industry stakeholders
Firms
Associations
Local governments
Other (parties, int'l donors, etc.)

Apply pressure & provide information

Incorporate information

Sectoral policymakers initiate reform

Reform success

Reform contestation/failure

Eroding stakeholder buy-in

Bureaucratic space and sectoral policy entrepreneurs

Stakeholder pressure alone does not lead to governance reform. The second condition is that sectoral policymakers must have the discretion to act. I call this bureaucratic space for reforms, defined as the absence of high politics from sectoral policy. When policy in a particular sector is subordinated to higher-level political imperatives tied to regime survival, political stability or industrialization strategy, sectoral policymakers lack discretion. By contrast, when policy is not determined from the top of the political system, bureaucrats have leeway to respond to real needs on the ground. Low-stakes policy areas are more likely to be left to mid-level decision makers (Grindle and Thomas 1991, 104–107), which for my cases means policymakers in the relevant sectoral ministry. Of course, in regimes with strong states single-mindedly devoted to development, high-level political involvement is understood to be a boon to industrial policy – one need only think of South Korea under Park Chung Hee. But the defining characteristic of intermediate states is that they lack this sort of state, and some level of insulation from top-down political interference is needed. I suggest, though, that that insulation may not be so much a matter of conscious choice to protect officials from politicization through a meritocratic bureaucratic structures (Geddes 1994) as it is a matter of neglect or inattention to low-stakes sectors or policy areas.

Space (insulation from top-down politicization) is distinct from autonomy (insulation from capture by business interests), which was the focus for Evans and other
developmental state scholars who saw the central danger as business-penetrated bureaucracies diverting resources toward non-developmental, collusive ends. The usual remedy proposed is to make bureaucrats immune to societal pressures by building a merit-based civil service. The Vietnamese state is rife with particularistic interests; rent-seeking and commercialized linkages between business and government are also widely prevalent because of the nature of the country’s market transition, which saw the capitalist class emerge from within the state (Cheshier 2010, 18; Pincus 2015a). But within the scope of agro-export sectors, insulation from society is not the key issue. Rents are relatively low. Competition creates incentives for efficiency, and there are not massive subsidies comparable to those directed at heavy industry. This is not to say that collusive arrangements cannot exist in export sectors. One example from this dissertation’s cases is a Vietnam-Russia seafood export council, created in 2009 by several large catfish companies and Vietnamese agricultural officials, ostensibly to regulate the quality of Vietnam’s seafood exports to Russia (see Chapter 4 for details). The council acted as a cartel, cutting off all but five companies’ access to Russian markets and causing exports to drop by two-thirds from one year to the next. What is interesting, though, is that this cartel co-existed alongside a vibrant exporters’ association working with state officials to attempt to create a seafood marketing fund to promote the image of Vietnamese seafood abroad, widespread adoption of private environmental certifications (Ponte et al. 2014), low entry barriers to other export markets, and efforts by state research institutions to reduce the use of banned antibiotics. The point is that collusive sectoral institutions can co-exist alongside competitiveness-promoting ones.

Bureaucratic space manifests in different ways under different political regimes. During Vietnam’s reform era, being in any sort of strategic sector has meant high-level party-state sectoral strategies and the presence of a large state-owned trading company or conglomerate. These large SOEs are closely embedded with sectoral policymakers as well as often with top party-state leaders, and they dominate other sectoral institutions, including associations, as is elaborated in Chapter 2. New governance models are unlikely to emerge in such contexts because of the incumbent’s market and institutional dominance. By contrast, in relatively neglected sectors where high politics are absent, policymakers have more room to maneuver.

The idea of bureaucratic space can also be transferred to other regime types, including democracies, where politicians face different incentives. In a developing democracy prone to clientelism, for example, space for experimental reforms may exist because the relevant ministry is small, and thus controls fewer patronage positions or economic resources. Bureaucratic space may also exist because senior politicians agree to delegate control over industrial policy to the sectoral bureaucracy. Montero (2001), for example, finds in a subnational study of Brazil and Spain that public-private cooperation in industrial policymaking only occurs when subnational political leaders delegate authority and resources to technocratic agencies, as opposed to centralizing control to assure maximal control over patronage. Flexibility and discretion, in short, can create

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13 Andrew Schrank, “Imported Institutions: Boon or bane in the developing world?” Presentation at MIT Political Science Department, 3/8/16.
opportunities for creative problem solving and learning by sectoral bureaucrats (Pires 2009; Carpenter 2001).

In Vietnam’s agro-export sectors, the importance of bureaucratic space is evident in the comparison of rice to seafood. Rice policy is a high-stakes political priority for the Communist Party because of its connection to national food security (Chapter 5). A large state-owned trading company dominates the market and controls the state-mandated rice exporters’ association. The power of the incumbent and the salience of food security policy hardens the existing institutional arrangement, removing decision-making power from the sectoral bureaucracy. Within Vietnam’s single-party regime, the high politics of the sector also quiets stakeholder dissent. By contrast, in the case of seafood sector governance reforms (Chapter 3), the sectoral bureaucracy (the Ministry of Fisheries) governed a peripheral area of the economy, and was able to pursue its reforms in relative political obscurity. It also sidelined the state-owned seafood company, Seaprodex, at the same time as the state-owned rice company, Vinafood 2, was being consolidated. These early sectoral governance reforms turned out to be fateful. The political importance of large state-owned general corporations grew in the 2000s, particularly after 2006, as they became increasingly central to the party-state’s industrialization strategy and influential in the policy process (Vu-Thanh 2015; Pincus et al. 2012).

Bureaucratic space is the window of opportunity (Kingdon 1995), but policymakers may or may not seize it. Whether or not they do depends on the existence of sectoral policy entrepreneurs, state actors who advance new models of sectoral governance. These are public versions of Schumpeterian entrepreneurs, state actors who push new modes of governance that seek to alter how the state operates on the basis of bold, transformative ideas (Klein et al. 2010; Mintrom 2000, 5; Kuhnert 2001). To identify a role for individual policymakers is not to argue that everything boils down to personalities. Instead, it is to recognize, as Yongping Wu (2005) has argued about Taiwan under the KMT, that state promotion of industrial transformation can result from political leadership and conflicts within the state, rather than planned, faceless bureaucratic coherence. In contexts where the state sector is structurally and ideologically disinclined to cooperate with the private sector, productive state-business interactions are not simply a matter of institutional design (Vu-Thanh 2015); an extra element of agency is needed.

Specifically, sectoral policy entrepreneurs matter for two reasons. The first has to do with information. Within broader political structures that are anathema to new industrial policy, individual policymakers determine whether or not technical and commercial information provided by industry stakeholders, particularly firms, is used and

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14 Authors also use the term public entrepreneur (Klein et al. 2010) or political entrepreneur (Dahl 1961). Kingdon (1995) used the term policy entrepreneur and suggested that policy entrepreneurs are not necessarily individuals inside the state (see also Hall 1993), but those who seek to influence it. Most of these studies have been focused on democracies. By contrast, I use the term to refer only to actors inside the state, but have chosen the term “sectoral policy entrepreneur” because the focus is on policymakers in particular economic sectors.
absorbed. Discussing policy entrepreneurs in the U.S. education system, Mintrom (2000, 100–101) points out that

the greater the knowledge that entrepreneurs have of their industry, the legal environment, who is who, industry norms and broad industry trends, the more likely they are to devise successful strategies... in contrast, the entrepreneur who has only rudimentary knowledge of how the system works in the first place is unlikely to be able to figure out how to survive in it.

In the same way, sectoral policymakers who actively seek out and incorporate information about the sector they aim to promote are more likely to pursue successful reforms. Taking in information can also build stakeholder buy-in, which is necessary for institution-building, as discussed above. This information mechanism is represented in the diverging arrows in Figure 1.2, reprinted below. The second reason sectoral policy entrepreneurs matter is that reform is often conflictual, whether due to vested interests or bureaucratic resistance to new ideas. Overcoming resistance requires individuals within the state who conceive of strategies, build coalitions, and out-maneuver or persuade skeptics. The dissertation suggests that in authoritarian contexts characterized by hostility to civil society in general, and organized private sector influence in particular, sectoral policy entrepreneurs are integral to creating new, contentious organizational forms like business associations and public-private bodies.

Thus far, sectoral policy entrepreneurs have been identified by their observable behavior. But where do they come from? In the case studies of Vietnam’s agro-export sectors, I find that sectoral policy entrepreneurs tend to have deep career experiences and training in the sector they regulate, making them sympathetic to and knowledgeable about business perspectives. The point is not that they are omniscient, but that they are predisposed to absorb, and take seriously, commercial, production or technical information from industry actors. Officials whose careers or training involved working closely with businesses are more likely to understand and to incorporate firms’ perspectives, and take a flexible and firm-centered approach to policymaking. These are “embedded” policymakers, not necessarily because of their external network ties to industry – in the transitional communist context, such networks are pervasive, because the private sector emerged from within the state system (Kim 2008; Cheshier 2010; Dickson 2003; Seleny 2006) – but because of their personal experiences in and knowledge of the industry and markets that they regulate. These career trajectories, training and attendant values influence policymakers’ decision-making (Grindle and Thomas 1991, 188). This conception of sectoral policy entrepreneurs, as individuals who have worked in or otherwise had deep exposure to industries before regulating them, suggests that they should be relatively rare, particularly in transitional communist contexts (for the opposite view, see Canales 2007). In Vietnam, many thousands of officials left the state sector to join businesses during the 1990s, but few went the other way.\(^{15}\)

\(^{15}\) My argument is specific to the realm of industrial policymaking, particularly to building governance institutions in export sectors. It is not intended to apply broadly to market reformers in Vietnam, or elsewhere. On the contrary, fence-breakers at the local level in Vietnam had had career and Party histories
An example from the dissertation’s two seafood cases is illustrative. Sectoral governance reforms in the seafood processing industry in the 1990s and 2000s were led by a small group of officials in the Ministry of Fisheries (Chapter 3). The vice-minister who championed the reforms, Nguyễn Thị Hồng Minh, was an engineer specialized in seafood processing who had worked for a decade as a manager in a shrimp processing plant in the far reaches of the Mekong Delta; another leading figure, Nguyễn Hữu Dung, was an engineer who had worked extensively with seafood export firms as a part of a Danish aid project. Other key policymakers within the Ministry, trained in food or seafood processing and technology in socialist bloc countries, worked closely with Danish technical advisors to incorporate new information about state-of-the-art sanitary standards and governance models for market economies, such as public-private business associations, into the sector. By contrast, in the case of catfish sector reforms after 2010 (Chapter 4), sectoral policymakers in the Ministry of Agriculture and Rural Development had backgrounds in farming, rather than the processing industry, and had not worked closely with businesses. Business and government were mutually mistrustful, and policymakers relied on internal research to set new standards, instead of incorporating private sector input.

Expected outcomes & sequencing

Figure 1.3 presents expected governance reform outcomes. The key dimensions are pressure from industry stakeholders and bureaucratic space combined with sectoral policy entrepreneurs.

When stakeholder support, bureaucratic space and sectoral policy entrepreneurs co-occur, the result is successful governance reform. This is illustrated in the case of seafood processing (Chapter 3), where provincial governments and local SOEs (industry stakeholders) advocated for freer access to export markets, and a series of sectoral reforms were advanced by a set of forward-leaning reformers inside the Ministry of Fisheries (sectoral policy entrepreneurs) operating without central direction (bureaucratic space). In the case where there is stakeholder pressure and bureaucratic space, reforms can be initiated in response to stakeholder demands; but without policy entrepreneurs who are flexible and willing to incorporate information from business actors, initially supportive industry stakeholders may become opponents of reform, resulting in contestation and failed reform. This scenario played out in Vietnam’s catfish sector (Chapter 4). Finally, if a sector is viewed as strategic by senior political leadership, bureaucratic space is highly constrained; and in the Vietnamese context of a single-party state, stakeholder support may also be muted. The result is non-reform, illustrated in the case study on Vietnam’s rice sector (Chapter 5).

remarkably similar to non-fence-breakers (Gainsborough 2003, cited in Malesky & London 2014). Likewise, national leaders are often divided into camps of “reformers” and “conservatives,” but both groups arose within the Party hierarchy, and most leaders displayed behaviors that could be classified as both pro- and anti-reform (Gainsborough 2010).

Vietnamese diacritics are used for most names in this dissertation. Citations of Vietnamese authors include diacritics for Vietnamese language sources; diacritics are generally omitted for sources in English. Place names, including provinces, are written without diacritics.
The sequencing of these two factors – stakeholder pressure and actions by sectoral policymakers – can proceed in two ways, represented in the asterisks in Figure 1.2 below. The first is from stakeholder pressure to sectoral policymakers taking action. Stakeholders identify a sectoral challenge, bring it to policymakers' attention, and demand state action. The second begins with sectoral policy entrepreneurs, where new sectoral organizations are created by the state and stakeholder buy-in built up over time.

In the Vietnamese cases, the Leninist structure of the state and the weakness of organized civil society means that new sectoral organizations that involve the private sector in governance are created by the state, often with assistance from international donors. What determines their survival, though, is whether or not they develop stakeholder buy-in, as represented in the feedback loops in Figure 1.2. For example, the seafood business association described in Chapter 3, VASEP, was championed by policy entrepreneurs within the Ministry of Fisheries with their Danish advisors, with no involvement from firms. Over time, though, the organization became business-driven, building buy-in by providing services and representing companies' interests to the state. A lack of stakeholder involvement or interest, however, will ensure that new organizations are weak at best, and may result in failure. Chapter 4 presents one example, a new state-created association in the catfish sector. Another example is presented in the conclusion as a shadow case study, focused on a public-private board in the coffee sector. The Vietnam Coffee Coordinating Board was created in 2013 by sectoral policy entrepreneurs operating with bureaucratic space and international donor involvement, but lacking in stakeholder support. The outcome remains to be determined, but threatens to become a case of weak reform.
Figure 1.2: Actors, sequencing and causal mechanisms

* Indicates a possible starting point for sectoral governance reform.

Figure 1.3: Argument and expected sectoral governance reform outcomes
Contributions of the argument

This argument makes several contributions. First, it moves from describing new industrial policy to explaining variation in sectoral governance outcomes. Scholars of new industrial policy have demonstrated a role for an activist state in a globalized economy. Yet, we know little about what drives different governance outcomes (Fukuyama 2013), particularly in contexts that lack the usual prerequisites for industrial policy. Rather than stipulating technocratic competence or bureaucratic responsiveness as a precondition for effective sectoral governance, I empirically investigate variation in governance outcomes. Identifying the political process that leads to governance reform is necessary to explain the creation of the sorts of institutional infrastructures that constitute a key ingredient for upgrading.

Second, the dissertation both caveats and expands on the idea of public-private interaction in industrial policy. For Evans (1995, 12), bureaucrats should be “embedded in a concrete set of social ties” with businesses, to have “institutionalized channels for the continual negotiation and renegotiation of goals and policies.” But my research suggests that embeddedness can operate among a more diverse set of actors than elite bureaucrats and businesses. I find that local governments, acutely concerned about the fate of local industries, associations and firms are all playing a similar role vis-à-vis the central government. This problematizes the literature’s hard state-society distinction, instead suggesting that intra-state politics can engender the same kind of market responsive, growth-promoting policies as business-government relationships. By disaggregating the state, we can see that different levels of government and even individuals within the state can be “embedded” with business in different ways. Provincial government elites in Vietnam, for example, are deeply embedded with major provincial businesses (Malesky and Taussig 2008, 545), which the central government may not be. Likewise, some key sectoral policy entrepreneurs in the seafood processing case were individual bureaucrats who had had career trajectories closely linked to businesses. In most countries, businesses will be the key stakeholders; but in socialist contexts where private firms tend to lack power and legitimacy, other actors can loom larger. Yet literatures on the developmental state and new industrial policy have overlooked politics within the state (Wu 2005). By expanding our understanding of the range of actors who can provide information and pressure to solve sectoral problems, we can explain governance reform and upgrading in a broader range of contexts.

Third, by looking at sectors over time, the dissertation shows that states that effectively intervene to support market entry may not be able to do so when faced with post-market entry challenges. State agencies may ably help agro-exporters develop capabilities to meet sanitary standards and develop marketing channels, but that does not mean that they will be able to adapt to competitive challenges that require deeper understanding of markets, such as more nuanced quality upgrading challenges; nor, for example, are business associations that successfully do trade promotion necessarily able to coordinate internally among members. Institutional ecosystems certainly can be
adaptive in response to the evolving problems facing industries. But generating the collective resources to promote knowledge-based capabilities – public R&D, vocational and technical training, standards and testing, and the like – is institutionally challenging, which is one key reason that growth accelerations are far more common than successful growth maintenance (Sen 2013). This is not only a function of technical difficulty or number of actors involved in different development challenges (Doner 2009) but also because development transforms sectoral politics by empowering a new business actors. In the case of Vietnam, the dissertation shows that governance innovations may arise from within the state, driven by sectoral policy entrepreneurs, but that to succeed they need to develop stakeholder buy-in over time. Building buy-in is simpler in incipient sectors than it is in mature sectors, where interests are more diverse and incumbents more powerful. Growth, in other words, can undermine its own political foundations.

Finally, the dissertation addresses one of the central dilemmas of transitional socialist economies: how do states withdraw from direct political control of the economy while also taking on the new functions of market regulation (Shleifer and Vishny 1998)? The state-business relationship in transitional socialist economies has tended to be portrayed as one of either capture or predation, and analysts have tended to compare real, imperfect institutional outcomes in transition economies with idealized notions of such institutions in capitalist economies (Wengle 2012; Steinfeld 2002; Kornai 2000). Empirical analysis of processes on the ground, however, reveals that, like everywhere else, institutional arrangements are the result of historical legacies and political bargains within the state and between state and society (Wengle 2012; Markus 2007). What’s more, transition economies are not the only states that struggle to identify a third path of flexible, responsive market regulation. Over the past half century, the pendulum of development thinking has swung from statism to liberalization, and more recently identified the role for institutions and business-government collaboration. But the reality always strays from the ideal. The challenge of innovative, responsive sectoral governance may be accentuated by market Leninism, but the Vietnamese case studies can provide insights beyond post-socialist, and even authoritarian, countries.

The research context: why Vietnam?

Vietnam is an ideal context in which to study sectoral governance reform because it is deeply integrated with the global economy, yet it is an intermediate state which poses a particularly difficult case for new industrial policy. Details are discussed in Chapter 2, but for the current chapter, three points stand out. First, the country has undergone wholesale institutional and economic transformation since the mid-1980s from a planned socialist economy to a market-driven system. The Communist Party of Vietnam (CPV) embraced trade liberalization, foreign investment and export assembly as a survival strategy in the post-Cold War world. Exports rose from $15 to $115 billion between 2001 and 2012, and Vietnam has become a top global exporter of manufactured and agricultural goods including garments, footwear, cell phones, coffee, cashews, rice and

17 In China, for example, local governments that offered indiscriminate land and tax giveaways for industrial investments also supported skill upgrading and collaborative research platforms that were important for the wind and solar industries (Nahm 2015).
pepper. All of these export industries are subject to international market pressures that should create pressures for efficiency-enhancing sectoral governance.

Second, there is variation across this array of liberalized export sectors in upgrading outcomes and governance structures, creating an analytical opportunity. Among agricultural sectors, each started out with a large, monopolistic SOE that exercised market and regulatory power. Over the course of the reform era, some sectors experienced successful governance reforms that saw the major SOE sidelined and a host of new supporting institutions created, including associations, training programs, and effective food safety regulation; others saw barriers to entry lowered but a failure to create strong sectoral institutions capable of playing a coordinating role; while in other sectors the SOE remained dominant, squeezing out both new entrants and alternative forms of governance.

Finally, Vietnam poses a hard case for new industrial policy. Macroeconomic reforms and price signals do not lead automatically to the sort of technological and managerial learning that enables firms to produce at global standards of quality and efficiency (Amsden 2001; Perez-Aleman 2000). As we have seen, public-private coordination and sectoral services are often critical to developing competitive and value-added agro-export industries. But states in transitional socialist systems are an unlikely context for innovative governance institutions for a host of reasons. The state continues to be a major market player, and its Leninist underpinnings limit business participation in policymaking. The bureaucracy is fragmented and has low capacity for governance tasks requiring complex coordination (X. T. Nguyen and Pincus 2011). Business-state relationships are pervasive but collusive, endowing state-owned and state-linked firms with privileged access to state resources (Malesky and Taussig 2008; Gainsborough 2010). In sum, integration with the global economy, a variety of liberalized export sectors and governance outcomes, and the lack of national "prerequisites" make Vietnam a good context to study the puzzle of variation in new industrial policy governance outcomes.

V. Research design & data collection

The core puzzle of this dissertation is what drives the creation of institutions and policies that lower barriers to entry and provide supporting services to exporters. Variation in sectoral governance reforms is studied through three case studies, each of which examines governance responses – successful reforms, attempted reforms, or the absence of reforms – to industry-specific market challenges at particular moments in time. The analysis is grounded in specific sectors and policymaking instances to give empirical meaning to theoretical categories like industry stakeholders, bureaucratic space, or sectoral policy entrepreneurs, critical in a literature that tends to gloss over specific actors. I exploit two forms of variation: over time within sectors, and across sectors. Within-sector comparison allows for observation of how business and state actors respond to different challenges over time, holding constant features of markets, technologies, and organization that vary across sectors. The within-sector analysis

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18 Schneider (2015) observes that "nearly every publication on industrial policy makes extensive reference to business and the private sector, but in the abstract without mention of specific firms."
involves two cases from the seafood processing sector, one about market entry in the 1990s and 2000s (Chapter 3) and one about quality upgrading challenges in the catfish sector in the 2010s (Chapter 4). Variation between sectors – rice (Chapter 5) and seafood – broadens the scope of the argument. I complement this small-N case comparison with within-case process tracing of interactions among firms, different parts of the state, and other industry actors such as buyers, associations, and donors.

Case studies, each written as a separate chapter, are presented in Table 1.1. As explained above, all sectors are export-oriented agricultural or aquaculture sectors. Perfectly controlled comparisons across sectors are impossible, but confining the analysis to agriculture and aquaculture ensures that firms all face the broadly similar challenges described above – upgrading quality, maintaining collective reputation, meeting diverse market standards for food safety, developing market channels – and justifies a stronger focus on domestic producer politics than might a sector like garments or electronics, where supply chains are organized and driven by multinational buyers and developing countries’ main production activity is assembly of imported inputs.19

<table>
<thead>
<tr>
<th>Case</th>
<th>Sector, industry challenge, time period</th>
<th>Sectoral governance reform outcomes</th>
<th>Explanatory variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Stakeholder pressure</td>
</tr>
<tr>
<td>1</td>
<td>Seafood processing, entering new markets, 1990s-2000s</td>
<td>Successful reform - End of central SOE monopoly - First modern business association - Food safety regulator</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Catfish export, quality upgrading, 2010-2015</td>
<td>Failed reform - Catfish decree - New sectoral association</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Rice export, entering value-added markets, 1990s-2010s</td>
<td>Non-reform - Barriers to entry - Monopolistic SOE with regulatory power</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Coffee, sustainability, 2010-2015</td>
<td>Weak reform - Public-private stakeholder board</td>
<td>No</td>
</tr>
</tbody>
</table>

19 Recent research shows that upgrading outcomes in seafood supply chains are only loosely influenced by the form of coordination (i.e. market, networked, or captive) with foreign buyers (Ponte et al. 2014).
Most of the analytical weight of the dissertation rests on within-case process tracing and comparisons within the seafood sector, minimizing the problems of cross-sectoral comparison. The three main sectors (seafood processing, catfish farming and processing, and rice) are all located in the Mekong Delta, which allows me to hold constant the political, historical and economic conditions of provinces. Finally, as is explained further in Chapter 2, the dependent variable is reform of national, rather than subnational (provincial), institutions. This is because key sectoral institutions and policy frameworks in Vietnam tend to be national. Provinces are small (the average province has only 1.4 million people), industries spill across borders, and incentives for regional cooperation are scant, meaning that despite substantial decentralization local governments often cannot respond to the challenges of regional clusters (Vu-Thanh 2015, 26), and instead must appeal to the central government for support.

Fieldwork in Vietnam was conducted during eight months in 2014-2015 over the course of three trips. The main data source is 160 in-depth interviews conducted with 135 individuals including firms, Ministry-level and provincial government officials, food safety inspectors, and industry and farmers’ associations, as well as international buyers in the seafood sector. Table 1.2 presents interview counts, and a detailed list is included in the appendix. For each case study, I interviewed firm managers, central government bureaucrats and policymakers, and industry association representatives who were directly involved in the relevant policymaking process or institutional reform. First-hand accounts are critical to the case studies. Business-government and intra-state interactions constitute “quiet politics,” and are best understood through interviews with those involved. Interactions between business and the state, and among parts of the state, are hard to observe from the outside, particularly in opaque, authoritarian contexts. Interviewing key public and private actors involved on all sides of particular events also allowed me to cross-check individuals’ accounts.

Throughout the dissertation, quotations from author interviews are in italics. Interviews, which are cited by code to protect anonymity, are coded as follows: A = association; BU = buyer; G = government official; F = firm; R= researcher; NGO = non-governmental organization. The first citation of an interview lists the interviewee’s position and/or organization and date; a full list is in the appendix.
Table 1.2: Table of interviews

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of people</th>
<th>Number of organizations*</th>
<th>Average length (min.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro-processing firms</td>
<td>38</td>
<td>27</td>
<td>67</td>
</tr>
<tr>
<td>Seafood</td>
<td>28</td>
<td>18</td>
<td>-</td>
</tr>
<tr>
<td>Rice</td>
<td>7</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Other (coffee, spices, vegetables)</td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Central government</td>
<td>15</td>
<td></td>
<td>73</td>
</tr>
<tr>
<td>Provincial government (Mekong Delta)</td>
<td>23</td>
<td>10</td>
<td>75</td>
</tr>
<tr>
<td>Industry associations</td>
<td>23</td>
<td>14</td>
<td>75</td>
</tr>
<tr>
<td>International buyers</td>
<td>11</td>
<td>7</td>
<td>43</td>
</tr>
<tr>
<td>Others industry stakeholders</td>
<td>14</td>
<td>8</td>
<td>61</td>
</tr>
<tr>
<td>Researchers/academics</td>
<td>9</td>
<td>7</td>
<td>51</td>
</tr>
<tr>
<td>Farmers’ organizations</td>
<td>2</td>
<td>2</td>
<td>66</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>135</strong></td>
<td><strong>71</strong></td>
<td><strong>62</strong></td>
</tr>
</tbody>
</table>

*Firms, government departments/ministries, associations, research institutes, etc.

Micro-level research on business-government relations and the politics of policymaking is scarce in Vietnam (London 2014). One reason is a strong positivist norm in empirical research in Vietnam that manifests in “a bias toward ‘apolitical’ quantitative methods” and topics (Scott, Miller, and Lloyd 2006, 31). Another is the system’s opacity, inherent to authoritarian regimes. Both businesses and state officials tend to be uncomfortable talking about business-government relations with researchers for fear of disclosing or implying corruption (Schmitz et al. 2015, 179). Although the Vietnamese public sphere hosts a surprisingly frank and increasingly critical discussion of government policy (Bui 2014), the political context precludes open discussion of how specific interest groups attempt to influence policy. For example, the state-controlled media rarely names particular individuals or companies in the frequent public and media expressions of consternation about the undue influence of “special interests.” This is due to censorship, and self-censorship (i.e. an implicit understanding that is dangerous to criticize powerful people), but also because the centrality of consensus to Vietnamese

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21 Approximately ten individuals who played important roles in policymaking episodes were interviewed multiple times. Some interviews were conducted in groups. Interviewees with multiple affiliations (e.g. some managers or government officials also held positions in industry associations) are categorized under their primary affiliation. Government interviews included current and retired officials. Local governments were interviewed in four provinces, with the majority in Dong Thap and An Giang. Central government agencies include MOIT, MARD, and MOFI. All buyers were in the seafood sector, and included Vietnamese agents for international buyers. Several interviews with buyers were conducted in the U.S. or over the phone. The foreign buyers category includes importers’ agents and associations.

22 A key exception is research derived from the annual Provincial Competitiveness Index reports, e.g. Schmitz et al. (2015), but these focus on provincial, not national policymaking. There is also excellent research on the dynamics of privatization, the emergence of the private sector from within the party-state, and its developmental implications (Cheshier 2010; Gainsborough 2010; Thomsen 2007; Vu-Thanh 2015).

political culture means that individuals, particularly officials, can be loathe to openly acknowledge any role for conflict, lobbying and interest group politics in driving policy outcomes.

Given these constraints, research for this dissertation was facilitated by several factors. Information on policymaking in export sectors is generally more open because of greater private and international involvement. My interest in businesses, as opposed to farmers, also helped, since provincial governments still regulate foreign researchers’ access to farmers but are used to foreigners coming and going from large local firms. Interviews were conducted in Vietnamese without translation, which enabled direct exchange about sometimes sensitive issues. Among the most difficult aspects of doing research in Vietnam for foreigners can be getting permissions from provincial authorities; my institutional partner helped to arrange meetings with provincial governments, and many meetings with firms, central government officials and associations were held in Ho Chi Minh City or Hanoi (or other major urban centers). Finally, because of the dissertation’s historical scope, some key interviewees were retired government officials, who—as in any country—are freer to engage in candid discussion.

Secondary data sources include media accounts, domestic and international industry reports, and government statistics. There is a great deal of media coverage in Vietnam of the seafood sector, and much of the policy fight over the catfish reforms (Decree 36) discussed in Chapter 4 happened in the open and was documented in the press. I also consulted trade magazines, association newsletters, and several Vietnamese doctoral and master’s theses. There has also been a good deal of attention from scholars and development institutions to technical and economic aspects of Vietnam’s agricultural and aquaculture export sectors, and I have drawn on this research. I also toured a dozen frozen fish and shrimp processing plants in the Mekong Delta and participated in four conferences on Vietnamese aquaculture, coffee, and agricultural policy.

VI. Plan of the dissertation

The rest of the dissertation proceeds as follows. Chapter 2 lays the groundwork for sectoral cases by providing background on economic governance in Vietnam during the reform era. It explains the structure of power in the Vietnamese state—the object of “reform” in this study—and explains why Vietnam is not a conducive setting for new industrial policy-type governance. It identifies patterns of sectoral policymaking, and explains the incentives facing provincial governments, a key industry stakeholder in my cases.

Chapters 3 and 4 present a longitudinal analysis of governance reform within the $8 billion seafood export industry and form the core of the dissertation. Chapter 3 studies a case of successful reform to support upgrading. It examines how Vietnam’s seafood processing industry accessed global markets in the 1990s and 2000s by learning to meet

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24 The seafood sector has been the particular subject of scrutiny because of the “catfish wars” with the United States, environmental problems in the sector, and the subsequent involvement of numerous NGOs and international certification bodies.
the EU’s sanitary standards for seafood import, focusing on the drivers of governance reforms within the then-Ministry of Fisheries. Seafood was among the first sectors where the party-state decisively shifted its role from a central planner and market participant to a market regulator and provider of supporting services. I argue that the interplay of two factors explains this transformation: political support from provincial governments and SOEs with a stake in breaking the hold of a central monopolist, and actions by sectoral policy entrepreneurs in the Ministry of Fisheries, operating with bureaucratic space, who derived know-how from a Danish technical assistance program.

Chapter 4 provides a counterfactual to Chapter 3 by examining a failed governance reform effort in one part of the seafood sector in the 2010s. In response to a perceived “race to the bottom” in the Mekong Delta’s nearly $2 billion catfish export sector following a period of rapid growth, provincial governments pushed the central government to more tightly regulate minimum quality standards. Policymakers in the Ministry of Agriculture and Rural Development, however, did not incorporate information from the private sector, instead setting quality standards that the industry viewed as commercially and technically unviable. When the new policy appeared to threaten the survival of major local firms, provincial governments turned against it. By not accommodating the views of the large private sector, central sectoral policymakers unwittingly galvanized opposition, eroding its support among industry stakeholders. The similarities and differences between the two seafood cases Chapters 3 and 4 provide key analytical leverage. Together, the two cases illustrate the critical importance of provincial governments in initiating reforms in the seafood sector, while their divergent reform outcomes demonstrate the importance of central government sectoral policymakers in determining whether new information provided by stakeholders about sectoral challenges is incorporated or not. The contrast between the two cases also reveals how the politics of new industrial policy shifts as industries mature and private sector incumbents gain in size and influence.

Chapter 5 is about the $3 billion rice export sector, a case of non-reform in governance institutions. Vietnam is a leading global exporter of rice, but it has struggled to move into high-end markets. The state restricts entry through a system of licensing, contract registration and minimum capital requirements administered by a quasi-monopolist SOE, Vinafood and a state-mandated cartel. This system was consolidated in the 1990s, even as the analogous system in seafood was disbanded. The result was limited growth of private rice exporters and development of new commercial channels, particularly into higher value-added varieties and markets, despite enormous growth in export volume. I demonstrate that inter-provincial competition led provincial governments to acquiesce to Vinafood’s consolidation of power in the 1990s, and that by the 2000s provinces were unable to pressure the central government for reforms, as the high politics of the rice sector squeezed out both bureaucratic space and stakeholder support.

The conclusion summarizes, briefly discusses a shadow case of governance reform in the coffee sector, and considers international comparisons and policy implications.
Chapter 2: The party-state, business-government relations and the provinces in reform-era Vietnam

I. Introduction

This chapter provides relevant background on Vietnamese political economy in order to situate the sectoral case studies in Chapters 3 through 5. The dissertation's dependent variable is change in state-linked sectoral organizations, so it is important to have some context about the structure of power within the state, industrial policymaking, and the relationship between the party-state and businesses, particularly the state-owned and private sectors. Likewise, because the argument revolves around the behavior of particular industry stakeholders, it is important to understand the incentives and influence of key actors, particularly provincial governments, central policymakers and business associations.

The chapter proceeds in three sections. Section II provides a brief overview of Vietnam's growth trajectory since the 1990s and the architecture of the party-state. Section III explains the Vietnamese state's mode of industrial policymaking, which favors large SOEs as the "leading sector" of the economy, and the relationship between the state and the private sector. Together, these two sections demonstrate that Vietnam has experienced wholesale institutional transformation in the shift from central planning: the market has to a significant extent been embraced as an engine of development, trade and investment in light manufacturing and agriculture have been liberalized, some space has emerged for representative institutions and social organizations, and economic governance has become a matter of rule-making rather than direct Party control (Vasavakul 1997). Nevertheless, they suggest that Vietnam remains a hard case for new industrial policy because of the Leninist confines of the state and the prominence of the SOE sector in the regime's development agenda. These two factors restrict bureaucratic space for responsive, competitiveness-promoting sectoral governance in export industries. Section III shows that a key reason that the seafood sector was the site of early governance reforms was that the major central SOE in the sector was sidelined early on, which created space for experimentation with alternate forms of market governance.

Section IV explains the central role of Vietnam's 63 provinces in the country's political economy. Decentralization policies have created strong incentives for provincial governments to promote growth in order to increase local tax revenue. Scholars have documented how provincial governments use their influence and autonomy to offer lure foreign investors (Malesky 2008; Vu, Le and Vo 2007), lobby for central transfers to finance often redundant capital projects (Vu-Thanh 2015), and, to pursue improvements in local business environments to promote domestic private sector growth (Schmitz et al. 2015). However, another, less recognized way in which provinces can promote local industries is by using their considerable influence within central party-state institutions to advocate for the interests of local exporters. Provincial governments in the Mekong Delta, whose economies depend on shrimp, catfish and rice exports, are a clear example of this behavior, as is documented in the sectoral case studies in Chapters 3 through 5.
II. Economic reform and the Vietnamese party-state

Thirty years of market-oriented reforms and global economic integration have transformed Vietnam from one of Asia’s poorest countries into a middle-income economy. Agriculture was decollectivized, central planning was dismantled, and private business was legalized. Annual GDP growth averaged 7.3% between 1990 and 2014, making Vietnam one of the world’s fastest growing economies behind China, and poverty fell from half of the population (in the early 1990s) to just 3% (World Bank 2016). Vietnam’s growth has been closely linked to trade, even more so than for other East Asian developers. The United States and Vietnam signed a Bilateral Trade Agreement in 2001 (Fukase 2013), and Vietnam acceded to the WTO in 2007. Exports grew from $2.4 billion in 1990 to $15 billion in 2000, and reached $150 billion by 2014 – a higher rate of merchandise export growth than any other Asian country during the period, including China (Vu Thanh et al. 2015). External trade constitutes over 150% of GDP, more than double Thailand’s, Korea’s or China’s trade dependence at a comparable GDP per capita.

The economy can broadly be divided into three ownership sectors: domestic private firms, foreign-invested enterprises, and state-owned enterprises. The domestic private sector and high levels of foreign investment have driven the country’s rapid growth. Foreign investment was legalized in 1988, and by 2000 it accounted for a third of industrial output (Vu-Thanh 2015). The formal domestic private sector, essentially outlawed except for small household businesses before 2000, grew rapidly after the passage of the 2000 Enterprise Law. Over the next decade, the number of registered, domestic private firms grew eightfold, from 35,000 to over 280,000 (GSO 2012). This logic of liberalization and globalization has coexisted alongside a parallel, import-substitution industrial policy to maintain the state-owned enterprise sector as the commanding heights – in Party parlance, the “leading sector” – of the economy, particularly through the creation of large, diversified state-owned conglomerates (see Section III).

Some limited political reforms have accompanied economic reform, but the essence of the party-state structure remains largely unchanged. The Vietnamese bureaucracy was established along Soviet lines after the country was reunified under the Communist Party of Vietnam (CPV) at the end of the war. Trade and industry were reorganized under centralized command planning, and the size of the state increased massively, from 2.4 to 4.3 million employees between 1976 and 1989 (Woodside 1999, 64). Since the 1990s, however, the Vietnamese regime has been best described as “market Leninist,” a system where a communist party pursues “[its] political imperatives through market institutions and market-based strategies of accumulation while maintaining Leninist principles and strategies of political organization” (London 2009, 374). Key political features of the system include the CPV’s absolute monopoly on political power, the interpenetration of the Party and state, and state control over social organizations (Vasavakul 2003). The country is led by the troika of a Party general secretary, president, and prime minister, none of whom is paramount (by contrast with
China, where the general secretary of the CCP has since 1993 also been head of state). In Kornai’s (1992, 38–39) classic work on the socialist system, he explains that communist parties and states have separate institutions but are completely interpenetrated in political and policy terms:

Politics influences all dimensions of life; there are no administrative affairs ‘free of politics.’ The Communist party considers itself responsible for everything... in fact, the existence of the ‘party-state’ and the blending of the political and administrative functions is one of the main characteristics of the system.

Since the initiation of Vietnam’s market reforms, the powers and size of state bodies vis-à-vis Party ones have significant expanded, particularly under the watch of Prime Minister Nguyễn Tấn Dũng (2006-2016). The Party has retreated from direct control of the economy, and policy has increasingly become rule-based and institutionalized. Existing mass organizations and representative institutions, particularly the National Assembly, have been given greater space to represent societal interests, as have new organizations like associations. The creation of an administrative state meant a shift toward rule making by state regulatory agencies, rather than by Party committee resolution. The Party line, however, continues to guide the orientation and objectives of policymaking (Đặng and Beresford 1998, 96; Vasavakul 1997). Parallel structures of Party and state institutions reach from the central government down to the commune level; Party members, of which there are approximately three million, control the apparatus at all levels (Kerkvliet 2003).

Individual officials tend to grow up in the party-state system, which means that the sorts of sectoral policy entrepreneurs with business experience identified in Chapter 1 are scarce. Since the 1990s many government officials have left the state for the private sector (World Bank 2010), but almost no businesspeople enter the political system.²⁵ Officials tend to work their way up inside the bureaucracy; those above a certain rank must be Party members, and extensive political training is required for advancement (Painter 2003). Individual officials’ careers can tack back and forth between Party and state agencies, or involve holding simultaneous positions in multiple party-state institutions – for example, serving as a local government official and a board member of the Ho Chi Minh Communist Youth Union, or being rotated from a provincial leadership position to running a major state-owned general corporation. Another noteworthy characteristic of the personnel system is that both the central and local government bureaucracies have a strongly regional character, discussed further in Section IV below, which cultivates close ties between provincial business and government elites.

A paradoxical feature of the Vietnamese system is that despite the appearance of a unitary party-state, power is remarkably diffuse. In the ideal type of a single party socialist state, policy is set centrally and transmitted hierarchically — in the words of

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²⁵ Even in the National Assembly, deputies are closely vetted by the CPV, and few outsiders or businesspeople participate (Malesky and Schuler 2009). One prominent example is businesswoman Dang Thi Hoang Yen, who was elected and then pushed out of the National Assembly. “Vietnam tycoon falls foul of party,” Financial Times, https://next.ft.com/content/d3ed32ce-8dc7-11e1-9798-00144feab49a
János Kornai (1992, 41), “everyone in the bureaucracy...is at once a master and a servant.” The Vietnamese party-state does have substantial top-down mobilizational power when it comes to policy areas like public health and basic education, but economic governance is fragmented among state agencies, both horizontally and vertically, limiting ability to transmit and enforce policies hierarchically. Instead, economic policymaking tends to be a process of protracted negotiation among state agencies, both within the central government and between central and provincial agencies. Different interests, including the many tied to state-linked commercial entities, have numerous veto points to assert authority over policy areas or resist central policy decisions (Pincus 2015a, 14–15). As Gainsborough (2010) puts it,

Perhaps the first thing to note about the state in Vietnam is the highly particularistic nature of different institutions, offices and personnel which we commonly regard as comprising ‘the state’. That is, what comprises ‘the state’ rarely moves in the same direction, rarely works together, and rarely sings from the same hymn sheet.

Large state-owned conglomerates have also become powerful players in the policymaking process, particularly since 2006, as have large quasi-private firms with deep connections to senior politicians and interests in real estate, finance, extractives and other industries.

Analysts have drawn a causal line from state fragmentation to information and coordination failures in upgrading-related institutions, such as the education and training system (Dinh 2013; World Bank 2013). State fragmentation of this sort is a common feature of Southeast Asian states, and is associated with weak institutional capacity to coordinate technological and skill upgrading (Doner 2012), for example in standards and testing in agro-export industries. In Vietnam, two different government agencies regulate export standards for seafood and aquaculture drug use, despite the fact that the major food safety problem with exported seafood since the 2000s has been drug residues from farming practices (see Chapter 3). Pepper is another example. Vietnam produces over half of the world’s black pepper exports, but pesticide use has exploded in the past decade, including use of banned substances (Pham, Mol, and Oosterveer 2013). Yet state resources are spread among multiple small government testing centers, and different government departments are responsible for regulating farms’ pesticide use and export quality.

III. Patterns of industrial policymaking

Despite its profound transformations, Vietnam remains a difficult context for new industrial policy because of the Leninist nature the state and its heavily SOE-led industrialization policies. Three points stand out. First, for ideological, developmental, and historical reasons, state industrial policy efforts focus heavily on SOEs. This tends to

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27 Interview A25, official, Vietnam Pepper Association, 11/10/15; Interview F28, pepper exporter, 12/10/15.
undercut bureaucratic space. Second, while channels have developed for private firms to provide information and policy input to the state, sectoral agencies are not formally accountable for incorporating public input, which means that the state does not necessarily use the information it receives. Third, business associations are state-penetrated or dominated by SOEs, which tends to undermine private sector collective action. Public-private governance mechanisms are novel and not well understood.

The SOE sector and bureaucratic space

Far from the “cohesive-capitalist” ideal type that Kohli (2004) posits as the basis for an effective interventionist state, the CPV’s main business constituencies are state-owned enterprises and quasi-private firms that operate largely in protected domestic markets, not private exporters (Vu-Thanh 2015). Throughout the reform era, the party-state has maintained a policy that SOEs should be the “leading sector” in the economy, a position that is explained by some combination of political uneasiness with the private sector (Vu-Thanh 2015, 6), development ideology, and particularistic interests (Gainsborough 2010).

Counter-intuitively, the reform period has seen an expansion and institutionalization of SOEs’ role in the economy. In the mid-1980s, Vietnamese state industry was far smaller than in other socialist economies. The war had necessitated decentralization and destroyed much what industry did exist; a second, postwar attempt to install central planning lasted only from 1976 to 1979, before being undermined by shortage and local fence-breaking. By contrast with its over-industrialized Eastern European socialist brethren, Vietnam was under-industrialized given the size of its economy (Malesky and London 2014, 401), with only around 10% of the labor force in industry. The number of products made directly under the central plan was tiny; in Vietnam, this figure was in the dozens, comparable to China, where the analogous figure was 791 at the start of reforms. In the USSR at the peak of central planning, by contrast, Gosplan accounted for 12 million different products. 28 Thus, the years immediately following the initiation of doi moi actually saw a burgeoning of state commercial activity. As controls on SOEs were lifted and local state entities were allowed to establish companies, the number of SOEs exploded, growing from 3,000 to 12,000 between 1986 and 1989. As is discussed further in Chapter 3, central and local state trading companies exported agricultural products and imported consumer goods. Smuggling abounded (Beresford and Đặng 2000; Abrami 2002). Macroeconomic crisis in the late 1980s allowed the central government to reassert control over state commercial activities, and half of all SOEs were shut down by the early 1990s (Pincus 2013; Cheshier, Penrose, and Nguyễn 2006; Riedel and Turley 1999, 33).

Since the 1990s, the central government’s industrialization strategy has revolved around a series of large, centrally-owned state enterprises. These companies, created in 1994 with the objective of producing national champions akin to Korea’s chaebol or Chinese state business groups, were called “general corporations” (tổng công ty) and, for

28 Malesky and London figures from Qian & Xu 1993 (China); Phong 2005 (Vietnam); Nove 1983 (Russia).
the largest subset, “state business groups” (tổ doàn kinh doanh nhà nước) (Perkins and Vu-Trần 2011). The general corporations were formed by placing provincial SOEs in sectors across the economy under the management of a larger central government SOE, representing a central government effort to clamp down on local state commercial activities (Cheshier 2010, 86). The largest 18 companies, the state business groups, controlled strategic sectors including extractive industries, chemicals, steel, shipping, textiles, rubber, and trade in agricultural commodities. They were given monopolies or quasi-monopolies, and afforded access to cheap capital, land, and other economic resources; investment resources were directed heavily toward the SOEs, disproportionate to their economic contribution and at the expense of the private sector (V. T. Nguyên and Freeman 2009). Whatever the original intention, the general corporations bore little resemblance to the chaebol: they suffered from extensive agency problem, resided in protected domestic markets, and generally failed to produce skill upgrading or integration into the global economy (Perkins and Vu-Trần 2011). The SOE sector was further consolidated after 2006, when the largest firms were turned into sprawling, diversified state economic groups and placed under the control of the prime minister’s office (Vu Trần 2014). Thus, although the overall number of state enterprises had fallen to around a thousand in 2013, the SOE sector accounted for nearly 40% of GDP until 2005, and has constituted around 30% of GDP since then. Two decades into the reform era, nearly all of Vietnam’s largest companies were still state-owned (Cheshier and Penrose 2007).

Along with their direct consequences for the economy, the dominance of the general corporations decreased bureaucratic space for sectoral governance innovations in export sectors. In sectors with a general corporation, such as rubber, textiles, or rice, the government delegates the task of implementing industrial policy tasks to the major SOE. SOEs have privileged access to the state, and exercise market and regulatory power in their respective sectors, including on sectoral policymaking; many operate in markets regulated by their line ministry owners – the Ministry of Agriculture and Rural Development, for example, regulates farm policy while also holding major interests in pesticides, fertilizer and rice trade, while the Ministry of Health both regulates and manages drug companies (Pincus et al. 2012, 30). One way in which general corporations reduce bureaucratic space is by dominating the sectoral business association, which they often chair. For example, the chairmanship of the coffee association, VICOFA, was long held by Vinacafe; the Vietnam Food Association (rice) by Vinafood; the Vietnam Rubber Association by the Vietnam Rubber Group; and VITAS (garments) by Vinatex; and so on. Many perceive SOEs’ policy influence to have increased after 2006, when the new prime minister reaffirmed and consolidated the largest general corporations’ role in the country’s development agenda.

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29 An official justification for the developmental role of the general corporations can be found in Nguyễn Văn Đảng, State general corporations oriented toward global economic integration [Tổng công ty nhà nước mục tiêu hòa nhập kinh tế quốc tế], NXB Giáo dục, 2005. 30 Most serious is what Huang (2008) refers to in China as a “matching problem,” wherein resources including capital and land are directed toward the state-owned sector, instead of the more competitive private sector. More generally, the general corporations became a drag on the entire economy. A paradigmatic case was the shipbuilding company, Vinashin, which had amassed $4.4 billion in debt and 445 subsidiaries spread across the entire economy before its 2010 collapse (Pincus 2015b).
Table 2.1 presents the state business groups in Vietnam’s major non-oil export sectors. One reason that the seafood sector had bureaucratic space for the governance reforms examined in Chapters 3 and 4 was that there was no state business group in seafood, unlike the other top commodity export sectors. There had been a monopolistic state-owned incumbent in the 1980s and early 1990s called Seaprodex, but it was sidelined when Ministry of Fisheries policy entrepreneurs removed its regulatory powers, aided by pressure from a booming local seafood processing sector. Chapter 3 shows that, even prior to the loss of its monopoly, fisheries policy was not considered strategically important by the Party, perhaps in part because Vietnam had always traded seafood with East Asia, unlike other agricultural commodities like coffee which were traded with the socialist bloc countries in COMECON. When Seaprodex lost its export monopoly and regulatory powers, the Ministry of Fisheries was also able to create new supporting services, which lowered barriers to entry and enabled large numbers of new private firms to enter the sector. By the 2010s, when the central government intervened to regulate catfish exports (Chapter 4), nearly the entire seafood sector was private. Table 2.2 shows that by 2014, Vietnam’s seafood sector had the largest presence of private, domestic enterprises of any major export industry, at 90% of export value. This is in part due to the lack of FDI in seafood, but is nevertheless remarkable compared with the two other largest agro-export industries, rice, where the private sector accounts for 35% of export value, and coffee, which until recently was largely state-owned.

**Table 2.1: State business groups in major non-oil export sectors (2003)**

<table>
<thead>
<tr>
<th>Name</th>
<th>Sector</th>
<th>No. of subsidiaries</th>
<th>Revenue (million VND)</th>
<th>Sectoral association</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam Rubber</td>
<td>Rubber</td>
<td>36</td>
<td>2,970,000</td>
<td>Vietnam Rubber Association</td>
</tr>
<tr>
<td>Corporation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vinatex</td>
<td>Textile/</td>
<td>40</td>
<td>11,600,000</td>
<td>VITAS</td>
</tr>
<tr>
<td></td>
<td>Garment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vinafood II</td>
<td>Rice</td>
<td>19</td>
<td>9,930,000</td>
<td>Vietnam Food Association</td>
</tr>
<tr>
<td>Vinafood I</td>
<td>Rice</td>
<td>15</td>
<td>4,960,000</td>
<td>&quot; &quot;</td>
</tr>
<tr>
<td>Vinacafe</td>
<td>Coffee</td>
<td>56</td>
<td>2,500,000</td>
<td>VICOFA</td>
</tr>
</tbody>
</table>

Source: Perkins and Vu (2011, 55). SBGs are also called General Corporations 91.

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31 One piece of evidence is that MOFI did not have a corresponding Communist Party Committee, a sign that it was a lesser ministry (Dang and Beresford 1998, 44).
Table 2.2: Ownership composition of top export sectors (2014)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Export value (Bil. USD, 2014)</th>
<th>% FDI</th>
<th>% SOE</th>
<th>% Private domestic (non-state)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garments</td>
<td>24</td>
<td>60</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Electronics</td>
<td>24</td>
<td>90</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Footwear</td>
<td>10.3</td>
<td>77</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Seafood</td>
<td>7.9</td>
<td>4</td>
<td>6</td>
<td>90</td>
</tr>
<tr>
<td>Wood furniture</td>
<td>6.2</td>
<td>50</td>
<td>0</td>
<td>50</td>
</tr>
<tr>
<td>Rice</td>
<td>4</td>
<td>-</td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td>Coffee</td>
<td>3.6</td>
<td>60</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Rubber</td>
<td>3</td>
<td>10</td>
<td>30</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Assembled from GSO, Vietnam Customs, media reports. For some sectors, separate figures for domestic private and state-owned are not available.

The private sector and the party-state

The party-state’s relationship with its private sector is an uneasy one. Vu-Thanh (2015) argues that over the course of đổi mới the CPV has only made meaningful policy concessions to the private sector in moments of crisis, once each in the late 1980s and 1990s. Only in 2009 did the Politburo officially recognize the “role of entrepreneurs” in national development. Nevertheless, the domestic private sector has developed some voice in Vietnamese policymaking. Since the drafting of the 2000 Enterprise Law, business-government dialog has become routine. Business organizations, including most prominently the quasi-corporatist Vietnam Chamber of Commerce and Industry (VCCI) as well as other industry associations, have become active in policy advocacy through formal channels including conferences, dialogs, and submitting direct comments to agencies. Since 2008, ministries have been legally required to post a draft regulations online for 60 days before release and collect public comments (Malesky 2014). They are not, however, required to incorporate or publicly respond to comments, and businesses often view the exercise as formalistic. As is discussed in Chapter 4 on reforms in the catfish sector, this means that ministries often have information from business that does not get used in regulations. In addition, much sectoral policymaking revolves around sectoral planning (quy hoạch ngành), which tends to focus on quantitative targets and indicators and to end with the issuance of the plan.

Blurry lines between the public and private sector – a product of Vietnam’s gradualist transition from central planning to a market economy (Beresford 2008, 235) –

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32 In the late 1980s, macroeconomic crisis brought on by the disintegration of central planning, the collapse of COMECON aid and trade, and the prolonged occupation of Cambodia led to an opening to foreign investment and the legalization of private business; in the late 1990s, the Asian Financial Crisis and a collapse in growth spurred to the passage of the 2000 Enterprise. Efforts, however, to level the legal playing field between SOEs and private firms through a “unified” enterprise law in the mid-2000s boom years were ineffectual.

33 Interview A20, Ho Chi Minh City Business Association, 4/16/15; Interview A24, VCCI Legal Department, Hanoi, 5/14/15. The process is referred to in state parlance as “soliciting opinions” (lấy ý kiến), a term that people often use dismissively to indicate the formalistic nature of the process.
also complicate productive business-government interactions. Nearly all of Vietnam’s large firms have their origins in “state-related accumulation,” whether they are SOEs, privatized SOEs, joint-stock firms, or private firms owned by individuals with deep party-state networks (Cheshier 2010). Like in other post-communist economies, pre-transition professional networks shape post-transition business networks (McIntyre 2003; Seleny 2006; Róna-Tas 1994). Personal ties and overlapping ownership stakes bind business and state actors in Vietnam together into “cadre-capitalist networks,” and these political ties condition firms’ access to capital, land, and markets (Gillespie 2012; Thomsen 2007; Malesky and Taussig 2008; Pham et al. 2013). In the median Vietnamese province, three-fourths of surveyed firms believe that economic resources like land and contracts “mostly fall in the hands of enterprises that have strong connections to local authorities” (Malesky 2016).

The weakness of industry associations is another impediment to sectoral governance reform in Vietnam. Research from other parts of the world suggests that businesses and states are mutually constitutive: states shape business organizations, and the organization or disorganization of business in turn impacts policy outcomes (Schneider 2004, 5; Hall and Soskice 2001). Like in most transitional communist contexts (Duwanova 2007), business associations have proliferated in Vietnam. However, as with other nominally non-state organizations under market Leninism, they tend to be penetrated by the state through a combination of personnel and administrative controls. Those that are not chaired by a major SOE are often headed by a retired state official. Establishing an association involves extensive state vetting, including establishing a “mobilization committee” and gaining state approval for the association’s charter. Associations are “managed” (quản lý) by the Ministry of Home Affairs, as well as either the relevant line ministry or a local government, and required to submit reports to the state on their finances, organization and operation (World Bank 2010, 114–115). The political sensitivity of associations is evident in the fact that a Law on Associations has been under discussion in the National Assembly for over fifteen years, since before 2000.

Effective associations in export sectors often wield selective incentives, delegated by the state, that they use to induce cooperation (Doner and Schneider 2000). Such incentives can include control over labeling schemes, export licensing, or conditional training or research funding, as in the examples of Colombian coffee, Thai jasmine rice, or Bolivian brazil nuts mentioned in Chapter 1. In Vietnam, though, the state tends to be leery of sharing power or resources with associations unless a large SOE is involved. An example from Vietnam’s $1.8 billion catfish export sector, the subject of Chapter 4, is illustrative. Since the Mekong Delta began to export large volumes of pangasius catfish in the early 2000s, the sector has faced a series of market barriers and image problems, including anti-dumping tariffs in the U.S. and damaging public relations attacks from

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34 For example, Minh Phu Seafoods, Vietnam’s largest seafood company, was founded as a private firm by a seafood broker who rented facilities from an SOE, later founded a joint stock company with that SOE, and then re-established it as a private LLC.

European environmental and consumer groups (Little et al. 2012). To raise quality and shore up prices in the face of these external threats, the exporters’ association, VASEP, sought support from the state for various institutional solutions inspired by foreign agricultural export sectors. One proposal was for a market development fund financed by an export levy to promote the image of Vietnamese catfish in foreign markets, inspired by Norway’s salmon aquaculture sector; another was for a joint distribution facility at a major European port that would introduce transparency into catfish sales and allow exporters to share transport costs (a strategy used, for example, by Chilean tomato exporters (Perez-Aleman 2003) or New Zealand kiwi exporters). Despite some interest, these proposals made little headway. State officials spent years studying the Norwegian salmon marketing fund, but concluded that a state-mandated, association-controlled fund was simply infeasible in Vietnam. A lead agricultural official explained:

*There’s no decree, mechanism [cơ chế], or law; the legal framework is lacking... Also, who would manage that fund? Clearly there has to be someone to manage and implement it, [but] that is new in Vietnam, right? Vietnam only has state or private organizations. Even though the state has the power to establish a fund, in reality it should function like a company. It would supply and serve the industry, and oversees the industry’s resources ... in Vietnam that would be controversial.*

The state does, though, delegate functions to state-controlled associations. The rice exporters’ association, for example, discussed in Chapter 5, has the power to register export contracts. Through the early 2000s, the coffee association, controlled by Vinacafe, managed a fund financed by export levies (Roldán-Pérez et al. 2009, 44). Against this sort of institutional backdrop, sectoral policy entrepreneurs who are willing to push for including the private sector in governance arrangements are particularly important.

In sum, state industrial policies heavily favor large SOEs, which together with state ideology, constrains bureaucratic space for reforms to involve the private sector in sectoral governance. Since the initiation of market reforms, institutionalized channels have developed for the private sector to transmit information to the state; that information, however, is often not used. Associations have grown but tend to be weak. Within the constraints of this system, however, other players, particularly provincial governments, can help to amplify the voices of exporters. This is the subject of the next section.

IV. Provincial governments and central-local politics

One of the dissertation’s main findings is that Vietnamese provincial governments act as industry stakeholders who advocate for sectoral reforms on behalf of local export

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37 Interview G28, senior MARD official, 5/14/15.

38 This sort of state aversion to public-private cooperation is not unique to Leninist states, as is discussed further in the conclusion.
industries. There are two important facts. First, Vietnam’s 63 provinces exercise significant power within the institutions of the party-state. Second, provincial governments have incentives to promote local economic growth. Authors have highlighted various ways that provincial governments pursue this objective: attracting FDI (Malesky 2008), local business environment reforms (Schmitz et al. 2015), or seeking central transfers for construction projects, often through alliances with SOEs (Vu-Thanh 2015).

This section suggests another way that local governments promote growth: by advocating for local export firms with the central government. As discussed in Chapter 1, international exposure can help shape firm, state and associational preferences for institutional arrangements that support international competitiveness (Katzenstein 1985). As is explained below, Vietnamese provincial governments often cannot provide supporting services to exporters themselves, due to inter-provincial externalities and provinces’ small size, but they can use their influence with the central government to advocate for sectoral policy shifts. This behavior is particularly likely in provinces dependent on agro-processing sectors, like those in the Mekong Delta, which have undiversified economies and business sectors consisting mainly of domestic private firms, as opposed to foreign-invested enterprises or SOEs.

_Provincial governments: influence and incentives_

The history of Vietnam’s market reforms is closely linked to the provinces. Faced with severe shortages in the late 1970s after Hanoi’s attempt to establish central planning throughout the country and collectivize southern farmers, some provinces defied central edicts to feed their populations in a series of “fence-breaking” maneuvers. When these local experiments proved successful, the center adopted them, including with output contracting in rice (1981), the elimination of two-price system (1989), and limited legalization of provincial use of FDI incentives (1994) (Förde and de Vylder 1996). The formal start of the reform era is usually marked at the 1986 Sixth Party Congress, when the policy of “renovation” (đổi mới) was established, but provincial experimentation had begun chipping away at the edifice of central planning before that landmark date and continued to push the boundaries of central policies afterward.

As the reform era proceeded, the provinces gained power within the institutional structures of the CPV, a result of strategic moves by reformist leaders. By the early 1990s, the proliferation of state-linked commercial interests had created a bloc of central and local party-state entities that opposed any efforts to reduce the privileges of SOEs or to create more space for private firms (Riedel and Turley 1999; Elliott 2012), deadlocking the country in a state of partial reform equilibrium. To combat the interests of these conservative “owner-managers,” reformist Prime Minister Võ Văn Kiệt subdivided many southern and central provinces in order to increase the number of localities whose economies did not depend on SOEs and create a counterbalance against SOE-linked interests within the party-state (Malesky 2009). The total number of provinces grew from 37 to 64 between 1990 and 2004, running counter to the trend of
consolidation of subnational administrative units in other transitional communist countries.

Further empowering the provinces, Central Committee membership was widened to include representatives from every province and major city, not just Ho Chi Minh City and Hanoi, and the authority of the Party Central Committee grew vis-à-vis the Politburo. Central Committee membership increased from 101 people in 1979 to 175 in 1996. These changes turned the provinces into a major voting bloc in the regime’s selectorate, since the Central Committee elects the Politburo, including the country’s three top leaders (Abrami, Malesky, and Zheng 2008). Provincial leaders and ministers hold equal bureaucratic status as voting members of the Central Committee. All socialist systems are formally organized around the principle of democratic centralism, or collective decision-making within the party, but in practice the Vietnamese system is significantly more consensus-driven than others, past or present. Abrami et al. (2008, 38) note that compared with China, Vietnamese institutions “empower a larger group of insiders… and place far more constraints on the party leadership, both through vertical checks and semi-competitive elections [within the Party].” The provinces’ dominating role in the CPV’s supreme decision-making body gives them considerable influence over the direction of policy (Vu-Thanh 2015, 24). Pincus (2015a, 15) argues that “provincial party cadres play such a large role in the selection of the national political leadership that a case could be made that it is the localities that shape the political agenda rather than the center.” The key point for this study is that when provinces object to central policies, the central government has to respond. From the perspective of central policymakers, the voices of provincial governments matter.

Another factor reinforcing provincial influence is that the central party-state struggles to check localism (Jandl 2014). In China, provincial leaders are routinely rotated in order to maintain central state control over the localities and to promote national goals (though scholars differ on the extent to which cadre promotion is really performance-based; see Xu 2011; Landry 2012; Shih et al. 2012). In Vietnam, by contrast, natives or long-time residents tend to run provinces. A 2012 study found that

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39 The shift in the balance of power between the Politburo to the Central Committee was also aided by the deaths of several senior Politburo members between 1986-1990, including Le Duan, Le Duc Tho, and Truong Chinh.

40 The institutionalization of provincial interests has had mixed developmental consequences. On the one hand, Abrami et al. view what they call the “horizontal and vertical accountability within Party institutions” as a positive feature of the Vietnamese system, arguing that it reduces inequality in Vietnam (by comparison with China) by driving significantly higher redistributive expenditure. As of 2005, Vietnam spent nearly three times as much as China relative to GDP on equalization transfers, and four times as much on poverty alleviation, infrastructure development, and other national welfare programs (Abrami et al. 2008, 13). On the other hand, this wider selectorate leads to logrolling, with public investment being shared out across rural provinces in wasteful spending on large-scale, underutilized and redundant transport local infrastructure projects (X. T. Nguyễn and Dapice 2009; Perkins et al. 2008; World Bank 2012).

41 This is also quite different from Eastern European socialist systems, which were generally unitary, centralized, and hierarchical with extremely limited local autonomy (Illner 1997) (except for in Yugoslavia and the Soviet republics) and power was expressed from the top-down, not the bottom up. Powerful local leaders and limited central government authority are a feature of the Vietnamese state that long precede communism (Woodside 1988).
70% of top provincial leaders – including the provincial Party chief and the chairman of the Provincial People’s Committee (akin to the governor) – were serving in the province of their birth. This figure increases to 90% when officials who have spent most of their lives in a province are counted as natives (Pincus et al. 2012, 41-42). The corresponding figure in China is only 18%. Regionalism is reproduced in the central bureaucracy: most government bureaucrats below the rank of vice-minister are from Hanoi and surrounding northern provinces. These long-standing links between provincial officials and their localities mean that local business and government elites are deeply embedded (Malesky and Taussig 2008).

There are, of course, some limits to localism in a single-party system. It is unknown to what extent meritocracy as opposed to patronage drives cadre promotion in Vietnam (for opposing views see Bell 2015; T. Vu 2014), but central control over personnel does clearly set some hard limits on the ability of ambitious provincial leaders to criticize important central policies. This is evident in the contrast between the willingness of provincial governments in the Mekong Delta to voice objections to central government policy in rice versus catfish, discussed in Chapters 4 and 5. Rice export policy is a top Party priority that local officials are loathe to openly question; while catfish policy was not determined top-down, allowing provincial governments openly pushed for policy change.

Provincial leaders have had two related sets of incentives to use this influence to promote the interests of local industries since the beginning of doi mơi: direct ownership of local export firms and revenue generation. In the late 1980s and into the 1990s, local governments had direct financial interests as “owner-managers” in promoting local state-owned agro-exporters. The first round of reforms in 1986 allowed provincial governments to establish SOEs, and local state enterprises – allowed to charge market prices and retain profits while still receiving subsidized inputs – proliferated in agricultural commodity trading, banking and retail. New private enterprises were also set up by current or former state officials. According to Gainsborough (2010, 37–41), for example, in Ho Chi Minh City nearly every single city department and sub-municipal district – dozens of entities altogether – had companies under its jurisdiction in the 1990s.

These local interests turned provincial governments into what Fforde (2007) calls a “state business interest” in further commercialization of the economy. Scholars usually associate this early expansion and commercialization of the state sector with rent-seeking in protected domestic markets. Party-state agencies used their gatekeeping authority to protect particularistic interests, sometimes engaging in public turf fights with the central government when its policies affronted local interests – for example, in Hanoi’s efforts to reduce real estate speculation or rationalize public infrastructure (Gainsborough 2010, 43; X. T. Nguyen and Pincus 2011). But provincial governments have also, at times,  

42 A more recent example is the Ho Chi Minh City port, which is the largest in the country (X. T. Nguyen and Pincus 2011). The port is actually a collection of small ports operated by Ministry of Transport SOEs, local SOEs, military companies, and foreign firms. The central government has mandated that the congested port facilitates should move to a new coastal location in Ba Ria-Vung Tau, but most of the operators – tacitly supported by their state owners and regulators – refused to move, leading to a stalemate.
advanced this interest by promoting pro-developmental governance reforms in export sectors. As is discussed in Chapter 3, for example, local state-owned seafood processors and their provincial government owners formed a powerful constituency for ending policies that required local SOEs to export through Seaprodex, the central monopolist, by liberalizing access to export markets and creating an independent state quality control agency. Provinces pushed for export liberalization on behalf of their SOEs, but the resulting reforms enabled rapid growth of a private seafood sector.

Fiscal decentralization created a second set of powerful incentives for provincial governments to promote local industry, as in China (Oi 1992). Budget reforms in 1996 and 2002 assigned new tax revenue streams to provincial governments and decreased central transfers, tying Vietnamese provincial leaders’ personal and professional interests to devising new ways to generate revenue. Local revenue comes from three main sources: land and natural resource-related taxes, corporate income tax, and value-added tax (Martinez-Vazquez and Nguyen 2011). Malesky (2008, 5) quotes Nguyễn Đình Cung, a former director of the government’s leading economic think tank, as saying “Provincial revenue is the most important indicator of success and power of all provinces. It is their primary target.”

Local governments responded to newfound budgetary pressures in several ways. In the 1990s Ho Chi Minh City and surrounding provinces sought to attract FDI in export processing, often issuing investment incentives in contravention of central regulations. By 2000, implemented FDI totaled $25 billion and accounted for more than a quarter of Vietnam’s exports, mainly in garments and other light manufactures (Malesky 2008, 3). In the 2000s, FDI-related fence-breaking expanded to a new set of provinces. Between 2001 and 2005, half of Vietnam’s 63 provincial governments offered illegal incentives to foreign investors, including tax holidays, corporate income tax and VAT reductions, and cheap land (Vu, Le and Vo 2007). Nevertheless, FDI remained concentrated in a handful of provinces in major industrial areas: according to government statistics, in 2006 72% of all foreign investment capital was clustered around Ho Chi Minh City and 20% around Hanoi (GSO website).

Provinces have also pursued short-term growth in other ways, particularly by jockeying for central transfers to invest in infrastructure or other construction projects. The central-local transfers provide political benefits to all sides. The central government uses big SOEs to dole out public investment projects to localities to secure support; provincial governments use their influence to lobby ministries for local infrastructure projects to be included in master development plans, or to push for preferential financing from state-owned commercial banks to the firms executing the projects; SOEs and

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41 Perkins and Vu-Thanh (2011, 10), though, explain that Vietnam “never had anything comparable to China’s collectively owned industrial boom.” There was no history of commune-based manufacturing comparable to China’s in the 1960s and 1970s, which created a reserve of local cadres with skills and experience in industrial production and promotion. Local Vietnamese officials did, however, have experience with off-plan trading and smuggling, which persisted throughout the entire socialist period (Abrami 2002).

44 Corporate income tax and VAT are shared with the central government, but poorer, rural provinces are allowed to keep 100% of proceeds (Martinez-Vazquez and Nguyen 2011).
closely connected private firms receive free land and non-competitive contracts from local governments; and local governments generate revenue from the VAT generated by the projects (Pincus et al. 2012, 35–36; Vu-Thanh 2015, 27; Pincus 2015b). These practices are widespread, since in practice, most provinces are dependent on central transfers: 51 out of 63 provinces and cities are net recipients from the national budget (MOF 2013).

More productively, provincial governments can also promote local private sector development. Decentralization means that most aspects of the business and regulatory environment, including access to land, property rights, and ease of business registration, depend heavily on local governments, since most of firms’ interactions with the state occur at the provincial level. The force of national laws and regulations hinges on local governments, as is suggested by the survey finding that only 6% of firms in the average province agree that provincial governments’ implementation of central rules is predictable (Malesky 2014). Some provinces have significantly streamlined business procedures through “one-stop shops,” posting policy and land use planning documents online, and other regulatory innovations, which are documented in the annual Provincial Competitiveness Index reports (most recently, see Malesky 2016). Ultimately, though, the impact of local business environment reforms is limited. As mentioned above, domestic private firms tend to feel that they are at a policy disadvantage to both SOEs and foreign investors, who have better access to resources and investment incentives (on a similar phenomenon in China, see Huang 2003). A 2013 study found no link between private investment levels and the quality of economic governance in Vietnamese provinces (McCulloch, Malesky, and Duc 2013).

Provincial governments as export industry stakeholders

In the empirical chapters that follow, this dissertation identifies another way in which provincial governments promote local development: by using their influence to lobby the central government for competitiveness-promoting policy reforms in support of their largest local industrial export sectors. Doner and Schneider (2000, 278) argue that international market competition can push industry associations who might otherwise be rent-seeking to advocate for the provision of market-supporting public goods, “contributing to economic development without intending anything more than defense of their members’ interests.” I demonstrate that the same is true of provincial governments in the Mekong Delta advocating on behalf of their shrimp and catfish processors. In this section, I first explain why I focus on institutions and regulations at the national, and not the provincial, level. I then explain the particular interest of governments in the Mekong Delta in promoting their agro-export sectors with the central government.

Despite significant decentralization in Vietnam, there are limits to studying economic development through the lens of local government. In major export industries, the key institutions of sectoral governance are national, not local. This is because provinces’ small size constrains their ability to facilitate the growth of export clusters. Misalignments between political and economic boundaries are not unusual around the world, but the inability to pool resources to achieve economies of scale is particularly
dramatic in Vietnam because of the large number and small size of provinces. Vietnam has 63 subnational governments, including 58 provinces and five cities with the administrative status of provinces, which means that the average population of a province is only 1.4 million people. Industries cross borders, but provinces lack incentives to cooperate because the country’s budgetary and political structures ensures that a province’s most important relationship is with Hanoi, not its neighbors. Provincial governments can only collect corporate income tax on companies headquartered in their provinces, and have no reason to make investments that support firms from which other provinces collect taxes and fees (X. T. Nguyen and Pincus 2011; Vu Thanh 2012; World Bank 2010, 40–42). Like “63 fortresses,” as a former deputy prime minister put it, each province pursues an independent industrialization and infrastructure plan supported by central transfers.45

Examples from several major export sectors illustrate the problem. The Mekong Delta has only three major regional export products: rice, shrimp, and catfish. Yet the Delta’s 13 provinces, with an average population of 1.5 million each, do not coordinate joint trade promotion, dissemination of market information, or other sectoral initiatives (Vu Thanh et al. 2011). Such initiatives, which require significant knowledge of international markets, tend to be beyond the scope of a single provincial government, but rather than cooperating, provinces tend to be in competition with one another to attract investment in new processing factories, including from neighboring provinces.46 Studies on the textile and garment cluster in Ho Chi Minh City and neighboring Dong Nai and Binh Duong provinces, the center of Vietnam’s $24 billion garment export sector, also show that provincial governments have not developed regional research or training institutes or other upgrading initiatives (WTO Center 2013). In short, the key sectoral governance institutions, including associations, regulatory agencies, standards, and supporting programs, are largely national in scope. That is why this dissertation examines sectoral institutions at the national level.

The dissertation’s empirical chapters show that, when local seafood export sectors faced competitive problems – including discrimination from a central state-owned monopolist and or fierce intra-industry competition – provincial governments in the Mekong Delta used their influence with Hanoi to advocate aggressively for national-level sectoral governance reform. Local economies in the Mekong Delta are particularly dependent on agro-exports and domestic private firms for growth. Poorer and more rural than the national average, the Delta is home to 17 million people, around one fifth of the population. It lags the national average in foreign investment – in 2010, the region accounted for only 6.5% of total registered FDI in Vietnam – and state-owned industry (Vu Thanh et al. 2011, 29–31). As shown in Table 2.3, in the average Delta province, private domestic enterprises dominate output, with 82% of GDP, compared to 14% for SOEs and only 2% for FDI (the national averages are 46%, 28% and 18%,

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46 Interview G12, agricultural official, Dong Thap, 3/16/15; Interview G36, retired senior official, An Giang, 3/18/15.
respectively). This marks a sharp contrast with provinces in major industrial areas, which rely heavily on FDI – in Binh Duong, for example, north of Ho Chi Minh City, foreign-invested enterprises contributed 64% of provincial output in 2010.

Yet the Delta has kept pace with national export growth thanks to its enormous growth in agro-exports. The Mekong Delta produces 90% of the country’s rice exports, 60% of its seafood exports, and 70% of total fruit production. Food processing accounts for 20-35% of GDP and most of industrial production in most provinces (last column, Table 2.3). Aquaculture in particular transformed Delta economies: by the early 2000s, shrimp and fish processing was the largest contributor to the region’s industrial structure in terms of both absolute levels and growth (Q. C. Nguyen and Ye 2015). In Dong Thap, for example, catfish alone accounts for over 60% of export revenues. Economic growth outpaced any other region in the early 2000s, thanks to rapid growth in aquaculture exports, particularly catfish (Bush, Khiem, and Sinh 2009, 274). In short, these industries are extremely important to local governments.

### Table 2.3: Economic structure, Mekong Delta provinces (2010)

<table>
<thead>
<tr>
<th>Province</th>
<th>% of GDP</th>
<th>Agriculture, fisheries &amp; forestry as % of GDP</th>
<th>Food processing as % of industrial production</th>
</tr>
</thead>
<tbody>
<tr>
<td>An Giang</td>
<td>89</td>
<td>34</td>
<td>79</td>
</tr>
<tr>
<td>Bac Lieu</td>
<td>85.6</td>
<td>22.2</td>
<td>46.7</td>
</tr>
<tr>
<td>Ben Tre</td>
<td>79.8</td>
<td>50.2</td>
<td>88.2</td>
</tr>
<tr>
<td>Ca Mau</td>
<td>79.9</td>
<td>50.2</td>
<td>69</td>
</tr>
<tr>
<td>Can Tho</td>
<td>79.6</td>
<td>50.2</td>
<td>69</td>
</tr>
<tr>
<td>Dong Thap</td>
<td>93</td>
<td>6</td>
<td>90</td>
</tr>
<tr>
<td>Hau Giang</td>
<td>82.7</td>
<td>50.2</td>
<td>88</td>
</tr>
<tr>
<td>Kien Giang</td>
<td>82.8</td>
<td>50.2</td>
<td>69</td>
</tr>
<tr>
<td>Long An</td>
<td>67.6</td>
<td>18.7</td>
<td>44</td>
</tr>
<tr>
<td>Soc Trang</td>
<td>89.7</td>
<td>0</td>
<td>90</td>
</tr>
<tr>
<td>Tien Giang</td>
<td>84.6</td>
<td>6.8</td>
<td>84</td>
</tr>
<tr>
<td>Tra Vinh</td>
<td>-</td>
<td>-</td>
<td>62</td>
</tr>
<tr>
<td>Vinh Long</td>
<td>81.4</td>
<td>3</td>
<td>41</td>
</tr>
<tr>
<td>National average (’06’10)</td>
<td>46</td>
<td>18</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Provincial statistical yearbooks, various years. Data from 2010 or most recent year prior to 2010.

---

47 Long An is excluded from the average FDI calculation for the Mekong Delta because its proximity to Ho Chi Minh City makes it an outlier.

48 Geographically, catfish farming and processing is concentrated in the upriver provinces in the northern and central Delta of An Giang, Dong Thap, and Can Tho, while shrimp farming, which required brackish water, is concentrated in the coastal provinces of Ca Mau, Bac Lieu and Soc Trang.
An example drawn from a study on provincial economic governance by Schmitz et al. (2012, 45), helps to illustrate the importance of national as opposed to local sectoral institutions for exporters, and why local governments might deploy political capital to lobby sectoral ministries on behalf of local exporters. Ca Mau province, at the tip of the Mekong Delta, is the country’s largest shrimp farming and processing locality. In 2010, the province had 24 large frozen shrimp processors, all of which were exporters competing on highly competitive international markets. These firms had a local seafood association and easy access to provincial leaders, and the provincial government saw them as central to the local economy, since seafood accounted for essentially all (97%) of the province’s $1.1 billion of exports. Shrimp companies, however, told researchers that their most important policy concerns were not related to local business environment but to industry-specific policies and services that were national in scope, determined by the Ministry of Agriculture and Rural Development, and were influenced mainly by VASEP, the national exporters’ association. These included issues of industry-specific market information, certifications demanded by foreign buyers, infrastructure and training.

Chapters 3 and 4 show that Mekong Delta governments did in fact lobby on behalf of the local seafood industry. In the seafood processing sector in the 1990s, provincial governments and their SOEs pushed for local processors to be able to export directly, and protested discriminatory treatment of their companies by the central state-owned monopolist Seaprodex. In the 2010s, provincial governments pressed for tighter central government regulation of catfish companies to stop exporters from undercutting one another, then mobilized against the new regulations once it appeared that they would drive local firms out of business. Chapter 5 on the rice export sector shows that in the 1990s provinces initially supported tightening central control over rice export, and that after 2000, non-reform of governance institutions was associated with an absence of provincial government advocacy.

V. Conclusion

This chapter has provided background for the dissertation’s three empirical case studies. It has argued that Vietnam is a “hard case” for sectoral governance reforms of the type envisioned in the new industrial policy literature, whose hallmark is public-private cooperation on resolving sectoral challenges. The party-state has prioritized the SOE sector in its industrial policy; together with the Leninist character of the state, this constrains bureaucratic space for sectoral governance innovations. One reason that the seafood sector was a site of early governance reforms was that the major central SOE in the sector was sidelined early on, which created space for experimentation with alternate forms of market governance. This chapter has also identified the importance of provincial governments as industry stakeholders.

This discussion of the Vietnamese political economy poses a puzzle: what explains the emergence, or even the attempt, of sectoral governance reform? The next three chapters aim to answer this question through deeper empirical examinations of particular sectors, institutions, and historical trajectories.

49 Figures from 2013. From Ca Mau statistics department website.
Chapter 3: Institutional reform and upgrading in Vietnam’s seafood processing industry

I. Introduction

Between the mid-1990s and 2014, Vietnam’s seafood industry achieved enormous success on global export markets. From a technologically backward industry captive to a small number of East Asian buyers of wild-caught marine products—essentially, raw goods produced by small-scale processors—Vietnam has become a leading global supplier of farmed seafood. Its exports grew from $400 million in 1994 to $8 billion, or just under 5% of GDP, in 2014. In 1998, the first 17 Vietnamese factories were accepted to the list of priority exporters to the European Union, which had the strictest sanitary standards of any import market in the world; by 2010, 330 factories were allowed to export to the EU. Vietnamese enterprises were neophytes to the most basic strictures of global commerce and lacked a reputation for quality with importers, having been cut off from global markets by a two decade-long U.S. trade embargo. Yet from a near total reliance on Japanese and Southeast Asian markets in the early 1990s, by 2010 Vietnam had gained access to all major global markets, with 40% of sales going to the U.S. and EU (N.T. Cuong 2010) In short, over the course of fifteen years, companies with little knowledge of modern sanitary standards and completely lacking in commercial channels to the West were producing at international standards and exporting globally.

Underlying this case of successful market entry was a complete transformation of sectoral governance. Seafood was among the first sectors where the Vietnamese party-state decisively shifted its role from a command-and-control central planner and market participant to a regulator and provider of supporting services. This transformation in the state’s role was remarkable. In the early 1990s the seafood sector was, like rice, rubber, or coffee, governed by a single, dominant SOE that exercised both market and regulatory power (Minot 1998). But by the late 1990s, the state-owned monopolist in the seafood market, Seaprodex, had been replaced by a modern regulatory system, a public-private industry association, and low barriers to entry for private firms. Two new sectoral institutions were particularly important: the National Fisheries Quality Assurance Center, or NAFIQACEN, a food safety regulator that promoted the adoption of sanitary standards demanded by European market regulators; and the Vietnam Association of Seafood Exporters and Processors, VASEP, a sectoral business association that provided trade promotion, market information and interest representation for firms. Governance, in other words, began to look much less socialist, and more like new or “soft” industrial policy i.e. a responsive state resolving sector-specific coordination failures through improved regulation and public goods provision (World Bank 2009).

These institutional reforms transformed foreign markets’ tough sanitary standards into catalysts for growth and opened the floodgates for private sector investment. Seafood

50 Shleifer and Vishny (1998, 231) identify this as the central political dilemma of a transitional communist economy.
became Vietnam’s largest agricultural export (Figure 3.1), and by 2014, 90% of seafood exports were produced by private, domestic companies, as compared to SOEs or foreign investors – as we saw in Chapter 2, more than any other major export sector.

Figure 3.1: Vietnam’s agricultural exports, 1990-2011

Source: Seafood data from VASEP, rice data from UN COMTRADE and IRRI RiceStat; other sectors from FAOSTAT.

What explains this profound transformation in sectoral governance? How did these forward-leaning, market-oriented institutions come into being? The 1990s were, to be sure, an era when Vietnam was reestablishing diplomatic and economic links with the West after the collapse of the socialist bloc and the end of the U.S. trade embargo. But in terms of economic governance, the period tends to be viewed as a lost decade for reform. After dramatic macroeconomic stabilization measures in 1989-1990, Party leadership had became mired in debate over the role of SOEs and the private sector in the economy.51 As discussed in Chapter 2, large SOEs were consolidated and expanded with the creation of the general corporations, and the size of the domestic private sector as a proportion of the economy shrank. Only in 1999, on the heels of the Asian financial crisis, did the government pass the next round of major reforms legalizing private enterprise (Vu-Thanh

51 Huy Duc (2012, vol. 2 Chapter 21), Elliott (2012) and Malesky (2009) document the halting and inconclusive debates in the Politburo between 1990 and 1999, centering on the relative roles of the state owned and private sectors. Riedel and Turley (1999, 35) assessed in 1999 that “The pace of change has slowed, boldness has been notably absent, and policy has sometimes advanced or backtracked in different areas at the same time.” At the end of the 1990s the domestic private sector still contributed less than a quarter of industrial output, less than at the start of the decade (Vu-Thanh 2015, 5).
How, then, did the institutions governing the seafood sector transform in this seemingly unlikely environment?

This chapter’s core argument is that governance reform occurred thanks to the convergence of three factors: pressure and support from industry stakeholders in the provinces, bureaucratic space, and sectoral policy entrepreneurs in the Ministry of Fisheries. First, decentralization and market reforms starting in 1986 led to the proliferation of provincial state-owned seafood processors, creating a distributional conflict between the legacy central monopolist, Seaprodex, and local SOEs. Local SOEs chafed under Seaprodex’s control over the export market, and their provincial governments became advocates for allowing freer access to export channels and ending the state’s preferential treatment toward Seaprodex.

Second, reforms were advanced by a group of officials within the Ministry of Fisheries (MOFI) who actively incorporated know-how about foreign market standards and governance models from a long-term Danish foreign aid project to set their agenda and push new modes of governance. There was not high politics in the sector—fisheries was not a strategic sector, and the incumbent did not have high-level political protection. Sectoral policymakers, operating with significant bureaucratic space, used this discretion to wrest control over quality assurance from Seaprodex, replacing it with a new, independent food safety agency, NAFIQACEN, then embarked on four yearlong campaign to get Vietnamese seafood accepted on the EU market. They also established VASEP, Vietnam’s first modern, sectoral business association. Those decisions were attributable to a small number of individuals within the Ministry of Fisheries, sectoral policy entrepreneurs who took a forward-leaning, firm-oriented approach to policymaking and actively incorporated new information.

In advancing these arguments, this chapter aims to make three theoretical contributions. First, as we saw in the introduction, research on new industrial policy has emphasized the importance of public-private collaboration and information exchange that enables governments to identify market failures impeding growth. But the case of Vietnam’s seafood processing sector suggests that, when an industry is incipient and firms are small, information can come from multiple sources, including foreign donors. In particular, information about foreign market standards—the most important non-tariff barrier for agro-exporters—is codified and can be transmitted by foreign donors, who operate as disseminators of best practices (on foreign aid agencies playing this role in sectoral governance reform in other contexts, see Fuentes 2014). The case also suggests that how information is used is equally important to its availability. Sectoral policymakers proactively used the know-how they acquired about European sanitary standards to transform institutions, despite resistance within the state.

Second, the case shows that sectoral governance reforms involved political conflict and agency within the state. Liberalization and neutral quality control regulation were pushed by provincial governments with an interest in promoting local firms, and embraced by policymakers willing to take risks by sidelining a major incumbent. Hard external constraints from international markets, namely EU market regulations, provided
a benchmark and a source of pressure, but the chapter shows that these standards did not translate automatically into institutional reform. In the cases of both VASEP and NAFIQACEN, domestic state actors had to embrace these standards and new ideas about the role of the state in the economy over the opposition of a resistant incumbent and bureaucracy.

Third, the chapter highlights the limits of institutional adaptation. Although the focus is on the creation of key governance institutions and their role in kick-starting market entry, the chapter also demonstrates that as the industry faced a new series of upstream quality problems related to excessive drug use on aquaculture farms, the role of these sectoral institutions diminished, replaced in part by voluntary certifications and vertically integrated firms. VASEP and NAFIQACEN were well-equipped to provide services suited for entering new markets – trade promotion and raising standards in factories – but they struggled to deal with these new, more complex value chain challenges. State agencies and associations that capably facilitate penetration of global markets, even those with hard-to-meet standards, do not necessarily support consistent upgrading in those markets.

The rest of the chapter proceeds as follows. Section II presents the industry’s history and stakeholders, showing that in the 1980s seafood was primarily a raw, unprocessed export, and the market was dominated by a central state-owned incumbent and dependent on a few East Asian buyers. I explain the industry’s composition, which was bifurcated between a central SOE and dozens of smaller, local state enterprises, and demonstrate that local SOEs, represented by provincial governments, became a constituency for reforms. Section III presents the governance reforms within the Ministry of Fisheries in the 1990s that precipitated the industry’s transformation, and Section IV develops an explanation for those reforms. Section V briefly evokes the institutional framework’s struggle to adapt to changing market standards. A brief final section summarizes and concludes.

II. Seaprodex and the local SOEs: Industry background from 1976 through the early 1990s

Early technological and commercial development in Vietnam’s seafood processing sector traces back to policy decisions made under central planning. Unlike most of the country’s commodity exports, seafood was always sold to East Asia, not to socialist bloc countries. Fisheries was the site of early experimentation in state enterprise reform, centered around a monopolistic central SOE, Seaprodex, which controlled exports and quality control. Early contacts with Japanese buyers fostered basic capabilities in frozen shrimp processing. Đổi mới, however, sparked the growth of a local SOE sector, which became a powerful set of stakeholders by the early 1990s, setting the stage for a conflict over sectoral governance.
Postwar planning and the Seaprodex system

At the end of the war, central planners put great hope into fisheries. Over the protests of southern revolutionary leaders, Hanoi moved to impose an immediate transition to a Soviet-style planned economy throughout the country after 1975, extending the North’s central planning apparatus over the South’s market economy and establishing state control of foreign trade (Fforde and Vylder 1996, 128). The Second Five-Year Plan (1976-1980) included a host of ambitious targets to reconstruct the country and unify the economy, relying on extremely high agricultural and fisheries growth rates to generate surplus for industrial growth and construction. Along with other agricultural industries, planners aimed to double seafood output. Fish had been among the top foreign exchange earners for the Republic of Vietnam, accounting for a third of all exports in 1974 (Dacy 1986, 83), and Vietnam had an obvious natural advantage. Its 3400-kilometer coastline, stretching along the South China Sea and the Gulf of Thailand, and the alluvial delta of the Mekong River hold some of the world’s richest fisheries.

A number of factors, however, converged to foil planners’ hopes, foremost of which were problems produced by central planning itself. Many of the Republic of Vietnam’s fishermen had dwelled on the southern coast and had joined the exodus of refugees after April 1975. The ships that bore refugees into the open ocean were often fishing boats, which depleted the country’s fishing fleet (Cima 1989, 160). Hanoi collectivized the remaining fishermen, defying fishing’s traditional organization into independent households. Input and output prices were set by the state, a system popularly referred to at the time as “buying as stealing, selling as giving” (N.T.H. Minh 1996, 22; Beresford and Dang 2000, 35, 36). Dang Phong, socialist Vietnam’s foremost economic historian, observes that the particular complexity and individualized nature of catching and preserving marine products was antithetical to the bureaucracy of central planning. Wild fish catch declined precipitously in the late 1970s. The trade embargo had cut off the South’s former seafood markets, and exports dropped to just a third of their post-war level, only 27% of the plan target for the whole period (Beresford and Dang 2000, 34–36). Processing plants and fishing boats fell into disrepair. In a fabled meeting in 1978 between the Ministry of Fisheries and future Communist Party Secretary Đỗ Mười — at the time in charge of “socialist transformation” — Mười asked “Where is the Ministry of Fisheries leading the State? A ton of fish used to require ton of petrol, so why is four tons now needed?”

The broader economy was in crisis by 1979. Vietnam’s military intervention in Cambodia and the resulting border war with China, as well as the global extension of the U.S. trade embargo, compounded internal economic woes. Immediate post-war growth

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52 According to Dang Phong (2012), fisheries was viewed as an sector where Vietnam had a natural advantage, and that would be helped by heavily subsidized oil and equipment sales from the Soviet Union and COMECON countries.
53 The plan called for 16-18 percent annual growth rates in industry and 8-10 percent growth rates in agriculture (Cima 1989).
54 From 604,000 tons in 1976 to 398,000 tons in 1980 (Dang 2012).
55 Quoted in Dang (2012).
had been based on southern industrial output, which had stagnated by 1977 as industrialists and former officials fled the country. Industry was nationalized and agriculture was collectivized. Like fisheries, other agricultural sectors also failed to fulfill the targets of the Second Five-Year Plan. Rice farmers had no incentive to sell to the state, and the central government’s overinvestment in capital construction deprived export industries of inputs (Beresford and Đặng 2000, 36, 38). Tensions between the provinces and the center grew, particularly in the south, and hunger spread as the system failed to supply sufficient food (Fforde and Vylder 1996). Local officials, particularly in the South, were squeezed by demands to export but hobbled by insufficient inputs. They began to undermine the plan almost as soon as it was established. Local leaders and communes experimented with market arrangements through unsanctioned “fence-breaking” (phá rào) activities. Recognizing the depth of the crisis, the party-state responded pragmatically, issuing a series of decisions in 1979, 1980 and 1981 that increased the scope for “non-plan and above-plan” activities, sanctioning certain state-owned enterprises, cooperatives and localities to invest, produce and trade for the market (Cheshier 2010, 75–80).

These reforms proved a boon for the centrally-managed SOE responsible for seafood processing and export, which had been established in 1978. Seaprodex, or the Vietnam National Sea Products Corporation, was the central government’s first SOE granted operational autonomy to depart from the central plan.56 The new regime, called “self-balancing, self-settling” (tư cân đối, tư trang tratai), was described by the State Planning Committee as follows: “The state will make the plan, but will not provide the materials. Permission is given for the industry to export in order to control, execute, balance and settle in order maintain and develop production in line with its duty to the state.”57 In essence, Seaprodex was granted direct control over its trading activities, allowing it to circumvent the centralized trading system operated by the Ministry of Foreign Trade. It could negotiate prices with fishermen and factories, export directly, retain earnings to cover costs, and use foreign exchange to import capital equipment and consumer goods, instead of returning it to the state (Cheshier 2010, 75–80). Seaprodex used its newfound autonomy to reestablish trading links with Japan and develop a series of complex bartering arrangements with fishermen, striking deals that allowed it to trade food and oil to hungry fishermen, export fish, then render payment to state factories.58

Thanks to the reforms, Seaprodex quickly accumulated resources. Financial autonomy and near-monopsonistic rights to buy fish and shrimp from cooperatives and households allowed the company to reap what one former Ministry of Fisheries official called “super-profits.”59 As with other state enterprises at the time, control over trade allowed Seaprodex to import desperately needed inputs; and, often more profitably, to buy and sell consumer goods. A key source of rents was the exchange rate differential.

56 Seaprodex had branches in Hanoi, Da Nang and HCMC. There was already another national seafood SOE called Ha Long, founded with Soviet aid, which owned a fishing fleet and canning factory.
The company bought from fishermen at low prices and sold at world market prices, then purchased foreign equipment and consumer goods at official exchange rates to sell domestically (Nguyễn Hồng Cần 2003, 24).

Accumulation of reserves allowed Seaprodex to invest in the decrepit fisheries industry. Its original production base was a handful of frozen processing factories taken over from southern industrialists, but as it accumulated earnings, it was able to build factories, and invest in ship engines, fishing equipment and transport equipment. By 1983, export turnover had risen to 65 million USD, up from 11 million in 1980 (Đặng 2012). Processed fish production rose steadily, although in 1985 production was still below pre-1975 levels (Cima 1989, 160). In 1988 Seaprodex established a joint venture with the Soviet Union. Hanoi’s denizens remember that in the 1980s Seaprodex had one of the most formidable SOE headquarters in central Hanoi, located on Lang Ha street.

The proliferation of local SOEs

As Seaprodex grew, however, another set of seafood processing factories and exporters was arising in the provinces. These local firms grew in two waves. Seaprodex’s earliest competitors were provincial trading companies. Among Hanoi’s most significant responses to the social and economic crisis induced by postwar central planning was, starting in 1980, to allow provinces to establish import-export companies that could conduct their own international trade. Hồ Chí Minh City, which had been nearly cut off from desperately needed raw materials and consumer goods in the late 1970s, seized on the cracks in the state’s foreign trade system. The city established more than a dozen import-export companies, relying in large part on entrepreneurs in the city’s ethnic Chinese community – those who had not fled postwar persecution and expropriation – who had capital and networks in Singapore, Hong Kong and Taiwan.

A paradigmatic “-imex” company was the joint-stock company Cho Lon Investment and Import Export Corporation, or Cholimex, which was owned jointly by the Hồ Chí Minh City People’s Committee and several ethnic Chinese businessmen (and named for the city’s historically Chinese neighborhood). Exports of seafood, agriculture and traditional medicine generated foreign exchange that allowed Cholimex to import tobacco, flour, fabric, gasoline, spare parts, and other consumer goods, which it sold to state factories and used in its own factories (Cheshier and Sasges 2011, 23). Seafood comprised 50% of Cholimex’s export revenues. A major product was frozen shrimp, which Cholimex purchased from provincial factories and middlemen in the Mekong Delta, along with dried squid from coastal provinces, and exported to Hong Kong and

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60 Also Interview G3, retired official, MOFI, 12/3/14.
61 In her dissertation, Nguyễn Thị Hồng Minh says that there were 11 seafood processing plants acquired from South Vietnam, which had produced small quantities of frozen shrimp. The state built more plants using foreign aid in the late 1970s. (N.T.H. Minh 1996, 18, 23; Đặng 2012, Chapter 6)
63 This paragraph draws on Cheshier (2010, 143–145) and Interview F12, former manager, Cholimex, 12/1/14.
Singapore. Profits were high for these provincial trading companies, which were able to buy abundant fish, shrimp and squid at low prices, and went to finance the city’s budget.\(^4\)

Vietnam’s seafood export markets in the early 1980s are shown in Table 3.1. Seaprodex exported to Japan, which mostly purchased raw, frozen ice block shrimp, while Singapore and Hong Kong were key trading partners for provincial trading firms like Cholimex, buying shrimp and other wild products traditionally popular with Chinese consumers, like dried fish and squid.\(^5\)

**Table 3.1: Main markets for Vietnam’s frozen seafood exports, 1980s (metric tons)**\(^6\)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shrimp</td>
<td>Hong Kong</td>
<td>1181</td>
<td>1568</td>
<td>3055</td>
<td>2790</td>
<td>3887</td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>1050</td>
<td>1570</td>
<td>1612</td>
<td>3533</td>
<td>3609</td>
</tr>
<tr>
<td></td>
<td>Singapore</td>
<td>311</td>
<td>350</td>
<td>507</td>
<td>651</td>
<td>788</td>
</tr>
<tr>
<td></td>
<td>% total exports</td>
<td>100%</td>
<td>100%</td>
<td>89%</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>Cuttlefish</td>
<td>Hong Kong</td>
<td>237</td>
<td>171</td>
<td>442</td>
<td>423</td>
<td>627</td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>80</td>
<td>75</td>
<td>70</td>
<td>139</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Singapore</td>
<td>10</td>
<td>3</td>
<td>4</td>
<td>145</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>% total exports</td>
<td>100%</td>
<td>100%</td>
<td>97%</td>
<td>95%</td>
<td>92%</td>
</tr>
<tr>
<td>Fish</td>
<td>Hong Kong</td>
<td>263</td>
<td>102</td>
<td>248</td>
<td>287</td>
<td>254</td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>10</td>
<td>19</td>
<td>23</td>
<td>14</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Singapore</td>
<td>-</td>
<td>15</td>
<td>163</td>
<td>318</td>
<td>194</td>
</tr>
<tr>
<td></td>
<td>% total exports</td>
<td>87%</td>
<td>100%</td>
<td>87%</td>
<td>90%</td>
<td>92%</td>
</tr>
</tbody>
</table>


A second group of provincial firms sprouted up in the late 1980s. Soon after the famed Sixth Party Congress of 1986 – the official starting date of economic reforms and the benchmark date for the policy of “renovation” (đổi mới) – the central government granted provinces permission to establish local state-owned enterprises.\(^6\) The following years saw an explosion in local seafood processors; many of these were provincial factories that had been upgraded to formal companies. Sixty-seven new factories were built in just the three years after 1986 (N.T.H. Minh 1996). The industry was particularly important to the Mekong Delta, where extensive shrimp aquaculture had begun to spread in the 1980s (Luttrell 2001). The growth in seafood processing was consistent with developments in the broader economy – as discussed in Chapter 2, the counterintuitive hallmark of the first several years following the start of đổi mới was incredibly rapid growth in the local state sector.

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\(^4\) This changed as growing numbers of trading companies created competition for raw materials, which contributed to episodic high inflation in the 1980s.

\(^5\) On provincial trading companies, see Beresford and Đặng (2000, 45–46), who also discuss the importance of smuggling and unofficial trade. Singapore, for example, officially supported the of the U.S. embargo against Vietnam, yet its trade volume with Vietnam rose annually 20% between 1980 and 1985.

\(^6\) Data unavailable after 1985. Market breakdown is not available for dried seafood products, but these were the largest export after frozen shrimp (Minot 1998, 112).

Table 3.2 displays the results SOE growth. By 1994, local state-owned seafood companies had more capital than centrally owned enterprises, with 782 billion VND in capital compared to central SOEs’ 522 billion VND. As is evidenced in the (likely very rough) estimate of the number of the private (non-state) firms, the private presence in the seafood sector also grew substantially in the early 1990s, once private enterprise had been partially legalized.

Table 3.2: Size of seafood enterprises by ownership type

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Registered capital, billion VND</th>
<th>Number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1993</td>
<td>1994</td>
</tr>
<tr>
<td>Central SOEs</td>
<td>419.7</td>
<td>522.2</td>
</tr>
<tr>
<td>Local SOEs</td>
<td>No data</td>
<td>782</td>
</tr>
<tr>
<td>Non-state</td>
<td>No data</td>
<td>~200</td>
</tr>
<tr>
<td>Factories with FDI</td>
<td>9</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>1993</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOEs</td>
<td>233</td>
<td>241</td>
</tr>
<tr>
<td>Non-state</td>
<td>1,485</td>
<td>3,490</td>
</tr>
<tr>
<td>Limited liability companies (TNHH)</td>
<td>135</td>
<td>215</td>
</tr>
<tr>
<td>Equitized companies (cô phần)</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Private companies (turtle)</td>
<td>1,344</td>
<td>32,671</td>
</tr>
</tbody>
</table>


To the extent that there was technological development, it was in the shrimp sector. Japanese buyers who had been in Vietnam since the early 1980s created basic capabilities in freezing and export technology in shrimp processing, donating or loaning some of Vietnam’s first IQF freezers to processing plants in the Mekong Delta. According to a study of Japan’s role in developing the Vietnamese and Thai shrimp industries, “Vietnam did not have enough foreign currency to buy the necessary equipment. Japan supplied everything in advance, including trucks, freezers and engines, taking payment in the form of seafood” (Kagawa and Bailey 2006). Japanese freezer donations enabled several of the earliest provincial factories, such as Cadimex in Ca Mau, to establish plants independent of the Seaprodex network.

The growth in local seafood processors created a substantial new set of industry stakeholders with a strong interest in further liberalization. Most local processors were required to sell to or acquire a license from Seaprodex, but provincial firms, located mainly in the south, resented Seaprodex’s control. They were compensated in-kind, not

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68 Household enterprises are excluded from the table because these are likely to be largely fishing households, not processing factories. The category of private companies likely also includes very small-scale fishing operations, but this is not discernable from the data. By 1996 there were a total of 170 processing factories nationwide.

69 Interview A3.

70 156 of 214 processors were located south of Binh Dinh (Minot 1998, 107).
in cash. A former official from a local seafood company in the Mekong Delta, the Tien Giang Fisheries Export-Import Union, for example, said that Seaprodex never paid in cash but in kind [through] Honda accessories, bicycles, monosodium glutamate, clothing... These payments would then be distributed among enterprises in the Union. Consequently, we were unable to make year-end accounting of business (Huu Tho 2009, 78).

Seaprodex maintained other “privileges,” in the word of a former manager at a provincial shrimp processor, including better exchange rates, better state-set prices (that is, Seaprodex paid its own factories higher prices than provincial factories for the same goods), the ability to travel abroad, as well as regulatory powers over export quality assurance, as is discussed in the next section.

Emboldened by their new plants and trading companies, provincial governments fought Seaprodex for the right for their local SOEs to export directly, a far more profitable arrangement (Cheshier and Penrose 2007, 10). The Ministry of Fisheries acquiesced, agreeing to allow local companies to export directly. In an interview, the former director of a processing plant in the Mekong Delta remembered the conflict between the provinces and Seaprodex:

*In those days, we struggled really hard; all the provinces really had to struggle. Only after a period of Seaprodex monopoly did the provinces look at the price tables, and realize that ... the price paid [for shrimp] to provincial factories and to Seaprodex factories was ... higher than for the provinces. The provinces used that to fight. Only then did Mr. Trinh, the Minister, agree [to allow provincial factories to export directly]: if not, they would have held onto the monopoly...*  

In effect, local seafood processors became what Fforde (2007) and Gainsborough (2010) have called a “state business interest” in further commercialization and decentralization. But while this interest is normally mentioned with reference to rent-seeking and stalled liberalization, in this case provincial governments became advocates for further liberalization – essentially, reducing the regulatory powers of a central SOE to allow for freer access to export markets.

In sum, by the early 1990s the seafood processing sector was still dominated by a powerful, centrally-managed SOE, but one who whose market power was increasingly contested by provincial governments and their local state enterprises. Processors were small scale and technologically backward. Many local SOEs were making losses and increasingly relying on private traders for raw materials and loans. The sector was

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71 See also N.T.H. Minh (1996, 24).
72 Interview G3. This development was also in line with the broader economy. In 1987 only 80 firms and organizations in the entire country were officially allowed to engage in foreign trade. By 1990 the number was 212, of which only 60 were controlled by central ministries. (Luu Van Dat 1990 cited in Riedel and Turley 1999).
73 This paragraph draws on Nguyễn Thị Hồng Minh (1996). SOEs also rented out their facilities and workers to private entrepreneurs.
dependent on captive commercial relationships with a small number of buyers of the lowest value-added products, mainly wild, shell-on, raw shrimp frozen into ice blocks. Market structure was virtually unchanged from the early 1980s: ninety percent of annual exports went to Japan and Southeast Asian markets, which did not require any internationally accepted product or process standards (N.T. Cuông 2010, 162). Managerial capability and productivity were low and capital was scarce, as is evidenced by a regional comparison: despite Vietnam’s longer coastline and larger EEZ, in 1995 it exported only $450 million in aquatic products, less than a tenth of Thailand’s $5 billion.

III. From market player to market regulator

In the mid-1990s, Vietnam’s seafood processing industry began to undergo technological and managerial restructuring that enabled firms to access and rapidly increase exports to the European market. Exporting to markets without codified standards, like Japan, was a different proposition from exporting to regulation-intensive Western markets, which had complex, science-based sanitary standards that could only be met through a complete transformation of an industry’s production base. As discussed in Chapter 1, stringent food safety standards can box developing countries out of profitable market opportunities and supply chains, and the transformation of a traditional commodity into one compliant with international sanitary standards requires new investments and managerial know-how— not completely unlike entering an altogether new industrial activity.

This section describes the governance reforms that helped to transform these tough market standards from barriers to entry into catalysts for growth (Anders and Caswell 2009). In 1994, the Ministry of Fisheries created an impartial food safety regulator to replace Seaprodex, held hundreds of trainings on state-of-the-art sanitary standards needed to access to the European market, and created a modern food safety regulator—the National Fisheries Quality Assurance Center, NAFIQACEN—and industry association—Vietnam Association of Seafood Exporters and Processors, VASEP. It argues that international market pressures, specifically EU market standards, set the terms of global integration, but that institutional change was driven by domestic political actors. Provincial governments and their SOEs formed a powerful new set of industry stakeholders who wanted to be able to compete on equal footing. They found allies in a group of sectoral policy entrepreneurs in the Ministry of Fisheries who incorporated know-how from a Danish foreign aid project to push for overhauling sectoral governance.

NAFIQACEN and the campaign for the European market

Beginning in the early 1990s, a cohort of officials in the Ministry of Fisheries (MOFI) set their sights on gaining access to the European market for Vietnam’s seafood

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74 Interview A3; Kagawa and Bailey (2006).
75 Vietnam’s EEZ is a million square meters and its shrimp aquaculture spread over 200,000 hectares, compared to .3 million square meters and 80,000 hectares in Thailand (N.T.H. Minh 1996, 12).
exports. The target had evolved out of a UNIDO project, one of several European technical assistance projects supporting public sector reforms in Vietnam with the broad aim of supporting the government’s transition from command planning to managing a market economy (Hardy 2015; Rama 2008, 33–34). The fisheries project, which was taken over by the Danish International Development Agency (Danida) in the early 1990s, had a mandate to improve quality assurance and promote business development in the seafood export industry. The project was called the Seafood Export Quality Improvement Program, or SEAQIP. MOFI and SEAQIP officials set the goal of gaining access to Europe’s seafood markets as one of the project’s core objectives.

There was a chasm, though, between Vietnam’s existing regulatory and production capabilities and EU standards, which were at the time the world’s strictest for seafood imports. By contrast with Japan, where importers themselves bore primary responsibility for food safety, the EU (and soon after, U.S. and other) markets had extensive public regulations governing seafood imports. Facing declining local fishery stocks and growing trade in fresh fish, the EU had in the early 1990s written new regulations for imported seafood, setting fourteen specific standards for production conditions and food safety. Seafood was among the first imported foods to be subjected to such scrutiny due to the health hazards associated with perishable fish and shellfish. Any country would be able export to the EU on “List 2,” but to export freely and easily, though, countries and firms had to be classified as “List 1,” which demanded three “equivalencies” with the EU: in national food safety laws, in food safety management agencies, and in sanitary conditions in factories.

One of the key requirements to access List 1, laid out in an MOU between the EU and Vietnam, was that Vietnam would have to create an independent quality control agency to act as a neutral gatekeeper of exports. At the time, Vietnam’s seafood quality control system was managed by Seaprodex, requiring factories to have export products inspected by Seaprodex before shipment. Predictably, Seaprodex discriminated against its competitors, forcing long delays and loss of business onto local SOEs. Provincial processors thus formed a ready-made domestic political constituency for neutral quality control; emboldened by their growing commercial success and clout, they and their provincial government owners lobbied against Seaprodex’s quality control monopoly. According to a former quality assurance manager at Seaprodex, local firms objected to

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76 Nordic countries had a legacy tradition of aid to Vietnam that had continued through the embargo. Denmark also had decades of experience providing aid to fisheries sectors in South Asia and Africa, and it had developed a detailed set of principles and lessons learned to guide future assistance, including separating commercial activities from policy and state control (Danida 1993).

77 Key EU directives are 91/493/EEC and 91/492/EEC.

78 According to NOAA, “Countries ... included in List 1 are ‘harmonized’ or ‘approved’ countries. It means that their legislation requirements are at least equivalent to those governing the E.U. domestic production, and that an E.U. inspection team has audited the competent authority, which satisfied E.U. requirements. A specific decision has been adopted for each of those countries fixing specific import conditions, including the official recognition of the competent authority, a specific model of health certificate and a list of approved establishments.”

<http://www.nmfs.noaa.gov/trade/EU CONTENTS.htm#Toc451577986>

79 Interview G29, former Minister of Fisheries Ta Quang Ngoc, 5/15/15.

80 Interviews G1, former official, NAFlQACEN, 11/17/14; G1; G29.
“biased” inspection, which “made difficulties for other fish processing factories, because Seaprodex [gave] priority to their own products before taking the products from other companies.”

A former MOFI official observed:

> It was central policy combined with firms’ opinions that led to the creation of NAFIQACEN. We didn’t just think this up out of thin air and push it down. The reality was that, that Seaprodex couldn’t be objective. Before, [Seaprodex] had been too powerful, so [provincial firms] were afraid, and they couldn’t say anything. But when they became able to export themselves, they weren’t afraid anymore.... so they could propose that inspection should also be separated.

MOFI officials were acutely aware that creating an independent state regulator meant fundamentally changing the role of the state from participant to regulator. In interviews, they describe a core objective for the new agency as being to act as a neutral arbiter of standards that treated companies equally regardless of ownership.

The reform, though, was deeply contentious, setting off a battle within MOFI. Seaprodex’s director held the status of a vice-minister, and the company bitterly opposed the new inspection agency, which was named the National Fisheries Quality Assurance Center or NAFIQACEN. As a former MOFI official put it, “In the struggle between Seaprodex and the Ministry, Seaprodex had money, whereas the Ministry had no money. But the Ministry had power.” One founding NAFIQACEN official remembered that Seaprodex was “very strong, yes, and we were very small.”

NAFIQACEN’s founding director described his confrontation with the director of Seaprodex in similar terms:

> I told him: ‘You are the giant here, and I’m the little guy. Why is that? Because your rank is similar to a vice-minister, you have more than a million dollars in your pocket, and you have all of the staff, whereas I have nothing except for this decision [of the Ministry]. that’s it.

Initially the new agency’s fate was uncertain. The trained microbiologists and chemists who staffed Seaprodex’s quality assurance center were hesitant to defect, uncertain about which side would prevail. To build support, MOFI reformers offered side payments to Seaprodex staff, making it a matter of policy that any quality control staff member who wanted a job at could get one. At the Ho Chi Minh City branch of NAFIQACEN, for instance, all eight of the original staff came from Seaprodex.

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81 Interview G1.
82 Interviews G5, founding director, NAFIQACEN, 12/11/14; G1.
83 Interview G29, Former Minister of Fisheries Tạ Quang Ngọc. Ngọc said in an interview that an SOE “cannot have a monopoly over standards....Standards belong to the state.”
84 Interview A3.
85 Interview G1.
86 Interview G5.
87 Interview G3.
88 Interviews G1, G2 (11/28/14), G23 (3/23/15), G5, current and retired officials, NAFIQACEN.
Ultimately, NAFIQACEN succeeded because it had the support of senior sectoral policymakers within MOFI, including those responsible for science and technology, processing, and export promotion. These included two successive Ministers of Fisheries, before and after 1996, who supported the reforms.\(^8\) These policymakers operated without intervention or direction from the top echelons of the party-state. Seaprodex sought to rally the government to its side, successfully petitioning the Deputy Prime Minister to publicly question why Seaprodex was losing its control over quality assurance.\(^9\) Vietnam’s political leaders did not, however, intervene to protect Seaprodex or stop the regulatory reform.

Creating a globally recognized food safety inspection agency involved a relentless campaign of learning and incorporating new information, much of it supported through Danida’s SEAQIP project. NAFIQACEN inspectors had to learn state-of-the-art international standards, including ISO, HACCP and FAO Codex. Twenty-one agency staff with backgrounds in microbiology, chemistry, and food technology were sent to Denmark to study international food safety regulations, as well as how to establish internationally-compliant laboratories capable of microbiological and chemical testing. One participant emphasized that the purpose of the trainings was to learn “their system” of standards “because we already knew the technical and scientific issues.”\(^91\) Dozens of trainings, seminars, and workshops were held in Vietnam and abroad, and staff were sent to study foreign inspection agencies. Thick tomes of EU standards were translated word-for-word to become Vietnam’s first national standards for food safety in seafood processing facilities, over the objections of bureaucratic opponents who questioned why Vietnam should import foreign standards from whole cloth instead writing its own.\(^92\) A Ministry of Industry and Trade official who became SEAQIP’s first national expert remembered bringing reams of EU regulations back from early international conferences on seafood regulation, which MOFI officials translated by hand to become Vietnam’s national regulations.\(^93\)

The transformation of the regulatory framework was only the first step to gain acceptance on the EU market. The central component of the EU requirements concerned production conditions in processing facilities, where firms were required to implement HACCP (Hazard Analysis Critical Control Points) standards, the gold standard for sanitary process management in food processing facilities.\(^94\) Originally developed for the aerospace industry, a HACCP system is a set of firm-specific production practices and guidelines to identify points in the production process where food safety risks are most likely to occur and establish measures to minimize those risks. Risks fall into three hazard groups: physical, such as wood or metal from a broken conveyor belt; biological, meaning microbes or pathogens; and chemical, including veterinary drugs, pesticides,

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\(^8\) Ministers Nguyễn Tấn Trinh (1981-1996) and Та Quang Ngoc (1996-2007), respectively. They sometimes expressed that support tacitly, to avoid open confrontation. Interviews G5; G29.
\(^9\) Interview G3.
\(^91\) Interview G23.
\(^92\) Interviews G3, G5.
\(^93\) Interview C2, lead national expert, SEAQIP, 3/26/15.
\(^94\) The U.S., and to a lesser extent Japan, had already started to implement HACCP in the seafood processing industry but the EU was the first to stipulate it as a condition for exporting nations.
heavy metals, and histamines. Critical limits are identified, monitoring systems are created, corrective actions planned, employees trained, and extensive records kept (Allshouse et al. 2001, 119).

HACCP was completely new to Vietnam, as was the notion that the final product would be evaluated based on scientific indicators such as bacterial content and chemical residues, rather than smell and appearance (Minot 1998). Not a single seafood factory was HACCP-certified, since Japanese importers had not required codified sanitary standards, preferring to tacitly transmit best practices to managers on the factory floor. Indeed, there was a debate within MOFI about whether HACCP standards were too difficult, and whether training programs ought to start with easier process standards. Implementing HACCP required radical restructuring of factory processes and significant capital investments. Factories had to adhere to prescribed rules regulating workers’ dress and the factory’s layout and building materials, and to pass in-factory inspections. Workers had to follow specific sanitary procedures every time they moved in-between five different parts of the factory, with particularly stringent requirements for cooked shrimp, which is sold ready-to-eat. Particular equipment was required, including freezers, water filtration and ice machines, and generators, and ice had to be used at all stages of production. Packaging had to follow specific sanitary procedures. The entire facility had to be built to specifications that allowed raw materials to be brought into the factory on one end, and to proceed down a unidirectional production line, with no cross-contamination. Surfaces had to be made of stainless steel, so that every inch of the factory could be washed down in prescribed and systematic routines; washing rooms had to be meticulously placed at the entrance to each section of the production facility, and workers trained to use them.

Working with SEAQIP, the Ministry of Fisheries began a concerted campaign to introduce HACCP to Vietnamese seafood factories. Hundreds of trainings were conducted throughout the country by NAFIQACEN and their Danish advisors. Many trainings were individualized for a single factory, since HACCP procedures were different for wild caught fish, shrimp, aquaculture products and mollusks. NAFIQACEN officials wanted firms to “set up their own HACCP plan by themselves,” so that they would “understand what is suitable for their conditions.” One NAFIQACEN staff member recalled conducting 60 individualized HACCP trainings at factories. Factories

95 Interview BU1, U.S. seafood industry quality assurance manager, 9/21/14.
96 Interview G26, former official, NAFIQACEN, 3/26/15.
97 According to Kagawa and Bailey’s (2006, 308) study on Japan’s early involvement in Vietnam’s shrimp industry, “Japanese seafood technicians say [HACCP] is fine in theory but difficult to apply to production lines. Japanese companies focus on practical techniques to improve the quality of seafood products.”
100 Interview G26.
101 Interview F3, executive, seafood processor, 10/29/14.
102 Interviews G1, G26.
103 Interviews G26, C2.
were trained by NAFIQACEN, and then their plants were used as models for other plant managers to observe how a HACCP process is implemented.  

There was no market for specialized services in the incipient sector, and NAFIQACEN filled the void, providing consulting services and reviewing floor plans for firms that had to completely rebuild their plants. Plants had to be rebuilt or gutted, new cold storage areas had to be constructed, and equipment purchased. The total investment per factory was significant, on the order of ten to thirty billion VND ($1-3 million USD at 1996 exchange rates). NAFIQACEN’s founding director described the extensive renovations that firms had to make:

The industry had to change all its practices. All companies that wanted to export to the EU had to destroy their old factory and start again. The workers’ habits had to be changed, including their uniforms, gloves, changes of clothes and their route through the factory. Companies complained, saying ‘it’s expensive.’ I told them: ‘you must do this – and not only for the EU, as all other countries will force you to do this – and not only for export, but also for the domestic market. And for the moment, if you don’t, then I won’t put you on the EU export list.’

NAFIQACEN itself also had to learn to conduct inspections. As NAFIQACEN’s founding director put it, “[We were] building a hotel while also receiving guests – that is, we had to provide guidance to firms at the same time as we built our own system.” It was, according to the former Minister of Fisheries, a “completely different” kind of agency than Seaprodex’s quality control center, because it did “comprehensive quality assurance.” Inspectors became street-level bureaucrats and what Tewari (2008) calls “diffusers of standards,” learning to conduct inspections and aiding firms in meeting new requirements. NAFIQACEN invited European inspectors to Vietnam and traveled the length of the country with them, learning their inspection methods. In an interview, NAFIQACEN’s founding director admired how a French inspector once sneaked into the back of a factory warehouse to find a mouse nest, despite protestations from the factory manager.

Between 1994 and 1999, EU officials came to Vietnam twice a year, each time inspecting 7 to 10 factories, and European specialists came to train Vietnamese officials. MOFI officials made dozens of trips to European capitals to lobby for acceptance from EU member states, and enlisted the support of Vietnamese diplomats.

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104 Interview G26.
105 Interview G29, former Minister of Fisheries Tạ Quang Ngọc.
106 Interview G5.
107 Nguyễn Tự Cường, quoted in Hardy (2015).
108 Interview G5.
109 Interview G29.
110 Interview G5.
111 Interview G23. Officials proudly recounted that they worked constantly during this period, often sleeping under their desks, sometimes before early morning trips to take European inspectors out to the fish market or clam farming areas.
commercial officers, and trade negotiators to push the industry’s cause (N.H. Dùng 2014).112

This emphasis on the state is by not meant to imply that firms were passive actors. Far from it: firms bore all the risk in making what at the time were enormous investments to upgrade their facilities.113 The state was as an intermediary, providing training and information to facilitate the sector’s engagement with the global market. But this was a necessary role. A quote from the MOFI vice-minister responsible for export promotion illustrates the point, describing regular meetings between the Ministry and firms, many of which were skeptical that upgrading would be profitable:

_They thought that exporting to Japan was enough, and that there was no need to go to the U.S. or to Europe. With a perspective like that, we really had to struggle... During the years of upgrading to the EU market, the problem was that companies didn’t meet the production conditions, so every year we organized a quality conference with firms, and we had to persuade them, we had to talk to them, we had to choose the most advanced firms to guide the others in implementing standards. A lot of firms asked, ‘OK, so if I am going to follow the standards then I have to re-invest and improve [the factory], but will I be able to make back my investment or not?’ And we said, ‘Look, nobody can answer to that question now. But if the market demands something and we can’t satisfy it, we can’t get into that market.’ We were lucky that a few firms were progressive, and followed along._114

Dani Rodrik argues that lack of information about whether a new export activity will be profitable is a central barrier to entrepreneurship; what MOFI was doing was conveying information about whether a risky investment in new plants and processes would be worthwhile. In a perfect market, firms would adopt food safety standards on their own if expected benefits exceed costs through reduced risks and/or higher prices (Mitchell 2001). But prices are unknown for nonexistent resource allocations (Rodrik 2008, 104). HACCP compliance was a condition for market access, and small, local processors had had no exposure to European consumers or customers. They did not know that there were ready markets in Europe for Vietnamese seafood. Indeed most firms resisted initial exhortations – only 40%, or 67 factories, tried to implement a HACCP plan (Hardy 2015).

In 1999, 17 seafood processors of the original 67 factories that submitted applications to NAFIQACEN for audits were accepted as List 1 exporters (list in Table 3.6, appendix). Once these firms had accessed to European markets, they grew rapidly, earning back their investments quickly. Within a year, by 2000, Vietnam’s exports had doubled. Export prices of Vietnamese clams doubled almost overnight.115 The stamp of approval from the EU also helped factories to increase their selling prices in non-EU

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112 Also Interview G3.
113 Ta Quang Ngoc (2014). Also Interviews G26; G5.
114 Interviews G3; also Interview G26.
115 From 800 dong/kg to 1500 dong/kg (Hardy 2015).
markets; firms saw their firm-specific EU approval number as their brand name.\textsuperscript{116} NAFIQACEN’s founding director described the euphoria when the first Vietnamese firms were approved:

*When the EU announced that we had gotten onto List 1, it was like a national festival – VTV1 announced it, all of the local TV stations, all of the companies killed a pig to celebrate... There were three places that brought pigs to celebrate. One to VASEP, which brought an entire roasted pig, the Ministry of Fisheries brought an entire tray to make an offering, and NAFI[QACEN] also prepared one. I mean it was endlessly happy, we had attained a certain level. To say it simply, it was like after applying to universities, we had gotten into Harvard – everyone understood it like that.*\textsuperscript{117}

The acceptance of the first factories was a tipping point. Companies that had initially balked followed suit in upgrading their facilities and retraining managers and staff. Demand for HACCP trainings grew, as factories saw the immediate utility, and as other markets adopted the same requirements. The number of firms accepted to the EU spiked in the mid-2000s, reaching 330 by 2010.\textsuperscript{118} NAFIQACEN’s first director said “After that point, I didn’t need to say anything – all the other companies just copied the first 15. There was no need for any more ... persuasion, mobilization and so on. All I had to do was go and inspect” (Hardy 2015).

Meeting European standards opened the door to other demanding markets. When the United States put a HACCP requirement in place, nearly a hundred Vietnamese factories were accepted immediately, and as other developed markets put up their own entry barriers, Vietnamese factories easily gained access (Table 3.3). Because the EU’s standards were the most stringent, entry into other difficult markets was eased.\textsuperscript{119} In 1997, the U.S. FDA approved the HACCP plans of 57 Vietnamese enterprises; in 2000, the first Vietnamese firms were approved to export to Korea, and in 2005 the Canadian Food Inspection Agency approved Vietnam’s program for monitoring of harmful antibiotic residues in seafood containers. By 2005, all of six branches of NAFIQACEN had received international accreditation for their laboratories,\textsuperscript{120} and 174 inspectors were certified.\textsuperscript{121} Seafood overtook rice to become the country’s largest agricultural export. Within ten years, Vietnam leapt up the global ranking tables to become the world’s fourth largest exporter (Table 3.4). Exports to Japan grew, as Vietnamese producers made new investments in equipment and became increasingly able to process to importers’ range of specifications (panko breaded, *ebi*, etc.) (Hồ 2014), but market share also grew in the EU and U.S. (Table 3.5).

\textsuperscript{116} Interview F3, seafood processor, HCMC; F16 (12/20/14), F21 (3/18/15), F26 (4/20/15), catfish processors, Mekong Delta
\textsuperscript{117} Interview G3.
\textsuperscript{118} Interview G26, official, NAFIQACEN.
\textsuperscript{119} This was not just true of HACCP requirements. For example, the EU required cooking at higher temperature than the U.S., meaning that factories that were accepted to the EU were able to meet U.S. standards as well. Interview G23.
\textsuperscript{120} ISO 17025 accreditation.
\textsuperscript{121} Danida, FSPS 2000-2005 report, p. 11.
Vietnamese seafood processing facilities also developed a reputation for hygiene with buyers. The head of a major U.S. restaurant chain that sources all of its shrimp from Vietnam said in an interview that “Vietnam has the most stringent plant operations of any country we know. You have to go through the entire procedure when you go into the plant – you get rolled down [for external contaminants], you have to wear the [protective] clothing. It’s a very strong norm there.” The buyer compared Vietnam favorably to American processing plants, concluding that “You’d like to take [those] practices to the U.S.” Another sign of success was that Vietnamese processors, who in the 1990s exported unprocessed frozen shrimp to Thailand, became major importers of raw shrimp from primary producers like India and Ecuador for reprocessing into value-added products for end markets.\(^{122}\)\(^ {123}\)

**Table 3.3: Number of Vietnamese seafood processors approved to export to select markets**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU, Norway, Switzerland</td>
<td>49</td>
<td>100</td>
<td>171</td>
<td>269</td>
<td>330</td>
<td>330</td>
</tr>
<tr>
<td>Korea</td>
<td>-</td>
<td>189</td>
<td>251</td>
<td>379</td>
<td>470</td>
<td>483</td>
</tr>
<tr>
<td>USA</td>
<td>92</td>
<td>198</td>
<td>292</td>
<td>370</td>
<td>370</td>
<td>498</td>
</tr>
<tr>
<td>China</td>
<td>-</td>
<td>-</td>
<td>260</td>
<td>381</td>
<td>471</td>
<td>485</td>
</tr>
<tr>
<td>Canada</td>
<td>-</td>
<td>-</td>
<td>264</td>
<td>221</td>
<td>246</td>
<td>282</td>
</tr>
<tr>
<td>Russia</td>
<td>51</td>
<td>189</td>
<td>264</td>
<td>386</td>
<td>460</td>
<td>498</td>
</tr>
</tbody>
</table>

Source: N.T. Cuong (2010, 165)

**Table 3.4: Top ten exporters of fish/fishery products (million USD)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,656</td>
<td>10,114</td>
<td>18,228</td>
</tr>
<tr>
<td>Norway</td>
<td>3,661</td>
<td>6,937</td>
<td>8,912</td>
</tr>
<tr>
<td>Thailand</td>
<td>4,031</td>
<td>6,532</td>
<td>8,079</td>
</tr>
<tr>
<td>Vietnam</td>
<td>821</td>
<td>4,550</td>
<td>6,278</td>
</tr>
<tr>
<td>USA</td>
<td>2,400</td>
<td>4,463</td>
<td>5,753</td>
</tr>
<tr>
<td>Chile</td>
<td>1,598</td>
<td>3,931</td>
<td>4,386</td>
</tr>
<tr>
<td>Canada</td>
<td>2,266</td>
<td>3,706</td>
<td>4,213</td>
</tr>
<tr>
<td>Denmark</td>
<td>2,898</td>
<td>4,601</td>
<td>4,139</td>
</tr>
<tr>
<td>Spain</td>
<td>1,529</td>
<td>3,465</td>
<td>3,927</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,365</td>
<td>3,394</td>
<td>3,874</td>
</tr>
</tbody>
</table>

Source: FAO (2010; 2014)

\(^{122}\) Interview BU9, U.S. seafood buyer, 1/6/15.

\(^{123}\) According to VASEP, Vietnam imported $1 billion in seafood for reprocessing and export in 2015.
Table 3.5: Top markets for Vietnamese seafood exports by year (market share)

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1995</th>
<th>1999</th>
<th>2006</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Japan, Hong Kong and Singapore: ~100%</td>
<td>Japan: 52%</td>
<td>Japan: 24%</td>
<td>Japan: 25%</td>
<td>EU: 27%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EU: 13%</td>
<td>U.S.: 10%</td>
<td>EU: 21%</td>
<td>U.S.: 10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HK: 8%</td>
<td>EU: 6%</td>
<td>U.S.: 20%</td>
<td>Japan: 8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Singapore: 7%</td>
<td>HK: 3%</td>
<td>Korea: 6%</td>
<td>ASEAN: 7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Taiwan: 2%</td>
<td></td>
<td></td>
<td>China/HK: 5%</td>
</tr>
</tbody>
</table>

Source: Minot (1998); VASEP, various years.

VASEP: building a modern business association

The previous section documented how MOFI modernized the food safety regulatory framework to support the seafood processing sector’s entry onto global markets. Sanitary standards, however, were not the only collective challenge facing Vietnamese exporters. Vietnamese firms were newcomers to the world of international commerce and marketing. Trade promotion and marketing can be costly for individual firms, and the establishment of commercialization channels for incipient industries often involves local associational or state support (Tendler 2002; Doner and Schneider 2000; Sabel 2012).

In the mid-1990s, Vietnam’s local seafood processors were, unsurprisingly, not globally networked. As we have seen, provincial SOEs had relied on Seaprodex, provincial import-export companies or buyer agents to export their products. At a MOFI conference about market development in the mid-1990s, the director of a provincial SOE compared companies to blind men in the global market, declaring that “The seafood processing companies are walking with a stick, not with their eyes” (N.T.H. Minh 1996, 65). Nor did private firms have better market channels. Most non-state firms were, like the SOEs, lacking the skills, information, and relationships to take advantage of the opportunities of global commerce. Many private processors in the south started out as seafood brokers in the 1980s, buying shrimp and fish from fishermen and selling to local state-owned processors through personal connections.124 Most of Vietnam’s largest firms have their origins in this sort of “state-related accumulation” (Cheshier 2010). Minh Phu and Quoc Viet, for example, Vietnam’s two largest shrimp companies, were both founded by long-time shrimp brokers in Ca Mau. Other early private processors were founded by SOE cadres – Sotico in Tien Giang province, for example, was founded in 1994 by a retired revolutionary who had been the leader of the provincial women’s union and a manager at the province’s fisheries import-export firm before striking out on her own (Huu Tho 2009). Entrepreneurs like these, who had emerged from the state sector or been small-scale brokers, lacked overseas connections. Diaspora linkages to Vietnamese-American importers in California, discussed in Chapter 4, were important for establishing a market for Vietnamese catfish in the U.S., but these were limited in scope and did not exist in Europe.125

124 Interview F8, shrimp processor, Ca Mau, 11/27/14.
125 Interview F2, catfish processor, Tien Giang, 10/22/14. According to Tran Khanh (1993, 43), in 1974 there were 5 firms in the fishery sector in South Vietnam with Chinese capital investment, accounting for 60% of total investment in the sector.
In interviews, several private processors described how their initial marketing efforts floundered. One private processor who got her start as a broker selling wild-caught fish and squid to local state-owned processors described not knowing how to prepare samples or make contacts with customers. She said that her first trade fairs were like “sitting on a horse and looking at the flowers” (cưỡi ngựa xem hoa), an idiom that implies passivity and lack of detailed understanding of a situation. The company was approached by interested customers, “but we couldn’t really reply to them because we didn’t understand exactly what they wanted. So we got their business card, but the connection wasn’t professional.”126 A senior manager at a major shrimp company echoed the sentiment, saying that the firm was “passive” in seeking out customers during its first decade in business.127

The late 1990s saw a second key institutional innovation that addressed these challenges of market development: in 1998, MOFI created Vietnam’s first modern sectoral business association, including both private and state-owned firms. Market economies, of course, are replete with trade associations that organize trade promotion, lobby and provide information and other services to their members. But in its own context, VASEP was a pioneer. A fundamental organizing principle of Leninism is that all social organizations fall under the party-state umbrella, leaving no space for independent organizations (Applebaum 2015). Under high socialism, society is organized into columns, led by mass party organizations (the Women’s Union, the Farmers’ Union, the Youth Union, and so on) that exist to mobilize society along the Party line, each with “an organizational monopoly in its own field” (Kornai 1992, 39). In the Democratic Republic of Vietnam, the sole business organization had been the state-run Vietnam Chamber of Commerce and Industry (VCCI), an organization established in 1963 to promote relations between the DRV and non-socialist countries.128

Some space had started to creep open for business organizations by the late 1990s. The concept of bottom-up interest representation, as opposed to top-down control, was tentatively introduced, albeit with hard limits. VCCI was designated as the official representative of the business community in the early 1990s, and was included for the first time in the drafting of a new enterprise law in 1996 (Vu-Thanj 2015, 11). Other business organizations, though, were weak. Some loose sectoral organizations were run by SOEs, but SOEs did not need associations because they had direct ties to central and local government.129 In seafood, there was a “Seafood Import-Export Alliance” (liên doàn xuất nhập khẩu) under the aegis of Seaprodex, but it was an organization that existed in name only.130

VASEP, or the Vietnam Association of Seafood Exporters and Processors, was a

126 Interview F3.
127 Interview F8.
128 Interview A24.
129 Interview A3.
130 In an essay, former Minister of Fisheries Nguyễn Tân Trinh called the alliance an “ineffectual” organization (VASEP 2008, 8).
different animal. It was dubbed a “business association” (hiệp hội doanh nghiệp) – a new organizational moniker for the communist country. Membership was voluntary, and limited to one segment of the supply chain, processors and exporters, as opposed to farmers or fishermen. The 57 founding members included private and state-owned firms. VASEP, like NAFIQACEN, was a novel form of organization: a market-oriented association of exporters that developed overseas markets, provided information services to firms, and represented companies’ interests both to the state and abroad.

The initial proposal to form VASEP was external. Unlike with NAFIQACEN, neither firms themselves nor provincial governments advocated for the association; instead, it was Danish donors that advocated for creating a business-driven exporter’s association. Danida had prioritized building a seafood business association modeled on the Danish one, based on a set of principles and lessons learned that it had accumulated from decades of experience aiding fisheries sectors in Africa and South Asia. These included a commitment to building sectoral organizations made of “real stakeholders,” separating commercial activities from policy and state control, and close attention to the end market demand for products. SEAQIP had asked MOFI to create the association multiple times through the mid-1990s, but two successive Ministers had refused to take on the project. In the words of the vice-minister who became the organization’s champion, the idea to create VASEP “was mainly from SEAQIP... The firms definitely didn’t ask for it, but they agreed to participate.”

The model was furnished by donors, but the institution was adopted and created by domestic political actors. Supported by external know-how from SEAQIP, sectoral policy entrepreneurs inside MOFI clashed with other parts of the bureaucracy to create the new, politically contentious form of sectoral organization. Even more than NAFIQACEN, VASEP’s creation involved a fight. VASEP’s champions in the Ministry of Fisheries faced stiff resistance at every stage of state approvals. Approval took a year of political maneuvering and a direct appeal to the prime minister, who only agreed after Nguyễn Thị Hồng Minh, the vice-minister who would become VASEP’s first chairwoman, issued a warning that Denmark would withdraw its sectoral assistance if the association wasn’t established (she noted in an interview that she had probably exaggerated the threat, but it had helped to force the issue). The prime minister agreed on the condition that no more business associations would be established until a legal framework had been written – which would not happen until 2000. Even after this approval, VASEP organizers within MOFI faced resistance from senior government and Party personnel officials, who objected that “If we allow this [association] to be

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131 A detailed Danida policy document from 1993 outlines Danida’s principles for fisheries development in developing economies (Danida 1993).
132 Interview G3; also C2.
133 The “Preparatory committee to establish the Vietnam Association of Seafood Processors and Exporters” included two vice-ministers, local SOE directors, and one private firm.
134 Apparently the government official who signed the approval declared that, because there was no legal basis for business associations (i.e. a law, resolution, or decree), the legal justification for creating VASEP would be based on a vague declaration of Ho Chi Minh from 1946 about business organizations.
According to former vice-minister Hồng Minh,

> As for the understanding [nhan thuc] of management agencies at the time, in general they were afraid [ngai] of associations, so we had to lobby really hard to establish it. We relied on [Prime Minister] Phan Văn Khải and [Deputy Prime Minister] Nguyễn Công Tấn ... whom we were able to convince, but at the lower levels, a lot of people opposed it.

Unlike MOFI’s campaign to access the European market, which was closely in line with the Party’s official goal of global integration, associations represented the threat of civil society, the agents of “peaceful evolution” that had brought down Eastern Europe’s communist regimes. Indeed, out of ten different industry committees that were petitioning the government to establish associations at the time, seafood was the only sector given permission (VASEP 2008, 10).

Even after the government granted permission, there was disagreement within MOFI about how much independence to grant VASEP. VASEP’s office was physically located inside the Ministry of Fisheries compound in Hanoi, and its founding charter declared the association to be “voluntary, self-governing, and self-financing” but not “independent,” a word that carried connotations of political opposition. Most conspicuously, Nguyễn Thị Hồng Minh, the Vice-Minister of Fisheries responsible for seafood processing and export promotion, was installed as the association’s first chairwoman. The official justification for installing a government official was that firms were fractious and unwilling to elevate one above the others. What is remarkable, though, is not that the state sought to control the organization, but that most other sectoral associations created around the same time were controlled by a general corporation, a dominant SOE with market power. In seafood, Seaprodex’s importance was already significantly diminished, and instead a vice-minister was appointed.

The particular individuals installed at the top of VASEP mattered a great deal. VASEP’s chairwoman-cum-vice minister had arisen from the industry herself, and was unusually business-savvy for a socialist official. Hồng Minh had been educated in seafood processing the Soviet Union and worked for a dozen years starting in 1977 as a production manager and later the general director of a shrimp processing plant, Cadimex, in Vietnam’s southernmost Ca Mau (then Minh Hải) province. Her 1996 doctoral dissertation at the Ho Chí Minh Political Academy had obliquely advocated for an expanded role for private sector in seafood processing, documenting how state ownership

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135 Interview G3.
136 In 1994 Party General Secretary Đỗ Mười cited “peaceful evolution from enemy forces” as one of the four main threats facing the Vietnamese regime (Huy Duc 2013, Chapter 21).
137 Interview A3.
138 Vice-ministers frequently lead associations in Vietnam.
139 Interviews A3, G3, G29.
140 She had also been a National Assembly deputy for Minh Hải province and a member of the Ho Chí Minh Youth League’s executive board.
of provincial seafood processors resulted in ambiguous property rights and underinvestment.

Firms viewed Hồng Minh as an advocate within the state, particularly in disputes over what they regarded as over-zealous regulation. For example, one of the EU programs that NAFIQACEN was tasked with administering was monitoring heavy metal levels in mollusks. One year during an algae bloom in the southern mud-flats where clams were grown, NAFIQACEN inspectors detected levels hovering around the lower limit of the maximum allowable range, and the agency’s director alerted processors that every single container of clams waiting to be shipped would be recalled. Firms, naturally, protested. Hồng Minh chaired a meeting between firms and NAFIQACEN, and after companies voiced their complaints, she announced that the containers would not be recalled. She remembered, “When I defended firms in matters like this, I really had two powers: one power as the chairwoman of the association, one power as the vice-minister. So NAFIQACEN had to agree. In those days, sometimes that’s how it was.”

A second key figure in VASEP’s creation was another MOFI official who was also unusually embedded for a government official: Nguyễn Hữu Dũng. Dũng held a doctorate in fisheries engineering from Poland and had been in charge of quality and food safety in MOFI before becoming VASEP’s chief administrator. Dũng served as the long-time Vietnamese director of SEAQIP. Though he had been a professor and official for his entire career, he spent years working closely with firms under the auspices of SEAQIP, which had given him insights into firms’ perspectives and the central role played by businesses in economic development. Dũng became an exceptionally energetic industry advocate. In other words, instead of focusing on whether VASEP was an independent interest group—it clearly was not—VASEP should be understood as a novel form of sectoral governance, charting new waters in Vietnam’s state-business relations by as a business-centric, if state-penetrated, association. The arrangement was not corporatism, but nor was also not simple co-optation.

VASEP became the global face of Vietnamese seafood, organizing trade fairs, connecting members to customers and disseminating market and regulatory information to the industry. Its core focus was on trade promotion and creating market channels for members. By its own count, the association directly introduced 400 buyers to Vietnamese processors. European buyers viewed VASEP as a reliable channel of information about new suppliers in the industry, which was particularly important, according to the former

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141 Interview, Nguyễn Thị Hồng Minh. Somewhat ironically, Hồng Minh retired as chairwoman in 2003 because the U.S. Department of Commerce team investigating antidumping allegations viewed government leadership of the association as evidence of enterprises being under state control (VASEP 2008, 10-13).
142 Interview, Nguyễn Hữu Dũng, 11/18/15. Dũng held his positions in MOFI, VASEP and SEAQIP simultaneously, an indication of how closely the three were affiliated.
143 This view of Dũng was expressed in (VASEP 2008, 8-9); and Interview A1, Director, Global Aquaculture Alliance, 10/5/14.
144 This point is made by (Foster 2001) about Chinese associations. For an argument that Vietnamese business associations are corporatist, see Stromseth (2003).
145 Interviews F3, F8.
head of a European seafood importers association, before there were long-standing, direct ties between buyers and processors.\textsuperscript{146}

Trade fairs were a central focus because they are the main venue for suppliers to meet buyers in the global seafood industry. The Ministry of Fisheries and VASEP organized the first stands for Vietnamese seafood at the major international trade fairs in Boston and Brussels in 1999. The fairs provided important learning experience for firms, which learned to maneuver in the world of global commerce. Between 1999-2003, VASEP organized groups of exporters to attend 4-5 trade fairs annually (VASEP 2008, 123-128).\textsuperscript{147} VASEP’s first chairwoman noted,

\begin{quote}
Before that, in 1994, ’95, ’96, ’97, firms just sat at home, and the Japanese came here and told us, ‘You make this for me, you make that for me’ – however much they wanted to buy, that was how much we made. But later, firms went to trade shows, communicated with customers, and became more proactive.\textsuperscript{148}
\end{quote}

VASEP also led numerous foreign market surveys.\textsuperscript{149} Many of these early trips and activities were funded by SEAQIP and MOFI,\textsuperscript{150} but as the association and industry grew, it became self-financing as firms started to pay for services.

Observing that only bigger companies were able to attend major foreign trade fairs, VASEP’s leaders-cum-MOFI officials pushed for a Vietnamese trade fair, which was held in Ho Chi Minh City for the first time in 2000. The trade show, VietFish, was run by the Ministry for the first year, but subsequently transferred to VASEP. Ministry leaders invited senior government leaders – including three current and former prime ministers – to drum up support.\textsuperscript{151} State-private intermingling was omnipresent in all of these activities, even at highly commercial forums like trade fairs. At Vietnam’s first stand at the Boston International Seafood Show in 1999, the delegation included an amazing 44 Ministry officials – outnumbering the 16 firms that came – in addition to representatives of three Mekong Delta provincial governments, representatives of VASEP, and Danida.\textsuperscript{152} One former MOFI official remarked wryly that the Ministry of Fisheries demanded its own stall at VietFish, complete with a portrait of Ho Chi Minh.

VASEP also disseminated market and regulatory information. It published a bi-monthly news bulletin, and later a full magazine called Seafood Commerce (Thuo'ng mai Thịt sán). Early issues provided costly and hard-to-access market information to

\textsuperscript{146} Interview, former head of EU seafood importers association. \textit{VASEP Proceedings 1998-2008}, p. 33.

\textsuperscript{147} Indicative of the greyness of the association-state relationship, the Ministry later decided that because VASEP did not “belong” to the Ministry, it should not spend Ministry money, and took over organizing trade fair trips. Interview G3.

\textsuperscript{148} Interview G3.

\textsuperscript{149} It organized an average of six such marketing trips per year during the 2001-2005 term. \textit{VASEP Proceedings 1998-2008}, p. 131.

\textsuperscript{150} MOFI sector report 2002.

\textsuperscript{151} Interview G3. The fair continues today, and is attended by most major global buyers (Interview A1, head, Global Aquaculture Alliance).

\textsuperscript{152} VietFish magazine #18, 5-4-1999.
members. Contents included price information in major markets, using data from
international subscription services such as InfoFish; market analysis and news on major
species; information about the government’s sectoral policies, plans and export taxes;
names and contact information of importers; and notifications from foreign regulatory
agencies, including lists of the Vietnamese companies that had been put on alert by the
U.S. FDA for banned residues. They also had extensive coverage of standards, with long
“Q&A about HACCP” articles written for processors by the director of NAFOACEN.

Such information services sound basic, but it must be remembered that market-
facilitating institutions to provide information and support trade were entirely lacking
under command planning. In their study of Vietnamese reform, Fforde and de Vylder
(1996, 259-260) say that in the 1990s the legacy of the planned economy, combined with
the state’s “tradition of secrecy in economic matters” meant that “Economic information
was weak, and markets lacked transparency... Knowledge about prices, alternative
suppliers, distribution channels and so on was insufficient.” Without sufficient
information, it was easier for firms to sell to a middleman rather than to figure out the
logistics and connections necessary to export directly or to new markets.154 In this
context, VASEP played an important role in providing basic market and price
information.

As Vietnamese seafood became increasingly ubiquitous in European and
American supermarkets and restaurants, the sector also attracted rancor from competitors
and consumer organizations. The U.S. applied antidumping duties applied to Vietnam’s
catfish in 2002 and its shrimp in 2003; several years later, European environmental and
consumer groups attacked catfish farming practices in the Mekong Delta (Little et al.
2012; Bush and Duijf 2011). Pushed into the limelight, VASEP became the industry’s
international representative. Seafood was Vietnam’s first export industry to be charged
with dumping, and the state was slow to respond.155 VASEP organized firms to prepare
the paperwork required by the U.S. Department of Commerce, raised funds from
members to hire lawyers and support lobbying efforts in the U.S., and developed a
network of supporters among U.S. association of importers and distributors (Bao
2005).156 In 2013, VASEP organized Vietnam’s first challenge to the WTO on the shrimp

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\text{154 Interview G3.}
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\text{155 Interview G4, former official, MOIT, 12/10/14.}
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\text{156 Dinh Thi My Loan, “VASEP was a leader in fighting antidumping suits,” VASEP Proceedings, 1998-
2008, p. 154.}
\]
Despite its origins within the state, VASEP became a business-driven organization. State policymakers had created the organization, but stakeholder support and buy-in had developed over time, as businesses saw the utility of having their interests represented inside the government. By 2008, its membership had grown from 61 to over 200 companies and it accounted for three-quarters of export value. Membership became mainly private, as local SOEs were privatized and new private investment grew (Figures 3.2 and 3.3). Symbolic of this shift, in the mid-2000s VASEP built a large new headquarters in Ho Chi Minh City, outside of any state compound.

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157 Interviews A13 (4/2/15), A20 (4/16/15), A21 (4/22/15), A24, officials, WTO Center, Ho Chi Minh City Business Association, wood furniture association, VCCI.
Figure 3.2: Ownership of VASEP member firms

Ownership of VASEP member firms, 1998-2008

Source: VASEP (2008)

Figure 3.3: Export value of VASEP members

Export value of VASEP members and entire country, 1999-2007

Source: VASEP (2008)
IV. Explaining governance reform

Why did the Ministry of Fisheries break the monopoly of a major central SOE and create an impartial state regulator at a time when other sectors, like rice or coffee, were consolidating the control of central monopolists (as we will see in Chapter 5)? Why did it embark on deliberate campaign to attain access to the EU market? How did the seafood sector end up with a business association representing both private and state-owned firms at a time when there was not a single such sectoral association in Vietnam? In short, why did state actors push a transition from traditional socialist control to a much more forward-leaning, market-based regulation?

Clearly, exposure to international markets and actors was critical. EU regulations provided a external source of pressure by setting a hard, unambiguous benchmark. The European Commission had laid out clear conditions for access to the European market, and, as one NAFIQACEN official put it, “The purpose of NAFIQACEN from the beginning was to solve trade barriers put up by the EU.” Likewise, foreign technical assistance was a critical source of know-how. Both NAFIQACEN and VASEP were deeply integrated with SEAQIP. Many of the trainings for firms were sponsored by SEAQIP, which also equipped new laboratories and trained NAFIQACEN staff. SEAQIP training materials became the foundation for VASEP’s business training center, which it also funded for its first two years, until firms began to pay fees. SEAQIP facilitated exchanges with the Danish seafood exporters’ association for VASEP to learn about how industry associations operate. The SEAQIP project itself also served as a training ground for VASEP staff; VASEP staff learned about the industry by working in factories with SEAQIP’s technical consultants.

But these new institutions were not reducible to market pressures or foreign technical assistance. The chapter has shown that the reform outcome would have been far less certain without domestic political constituencies and champions. SEAQIP’s contribution was to provide know-how that informed officials about the end toward which they were aiming. Former vice-minister Hông Minh noted that “if nobody had brought the new ideas to Vietnam, we wouldn’t have known” what industry best practices

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158 Interview G23.
159 Interview C3, consultant, SEAQIP (by phone) 8/31/15; Interview C2.
160 Interestingly, beyond this contact, there were few direct linkages between Denmark’s fishery industry and the SEAQIP program. The project did, however, carry numerous indirect benefits to Danish industry. SEAQIP’s Danish market advisor, whose background was as a fish exporter in Denmark, connected Vietnamese processors with Danish (and other European) buyers on an ad hoc basis. Danish equipment suppliers also benefited as suppliers of freezers, ice makers, and other equipment; these linkages, however, were entirely commercial, and Danida did not provide any of the financing for plant upgrades. Danish trading companies faced with declining fishery catch in Europe began sourcing seafood from Vietnam, and later outsourcing processing to Vietnamese factories. Many of these links, though, followed, rather than preceded the initial SEAQIP program, benefiting from the knowledge and networks created by SEAQIP. For example, Danish commercial diplomats who had worked for SEAQIP who later advised Danish companies on their commercial activities in Vietnam (Thomsen 2015). Interview C3.
161 Documents on SEAQIP financing from the 1990s are not available, but a rough estimate of Danida’s SEAQIP projects from 1993 through 2005 put the total funding at around $10 million.
were, "but because of SEAQIP" they did. Former minister Ta Quang Ngoc emphasized, "This was a proactive [chủ động] process of learning," not something that was forced on Vietnam. This portrayal was confirmed by a long-time Danish consultant to SEAQIP, who said that key officials "really took in" SEAQIP's proposals about would need to be done to gain access to global markets to advocate within MOFI. She said that "We also pushed, but our push would have meant nothing if they had not been willing to go with it." This is because these reforms were contentious: NAFIQACEN represented a new form of management that threatened existing power holders, and VASEP was a novel, and suspect, organizational form that included the private sector in governance. The importance of sectoral policy entrepreneurs is particularly evident with the creation VASEP, where one of the association's champions, Nguyễn Thị Hồng Minh, tactically deployed the threat of Danida withdrawing support to push the initiative within the state. In short, EU standards defined the benchmark – what producers and regulators would have to do to access markets – and SEAQIP supplied information to about how to achieve it, but its realization was a result of local initiative.

Bottom-up political support came from provincial governments and firms with a direct economic interest in export liberalization and neutral quality assurance. These interests were entirely in the state-owned sector, since SOEs accounted for almost 95% of direct exports and new private firms lacked the relationships or position to lobby a national ministry. But focusing on the fact that most firms were state-owned misses the point, because the local state sector and their owner-managers formed a constituency for lowering barriers to entry. Intending only to advocate for their own interests, these stakeholders helped set in motion a set of reforms that paved the way for private firms to enter the market.

It was MOFI modernizers, though, operating with bureaucratic space, who gave shape to the reforms, eagerly and actively seeking to acquire know-how about the most recent standards. Inattention from top echelons of the party-state gave these officials the leeway to devise new forms of sectoral governance and pursue their goal of accessing the EU market. Fisheries was not considered a strategically important industry by the Party; one piece of evidence for this is that MOFI, like other less important ministries, had no corresponding Communist Party committee (Đặng and Beresford 1998, 44). Prime Minister Phan Văn Khải took a personal interest in MOFI’s efforts to access the EU market, but it was not a matter of Party policy – unlike rice exports, as we will see in Chapter 5. Vice-Minister Hồng Minh noted that the seafood industry was “lucky” in the 1990s that senior echelons of the party-state was “not paying attention” to the sector. A

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162 Interview G29.
163 Interview C3.
164 Indeed, as Seaprodex had feared, the new quality control center was the last strike that precipitated its downward spiral. By 1997, Seaprodex’s share in Vietnam’s seafood exports had fallen to only 17 percent, and it would go on to become one of the first major SOEs to declare bankruptcy in 2005 (Minot 1998).
165 N.T.H. Minh (1996, 51, 55). This figure is somewhat misleading because of the state sector’s aforementioned dependence on private entities for raw material supply, and in many cases for capital and even factory operations, but the main point is that private firms do not seem to have been major players in the fight over exporting rights.
166 Interviews G5, G3.
lack of strategic, high-level attention to the sector gave the MOFI officials discretion, which enabled them to sideline the sector’s major SOE. Bureaucratic space created an opportunity for entrepreneurial behavior by a set of sectoral policymakers who had career experiences and training that made them eager to actively incorporate new ideas and advocate for a new role for the state. As Grindle and Thomas (1991, xiv) put it in their study of policy reform in developing countries, “people... change policy, and do it from motivations and perspectives that are imbued with personal and professional values that frequently include serious concern for the public interest.” A critical mass of like-minded people within MOFI were, in Hồng Minh’s words, “willing to take risks” and motivated to absorb new information from Danish advisors and experiment with governance models.

What explains this concentration of sectoral policy entrepreneurs? As we have seen, the two primary champions of VASEP within the bureaucracy, Nguyễn Thị Hồng Minh and Nguyễn Hữu Dũng, had had career paths that gave them an unusual level of exposure to businesses for Vietnamese officials. Hồng Minh had been a shrimp plant manager in Ca Mau for a decade, and Dũng had led the SEAQIP project for years, working closely with businesses. These experiences convinced them of the importance of taking a firm-centered approach to export promotion and upgrading. These sectoral policy entrepreneurs midwifed VASEP, which represented a controversial new form of governance, through persistent advocacy; then, over time, VASEP developed bottom-up stakeholder support as firms came to see that it served their interests.

A broader set of MOFI policy entrepreneurs were involved in the creation of NAFIQACEN and the EU campaign (a full list is in Table 3.7, appendix). These individuals also had had careers and training that gave them technical knowledge of the sector and some experience with its commercial markets. As we saw in Section II, Vietnam’s seafood export industry, even under high socialism, had always been oriented toward capitalist markets, meaning that fisheries officials had experience, in the words of Thun (2004, 1296), with “listening to the market.” They were all fisheries or food processing engineers trained in the socialist bloc, which meant they were familiar with the fish processing sector. They also had long-standing professional ties. Many senior officials had graduated in the first cohorts of Vietnam’s University of Fisheries (or its predecessor, in Hanoi’s University of Agriculture). Several returned to teach at the University of Fisheries in Nha Trang, training students who went to work in processing factories. Nguyễn Tấn Trinh, the minister from the early 1980s through 1996, was the university’s former rector; Та Quang Ngọc, his successor, had also spent 23 years teaching at the university, and many of his students followed him to the Ministry. Nguyễn Hữu Dũng, the first general secretary of VASEP, was also a faculty member at the university, and Nguyễn Tử Cương, the first head of NAFIQACEN, was a student.

The MOFI reformers saw their actions in terms of a personal and professional mission. Grindle and Thomas (1991, 34) note that commitment to values such as “rationality, modernity and achievement” can guide policymakers’ behavior. MOFI officials had attended international seminars and workshops in the region, and understood

167 Interview G29, Former Minister of Fisheries Та Quang Ngọc.
that HACCP standards were becoming the global norm for seafood processing.\textsuperscript{168} For MOFI officials, there was a sense that Vietnam was emerging from isolation and desperate poverty, and that gaining global acceptance for seafood exports was a part of a broader project of integration with the global market. A MOFI official, at the time responsible for quality in the Ministry’s science and technology office, recalled:

\textit{At that time, there was the question: ‘Why are you stupid enough to [try to] export to the EU?’ Why did they call [us] stupid? … [Because] there were no requirements for exporting to Japan, Hong Kong, Singapore: they didn’t inspect anything, you didn’t have to improve anything at all. You just had to bring them a good, fresh fish, and they would pay a high price. The EU’s prices were low, but they had so many requirements. That’s why they called it stupid. I had to deal with that [attitude], but to be honest, I understood that this was the future. Who knew whether it would be in five or ten years, but the future was in the EU, and that fact couldn’t be changed.}\textsuperscript{169}

These officials viewed themselves as modernizers. Reflecting on the reforms twenty years later, former minister Tạ Quang Ngoc argued that HACCP represented “new way of thinking, a new approach, and a new form of reasoning” which was “the first step in an important activity of global integration.”\textsuperscript{170} Two other founding NAFIGACEN officials concluded that it was “an extremely important decision to apply EU law to Vietnam,” and that “The lesson from NAFIGACEN is that we have to learn from the world.”\textsuperscript{171}

In summary, stakeholder support and sectoral policy entrepreneurs operating with bureaucratic discretion drove governance reforms. These reforms modernized governance, created an impartial regulator, and marginalized a powerful monopolist, paving the way for rapid private sector growth. They also represented a critical juncture, as is evident in the comparison to the rice sector (chapter 5). Displacing Seaprodex opened the gates for a flood of new private entrants, marking a sharp contrast with sectors like rice or coffee where the central state-owned trading company retained significant market and regulatory power.

V. New food safety challenges for the seafood export industry

This chapter thus far has been about how a novel governance framework supported seafood processors gaining access to export markets. Yet, even as exports hit new benchmarks – $2 billion in 2002, over $3 billion in 2006, $5 billion in 2010 – Vietnam’s burgeoning seafood sector encountered new collective challenges that proved more intractable. These new challenges, including widespread use of aquaculture drugs, disease management, land use planning and environmental degradation, all occurred

\textsuperscript{168} Vietnam’s engagement with HACCP standards had before SEAQIP, when Tạ Quang Ngoc attended training courses in India in the late 1980s. He invited the FAO to come to Vietnam to teach HACCP classes to hundreds of managers and officials in 1991, before the start of Danish aid.

\textsuperscript{169} Interview A3.

\textsuperscript{170} Tạ Quang Ngoc (2015).

\textsuperscript{171} Interviews G23, G26.
upstream. While factories had been brought up to global standards, farms had not. Before
the chapter concludes, this section briefly examines one of these new challenges: the
industry’s persistent inability to enforce food safety standards in farming practices and
the struggles of both NAFIQACEN and VASEP to adapt.

During the 2000s, seafood became the world’s largest traded food commodity.172
Most of this growth, particularly from developing economies, was driven by aquaculture.
In 2012, 42% of global fish production came from farms (as opposed to wild capture), up
from just a quarter a decade earlier (FAO 2014). As fish and especially shrimp farming
spread, so too did the use of chemical agents. Like other forms of industrial farming,
intensive aquaculture has gone hand-in-hand the growing use of antibiotics, veterinary
drugs and pesticides to combat infections, raise stocking density and accelerate grow-out
times (Goss, Burch, and Rickson 2000; Rico et al. 2012). New import market regulations
followed the growth in farmed seafood trade. In 2001, after East Asian and particularly
Thai shrimp exports were found to contain high levels of banned antibiotics called
chloramphenicol and nitrofuran, the European Union, followed by Japan and the United
States, stepped up inspection standards for aquaculture products, establishing thresholds
for new drug residues (Debaere 2010). This began a period of ratcheting up standards for
imported seafood, locking regulators in a race with the ever-growing market for drugs
and chemicals in Asian aquaculture.

In Vietnam, aquaculture began to account for an increasingly large part of seafood
production, with growth centered in the Mekong Delta. From around one-third of total
production volume in 2000, farmed products accounted for more than half by 2013
(Figures 3.4 and 3.5).173 But, while Vietnamese factories attained world class hygiene
standards early on, farms did not. Statistics on port rejections bear this out. Between 2004
and 2008, Vietnam’s total value of U.S. rejection of fishery products was 1.34 times the
total value of its imports to the U.S.. In other words, more was thrown away than was
accepted at the U.S. ports (Henson and Olale 2010). Vietnam’s unit rejection rate did fall
over time, from 45% to 35% in the U.S., and more precipitously from 30% to 3% in the
EU between 2002 and 2008, which suggests that improvement over time. But problems
were persistent. In 2011 Vietnam topped the list of seafood exporters with shipments
detained by the U.S. due to banned residues. The problem came to a head in 2012, when
Japan instituted new bans and thresholds on a number of aquaculture chemicals,174
resulting in a string of costly and widely publicized rejections of Vietnamese shrimp
containers. In November 2012, 10 out of 12 of Vietnamese seafood containers were
stopped for extra inspections, with eight found to contained banned residues.175 In 2014
Russia instituted a temporary ban on Vietnamese imports due to antibiotic levels.176

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172 A total of $95 billion in exports in 2009 and $130 billion in 2013 (Asche et al. 2015).
174 Including a lower threshold for the antioxidant ethoxyquin, found in shrimp feed; and a ban on
Trifluralin, a chemical used to clear seaweed.
175 VASEP cong van 130/2012/CV-VASEP.
Figure 3.4: Shrimp culture area, 2000-2009 (‘000 ha)

Source: Hoang et al. (2011)

Figure 3.5: Growing contribution of aquaculture to Vietnam’s seafood production

Source: Figure from Sacombank 2014 (orange is wild capture; blue is aquaculture).

The fundamental problem is that farms have proven far harder to regulate than factories. Shrimp, the major farmed seafood, are grown almost exclusively by small farmers using extensive farming systems. In Vietnam there are 330,000 households engaged in shrimp aquaculture, with an average farm size of 2 ha for extensive farming (GSO 2007). The problem arises because farmers’ and firms’ incentives do not align: farmers’ imperative is to keep their shrimp alive to sell, which leads to excessive drug and chemical use, while processor-exporters bear the cost of port rejections.

NAFIQAD (NAFIQACEN’s new name after several agency reorganizations) and VASEP have struggled to adapt. They do play some role in facilitating the flow of information to processors, channeling information back to producers about discoveries of
banned chemical in Vietnamese containers by import markets. But NAFIQAD has faced an evolving technical challenge, because aquaculture shifts the locus of food safety risks from the factory to the farm, from microbiological hazards (prevalent for wild-caught fish) to chemical ones, creating a more diverse and changeable array of residues must be tested for.\footnote{Interview G23. Extension services are run by provincial governments, and tend to be under-resourced, while aquaculture cooperatives are tend to be small, have trouble accessing credit and lacking in direct connections to the market, weakening their capacity to play any significant role. Nguyen Van Bo, “Agricultural Extension in Vietnam: Its Roles, Problems and Opportunities,” Paper presented at Roundtable Consultation on Agricultural Extension, Beijing, March 15-17, 2012; and Dr Le Luu, Conference presentation, GOAL Conference October 2014, Ho Chi Minh City.} VASEP, likewise, is an organization of exporters and processors, and has very little reach into farming. The most that VASEP can do is to lobby the Ministry of Agriculture and Rural Development (the successor of the Ministry of Fisheries when the fisheries and agriculture bureaucracies were merged in 2007) to increase inspections for various chemicals.\footnote{For example, VASEP sent official letters to MARD on “Increasing checks on Oxytetracyline in shrimp farming,” April 4, 2014; or “Controlling production, circulation, distribution and use of banned antibiotics in aquaculture,” December 3, 2012.}

As a result, the system remains fundamentally reactive and at times damagingly slow to respond. After the series of high profile port rejections from Japan and the EU in 2012, for example, producers were allowed to continue using the offending drug for another six months (Hồ 2014). NAFIQAD conducts random sampling of ponds,\footnote{Interview G2, official, NAFIQACEN.} but the vast expanse of 600,000 hectares of shrimp farms across the country limits its utility. One NAFIQAD official who had spent much of his career trying to rein in the use of banned antibiotics in the Mekong Delta lamented that it is extremely hard to regulate farms, and banned drugs are often smuggled in from India and China. He said \textit{“The main way that [regulators] work in Vietnam is through information campaigns and propaganda. There are no penalties, no fines.”}\footnote{Interview G23.} NAFIQAD is a regional agency with six branches around the country, so it relies on provincial governments with limited capacity to disseminate information to farmers. In a bureaucratic reorganization after 2007, responsibility for regulating veterinary drugs was passed to a different agency within the Ministry of Agriculture and Rural Development, while NAFIQAD retained responsibility for export quality control and food safety, fragmenting value chain regulation. This contrasts with Thailand, where a national standard (ThaiGAP), free testing and audit services for farmers, more regular and stricter farm inspections, research and effective regulation of shrimp seed and feed have mitigated these problems (Jespersen et al. 2014; Ponte et al. 2014, 62).

In Vietnam, as the processing sector grew and challenges increasingly shifted to the farm, local institutional supports have become less important. The largest firms have moved toward vertically integration, and the industry is increasingly governed by private certification standards, as is true globally (Ponte et al. 2014). Seventy shrimp and catfish processors have are certified by Best Aquaculture Practices (BAP) or Aquaculture...
Stewardship Council (ASC), and many also own certified farms. Most firms have developed in-house quality control labs to test samples for banned substances before processing. More recently, firms have started testing samples directly from farmers’ ponds. Firms spend anywhere between $200,000 and a million dollars a year conducting tests for antibiotic residues and hiring NAFIQAD and third party labs. Certifications were not, however, a cure-all. In 2015, the U.S. FDA detained fifteen containers of BAP-certified shrimp in 2015 from Vietnamese exporters for banned residues. As in the case of Japan in 2012, discoveries of banned chemical or drug residues impacted the entire industry, sometimes resulting in all containers from Vietnam being inspected for residues, even for firms without a history of offenses.

The next chapter (Chapter 4) will discuss in more depth how NAFIQAD and VASEP, institutions that were critically important in supporting the sector’s market entry, have struggled to address new collective challenges in the global market, particularly around quality upgrading. This section is only a cursory review, but it suggests that sectoral governance institutions that are well suited to one set of market challenges may struggle to adapt to new upstream challenges. The problem of excessive or banned drug use is by no means unique to Vietnam – other Asian exporters also routinely top the list of rejected imports, and in 2015, Costco ended its sourcing contract for Chilean salmon altogether because of widespread antibiotic use. Yet some aquaculture industries such as Thailand’s have managed to use a combination of enforcement, minimal standards, effective extension, farmers’ associations, and research and development to mitigate these challenges. Despite its status as a top global exporter, the Vietnamese industry has yet to address these challenges in the way that it did the upgrading of the processing industry.

VI. Conclusion

Today Vietnam’s seafood processors have gained the approval of myriad foreign regulators and private certification bodies, and have access to global markets. But in the 1990s, when firms were small, unsophisticated, lacking in global connections, and largely dependent a handful of neighboring markets, a small cohort of entrepreneurial officials, supported by industry stakeholders with an interest in liberalization and impartial regulation, played a critical role in building the regulatory and institutional infrastructure that supported the development of firm-level know-how and commercial channels. A 1998 report by the International Food Policy Research Institute on Vietnam’s seafood sector argued that meeting sanitary requirements, gaining certification to export to large markets, and establishing a reputation with importers were the key barriers to growth.

181 ASC and BAP websites.
182 Interviews F9 (11/27/14), F15 (12/15/14), quality control managers, shrimp processors.
A decade later, these challenges had all been decisively solved, aided in significant part by profound sectoral governance reforms. The industry had undergone a productive transformation; factories were large, modern, and completely compliant with industry standards, with global networks of customers. The seafood sector was also years ahead of Vietnam's other agro-processing industries in its mastery of SPS. NAFIQACEN was the country's first specialized food safety regulator; it became a model for quality control agencies around the region (Hardy 2015), and made responsible for regulating export standards for all of Vietnam's export agriculture.

This chapter has argued that these governance reforms resulted from a combination of stakeholder pressure and entrepreneurial behavior by central government policymaker operating with significant bureaucratic space. Market pressures and foreign aid helped, but domestic politics were critical to successful reform. Industry stakeholders in the provinces, particularly local governments and SOEs, pushed for changes. They were supported by sectoral policy entrepreneurs who were motivated to learn, incorporate new information, and push difficult reforms. These officials were enabled by the fact that fisheries was not a priority sector for the Party, which created space for them to work with relative autonomy, out of the limelight. The next chapter contrasts this case with a failed reform effort in the 2010s in one part of the seafood processing sector – catfish. It demonstrates that a state-led effort to introduce new quality standards after a period of rapid growth in the industry failed, despite stakeholder support, largely because a deficit of the types of sectoral policy entrepreneurs present in the first case.
### Chapter 3 Appendix

#### Table 3.6: First Vietnamese seafood exporters accepted on EU List 1 in 1998

<table>
<thead>
<tr>
<th>Firm</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seaspimex (Tân Bình)</td>
<td>SOE</td>
</tr>
<tr>
<td>Agifish</td>
<td>Local SOE</td>
</tr>
<tr>
<td>Perfume River Import-Export Company</td>
<td>Local SOE</td>
</tr>
<tr>
<td>Seaprodex Tiền Giang</td>
<td>Central SOE</td>
</tr>
<tr>
<td>Thuận Phước (Đà Nẵng)</td>
<td></td>
</tr>
<tr>
<td>Factory 3 – processor of maritime export products</td>
<td>SOE</td>
</tr>
<tr>
<td>Cầu Trà (Tân Bình)</td>
<td></td>
</tr>
<tr>
<td>Kisimex</td>
<td>Local SOE</td>
</tr>
<tr>
<td>Ngọc Ha commercial food processing LLC</td>
<td>Private</td>
</tr>
<tr>
<td>Minh Hai Justoco</td>
<td>Private</td>
</tr>
<tr>
<td>Fimex</td>
<td>Local SOE</td>
</tr>
<tr>
<td>Sagimexco</td>
<td>Local SOE</td>
</tr>
<tr>
<td>Fish sauce processing factory Phú Quốc Hưng Thành</td>
<td>Private</td>
</tr>
<tr>
<td>ewing and fish sauce processing company Thanh Hà</td>
<td>Private</td>
</tr>
<tr>
<td>Kiên Giang (LLC)</td>
<td></td>
</tr>
<tr>
<td>Cataco</td>
<td>Local SOE</td>
</tr>
<tr>
<td>Sotico</td>
<td>Private</td>
</tr>
<tr>
<td>Frozen factory Phú Thạnh (LLC)</td>
<td>Local SOE</td>
</tr>
<tr>
<td>Minh Hai Import-Export company</td>
<td>Central SOE</td>
</tr>
<tr>
<td>Hải Nam LLC</td>
<td>Private</td>
</tr>
</tbody>
</table>

### Table 3.7: Key figures in Ministry of Fisheries reforms, 1990s-2000s

<table>
<thead>
<tr>
<th>Person</th>
<th>Position at MOFI</th>
<th>Undergrad. education</th>
<th>Grad. education</th>
<th>Previous positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nguyễn Thị Hồng Minh</td>
<td>Vice-minister of fisheries responsible for quality &amp; export (1994-2007)</td>
<td>Fisheries technology, Russia</td>
<td>PhD, HCM Political academy</td>
<td>• Camimex (local shrimp SOE)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Ca Mau Department of Fisheries</td>
</tr>
<tr>
<td>Nguyễn Hữu Dung</td>
<td>• Vice-director, MOFI department of science and technology;</td>
<td>Fisheries University</td>
<td>PhD in mechanical engineering, Poland</td>
<td>• Lecturer, Fisheries University</td>
</tr>
<tr>
<td></td>
<td>• General secretary, VASEP (1998-2008)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Director, Danida SEAQIP project (1994-2005)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nguyễn Tư Cường</td>
<td>Founding director, NAFIQACEN (1994-2008)</td>
<td>Fisheries University</td>
<td>-</td>
<td>MOFI department of science &amp; technology</td>
</tr>
<tr>
<td>Tạ Quang Ngọc</td>
<td>Minister of Fisheries (1996-2007)</td>
<td>Fisheries department, University of Agriculture, Hanoi</td>
<td>PhD in food technology, Bulgaria</td>
<td>• Lecturer, Fisheries University</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Head of MOFI department of science &amp; technology</td>
</tr>
<tr>
<td>Trần Thị Dung</td>
<td>Chief expert, Department of Science and Technology (1995-2005)</td>
<td>Fisheries University</td>
<td>PhD in food chemistry, Bulgaria</td>
<td>Lecturer in seafood processing, Fisheries University</td>
</tr>
<tr>
<td>Huỳnh Lê Tâm</td>
<td>Danida SEAQIP technical consultant (1995-2003)</td>
<td>MS in food technology, Romania</td>
<td></td>
<td>Ministry of Domestic Trade, food safety</td>
</tr>
</tbody>
</table>

Source: Assembled from N.H. Dung (2014) and author interviews.
Chapter 4: The race to the bottom in catfish export: A case of failed governance reform

I. Introduction

New industrial policy research suggests that state intervention in the context of globalization requires intensive public-private engagement to share information and jointly identify and solve problems of quality upgrading in a complex global marketplace (Rodrik 2008). But what makes for such responsive governance? The previous chapter demonstrated that a cadre of nimble, progressive central government officials, supported by provinces and their SOEs with an interest in freer access to export markets, profoundly transformed sectoral governance institutions, aiding the modernization of Vietnam’s seafood processing industry in the 1990s and 2000s. But agro-export industries face evolving competitive challenges. Later-stage challenges – for example, new standards, like those regulating aquaculture drugs (Chapter 3), or the quality problems that can result from fierce competition in a profitable new export industry – can demand different sorts of coordinating capabilities than are needed to meet basic standards for market entry (Doner 2009). How do governance institutions respond to new market challenges after an industry has already scaled up?

This chapter examines a case of governance responses to upgrading challenges that arose post-export success in one segment of the Vietnamese seafood industry: catfish aquaculture. In the space of less than a decade starting in 2000, a species of catfish called pangasius that is endemic to the lower Mekong River grew from a locally cultivated subsistence food to a $1.8 billion export industry, becoming an economic and industrial pillar of several provinces in the Mekong Delta. Vietnam enjoyed a near-total monopoly on the cheap, tasty white fish, and the industry boomed: between 1997 and 2007, volume increased 45-fold, and export value 55-fold (Dung 2008). Success, however, bred its own demise as new investors flooded into the lucrative sector, driving down prices and incentivizing widespread product adulteration by processor-exporters. The downward spiral of prices and quality eroded Vietnam’s market-share in high-end markets and sparked a wave of bankruptcies, creating a crisis for the Delta provinces dependent on catfish exports.

The downturn prompted new efforts to upgrade quality by reforming sectoral governance. Provincial governments demanded central government intervention to regulate what they perceived as damaging intra-industry competition that was creating a reputational liability for the entire sector. The result was a sweeping new “catfish decree” issued by Vietnam’s Ministry of Agriculture and Rural Development (MARD) in 2014, establishing minimum quality standards and a new state-run sectoral association. Firms, however, viewed the standards as excessively rigid, insensitive to commercial demands, and destabilizing to the market. The mismatch between the

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186 Decree 36/2014/CP on Farming, Processing and Exporting Catfish.
187 The Ministry of Fisheries was merged into the Ministry of Agriculture and Rural Development in 2007.
regulatory reform and market realities made it unenforceable, resulting in a year and a half-long standoff between firms and sectoral policymakers that created tremendous uncertainty among exporters. After a bruising show-down, key provisions of the policy were ultimately reversed or revised.

This chapter traces state and industry actors' responses to the catfish crisis between 2010 and 2015. Establishing the chronology of these responses is important because the case was not an instance of non-reform (see Chapter 5), but of failed reform: a concerted effort to reform governance institutions that was not implemented. The explanation must thus account for both why reforms were initiated, and why they failed. This feature of the case makes it a particularly useful counterfactual to the last chapter’s case study of seafood processing in the 1990s, where reforms were attempted and succeeded. The chapter seeks to answer the question: What explains the failure of sectoral governance reforms to coordinate quality upgrading in response to industry crisis, as compared to the successful earlier reforms that had supported market entry?

The argument revolves around two factors: stakeholder pressure and behavior by sectoral policymakers. First, even more than in the previous case study, governance reforms were initiated as a direct result of pressure from industry stakeholders, particularly provincial governments. Faced with bankruptcies and collapsing profits in their most important local industry, provincial governments in the Mekong Delta pressed central policymakers to clamp down on what they called “unhealthy competition” by catfish companies, asking for tighter quality standards and a new sectoral association to coordinate among producing provinces.

Like in seafood processing, sectoral policymakers had bureaucratic space to attempt reforms, since catfish was not a high-level priority for the party-state, and there were no large SOEs in the sector. But, unlike in that case, the ministry lacked sectoral policy entrepreneurs – flexible policymakers who were receptive to industry perspectives on commercial and technical issues or proponents of new governance models. MARD policymakers had information from industry about the nature and diversity of foreign buyers’ demands for quality, but they did not use it. Instead, sectoral policymakers instead took an administrative approach to setting standards, relying on an internal bureaucratic process, rather than a participatory one, to gather information. They also created a new state-run association, the Vietnam Pangasius Association (VNPA), instead of cooperating with the long-established processors’ association, VASEP.

Sectoral policymakers’ unaccommodating approach, despite being a response to very real market pressures and needs for minimum standards, dissolved industry stakeholder buy-in. Firms and VASEP protested and lobbied provincial governments to shift their stance, threatening that the new standards would force them to shutter. Provincial governments, which had initially allied themselves with catfish farmers, shifted their allegiance to processors, which had rapidly vertically integrated over the course of the crisis, nearly replacing independent farmers. This coalition of provincial governments, firms, and the industry association also lobbied senior political leaders,
including the Prime Minister’s office, to intervene and force sectoral policymakers to revise the regulation.

Why was the state’s behavior so different than in the first case? Like in the first case of seafood market entry in the 1990s and 2000s, policymakers faced competitive pressures and demands for higher standards from international markets, and had strong stakeholder support for governance reforms. Unlike in that case, though, there were no sectoral policy entrepreneurs with industry-embedded career trajectories who were receptive to firm and market-oriented perspectives; instead, the two sides were distant and mistrustful. The Ministry of Fisheries (MOFI) had been subsumed by the Ministry of Agriculture and Rural Development (MARD) in 2007 as a part of an ongoing national administrative reform. When MOFI disappeared, key policy entrepreneurs who had linked MOFI to the processing sector had retired. These included the vice-minister who had led the reforms in the 1990s and 2000s, Nguyễn Thị Hồng Minh, as well as the founding head of NAFIQACEN, Nguyễn Tứ Cường and Minister Tất Quang Ngọc. VASEP’s chief administrator, Nguyễn Hữu Dũng, had left his state position to work full-time for the association, contributing to the distancing of VASEP from the policy apparatus as compared with the earlier, interpenetrated relationship. New fisheries policymakers, meanwhile, had expertise and career histories focused on aquaculture (fish farming) and other agricultural sectors, and had little experience working with or in the fish processing companies.

This case is revealing in three ways. First, the longitudinal comparison of governance reform efforts in the seafood processing industry at two different points in time, facing different collective challenges, demonstrates the changing importance of private sector participation in policymaking. The growth of large incumbents, itself a result of successful market entry, changed the relationship between business and the state by turning the private sector into a de facto political player. In the case of seafood processing in the 1990s and early 2000s, sectoral policymakers incorporated know-how about standards, labs, and market demands from Danish donors. Governance reforms in incipient sectors can be more state-led, since firms lack information about whether new activities will be profitable (Rodrik 2008). Fifteen years later, though, the industry hosted some of the largest private companies in Vietnam, exporters with deep experience dealing with foreign buyers. Put simply, it was hard to dictate to large incumbents with deep connections to global markets. This is also evident in the comparison of the new seafood business associations in the two cases. In both cases, the state attempted to create an association – VASEP in the 1990s, and the Vietnam Pangasius Association in 2013. But building a state-penetrated association was easier when the seafood processing industry was nascent; catfish export in 2013 was a large industrial sector worth $1.8 billion, which made it much harder for the state to create a new sectoral organizations without business buy-in.

Second, the case reveals feedback loops between stakeholder support and governance outcomes, as represented in Figure 1.2 in Chapter 1. Pressure from provincial interests initiated the reforms leading to the new catfish regulation, but initial support failed to transform into buy-in. Stakeholders may demand reforms, but if they feel their
interests are threatened, they can withdraw it, and may become active opponents. In this case, when sectoral policymakers ignored their input, firms and VASEP rallied allies within the state, including provincial governments and parts of the central government, to their side, resulting in a dissolution of the reform coalition.

Third, the case highlights the opportunities and constraints for specific industry stakeholders in Vietnam, specifically provincial governments and business associations. Process tracing reveals the critical and perhaps decisive role played by provincial governments in advocating for, and then against, the reform, as advocates for their farmers and their largest industrial sector. VASEP’s role in the case reveals both possibilities and hard boundaries for associations in Vietnam. By the 2010s, VASEP, the seafood processors’ association from the last chapter, had evolved into an aggressive industry advocate with considerable lobbying skills. It staked out a position of strong opposition to the Ministry’s catfish decree, and skillfully lobbied different parts of the state, including local governments and other parts of the central government, to support its cause. Yet despite its success with the “external” functions of a business association, i.e. representing firms to the state, VASEP was unable to internally organize coordination among its members. Numerous attempts to organize processors to adhere to floor prices and minimum standards failed, and state support was not forthcoming. When states are averse to business-government collaboration, associations may be limited to external functions (Duvanova 2013).

The chapter proceeds as follows. Section II provides background on the catfish industry. It tracks the breakneck growth of catfish farming and export between 2000 and 2010, and discusses the problems that occurred after 2010. Section III traces the lead-up to and fall-out from a major state-led governance reform effort aimed at upgrading the industry: the government’s 2014 “catfish decree,” Decree 36. It focuses on the role played by different industry stakeholders, highlighting the importance of provincial governments in pushing for both the passage and reversal of the new regulation. Section IV analyzes the failure to construct a new governance framework, arguing that bottom-up pressure initiated reform efforts but that stakeholder support was undone by sectoral policymakers’ failure to incorporate information from the private sector, which it argues is explained by a dearth of sectoral policy entrepreneurs. Section V summarizes and concludes.

II. Growth and crisis in catfish export: Industry background

Export takeoff: 2001-2010

Pangasius catfish is endemic to the Mekong River. The white, freshwater fish, called basa or tra in Vietnamese, spawns in the Tonle Sap lake in Cambodia, and swims downstream into Vietnam’s Mekong Delta through the Tien and Hau tributaries, two of the river’s “nine dragons.” Long caught and consumed for subsistence by river-side

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188 For example, one of VASEP’s lobbying victories was to secure a reduction in the number of NAFIQACEN inspections of export containers required for processing factories with good safety records in 2010. Interview F6, 11/20/2014. See also Ministry of Agriculture document 1175/QD-BNN-QLCL.
dwellers in the Delta, catfish began to be cultivated in small quantities starting in the 1970s, using seeds sold across the Cambodian border. Commercial catfish farming began in 1996, after French agricultural researchers working with Can Tho University and a state-owned fish processor in An Giang province developed artificial reproduction and hatchery spawning techniques for pangasius. These quickly diffused to a rash of private hatcheries, enabling Vietnamese farmers to breed and farm the fish for grow-out (Belton, Little, and Sinh 2011; Nguyễn Minh Nhị 2013). Farmers cultivated the fish very successfully. Pangasius was a species that was particularly easy to farm: part of a family of air-breathing catfish, it required little oxygen, allowing it to withstand poor water quality and to be stocked at high densities in the mid-river cages where it was cultivated (Khoi 2011, 13).

These advances occurred just as Vietnam’s trade relations with the United States were warming. The two countries signed a Bilateral Trade Agreement in 2000, allowing many products, including frozen fish filets, to enter the U.S. tariff-free. The first large shipments of pangasius arrived in the U.S. in the late 1990s, imported by a Vietnamese-American seafood importer in California named Hua Ngo. An ethnic Chinese veteran of the seafood trade whose family had left the coastal province of Bac Lieu after the war, Ngo had learned about pangasius on a Ministry of Fisheries-led delegation of U.S. seafood importers and officials to An Giang province in 1998. Following the trip, Ngo established the “Mekong Basa” brand and opened a stand at the Boston Seafood Show of 2000, becoming the first U.S. importer to sell significant quantities of pangasius to the United States. Exports to the U.S. grew from $450,000 in 1996 to almost $30 million in 2000, and over $60 million in 2002 (Table 4.1).

Table 4.1: Vietnam’s fish fillet exports to the U.S. by year

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<td>Volume (tons)</td>
<td>98</td>
<td>299</td>
<td>958</td>
<td>3269</td>
<td>8624</td>
<td>13475</td>
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<td>Value (mil. USD)</td>
<td>.456</td>
<td>1.37</td>
<td>4.29</td>
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<td>38.28</td>
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Source: Nguyen Xuan Thanh (2003, 6).


Interview A3.
The crisis, however, also forced restructuring, with the biggest efficiencies found in shifting production from cages to more intensive pond cultivation (Belton, Little, and Sinh 2011, 569). Hydrological conditions in the lower Mekong Delta were favorable to pond aquaculture: tidal fluctuations caused very high levels of water exchange between the river and catfish ponds, dug in wetlands and on islands, allowing fish to be packed as densely as 60 per square meter of water surface. The industry recovered quickly as processors rapidly diversified their markets. As seen in Chapter 3, the processing factories where the fish was fileted, frozen and packaged were now hygienic and HACCP-complaint, and trade fairs provided an opportunity for processors and VASEP to introduce the new fish to food service and supermarket buyers. New limits on wild capture fishing in Europe and high fuel costs benefited Vietnam’s farmed pangasius, which consistently out-competed traditional wild-caught white fish species including haddock, sole and cod in nearly every market it entered (Bush and Belton 2012, 260). Pangasius catfish was cheap and valued by the food service industry for its texture, taste, and lack of scent.

Europe replaced the U.S. as Vietnam’s largest market, and exports to Russia, ASEAN and other markets grew (Bush, Khiem, and Sinh 2009, 274). In 2000 nearly 80% of Vietnam’s pangasius exports went to the U.S.; this fell to just 10% by 2005. Exports grew to over $736 million in 2006 and $1.4 billion by 2008 (Figure 4.1). Exports to the United States recovered as antidumping tariffs fell, despite the best efforts of U.S. catfish farmers, and by 2009 pangasius was one of the top ten fish consumed in the United States (Table 4.2, appendix). This hallucinatory growth trajectory was described by aquaculture researchers Belton et al. (2011, 567) as “virtually unparalleled by any other agricultural export crop in any other location in terms of sheer rapidity and scale.”

**Figure 4.1: Vietnam’s pangasius catfish exports**

![Graph showing export turnover and production volume](source)

Source: VASEP, VNPA, various DARD and D-FISH reports.

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191 Interview A1, executive director, Global Aquaculture Alliance, 10/5/14.
192 Interviews BU4 (1/16/15), BU11 (1/15/15), U.S. catfish buyers.
Good times sparked a flood of new entrants. Between 2001 and 2007, the land area under cultivation more than doubled as ponds were dug unregulated up and down the Mekong’s tributaries. The then-chairman of the provincial People’s Committee in An Giang, the birthplace of commercial catfish farming, remembered:

No matter whether or not there was a land-use plan, or whether or not it was fertile rice-growing land, [people] just dug fish ponds, then the plan came afterward. The movement spread, and people rushed to dig fish ponds, from the headwater provinces down through the entire delta, attracting people even from Saigon, Hanoi (Nguyễn Minh Nhị 2013).

The head of a catfish farming cooperative described the industry’s unregulated development in similar terms:

*In the early years – the golden days of catfish export when farmers made profits – farmers and firms were ‘swimming alone.’ They used their houses, land, gardens, anything that the bank would take as collateral. [It wasn’t like] rice, where the state has invested for 50 or 70 years in irrigation. For catfish … farmers put in their own property, they did it all themselves; the state did not have a plan; everything developed spontaneously [tự phát].*194

This growth was fueled by the hallmark features of Vietnam’s business environment in the 2000s: low entry barriers, permissive local governments, and widely available financing.195

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193 Farming area increased by 134% between 2001 and 2007.
194 Interview A27, cooperative head, Can Tho, 5/10/15.
195 Between 2000 and 2010, Vietnam’s commercial banking sector expanded extremely rapidly. Domestic credit provided by the banking sector grew from 30% to nearly 140% of GDP (Pincus et al. 2012).
Construction of processing factories also boomed, outpacing the growth of farms. In 2003, just six companies accounted for 95% of export volume, but by 2010 there were 100 catfish processing factories. The government’s 2008 stimulus in particular further fueled a frenzy of factory building. Catfish processing was relatively simple by comparison with shrimp (buyer orders were overwhelmingly for a single product, uniformly-sized frozen catfish filets), and bank loans and capital from other sectors poured in to the construction of large warehouses and factories. By 2010, processing capacity of factories was 2 million metric tons, almost double farm production capacity and global demand (around 1-1.2 million tons). Increasing competition and overcapacity drove down export prices. Production more or less plateaued in 2008, but pangasius prices in the EU fell continuously between 2000 and 2013; in the U.S., prices began a steady decline after 2011 (Figure 4.3), even while the price of competitor species, like sole, stayed constant (Bush and Belton 2012, 261). By 2009, many factories were operating at only 30-50% capacity.

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196 From Nguyen Xuan Thanh (2003) and Interview F27, Director, catfish processor, HCMC, 4/21/15.
197 Vinafood 2, for example, the monopolistic state-owned rice exporter, invested all along the catfish supply chain. Many catfish firms also diversified horizontally into real estate and other sectors. By some estimates, seafood was the most leveraged sector in the economy. In 2012, 300 of Vietnam’s 900 seafood processors went out of business or ceased to operate. Vietin Industry report, citing VASEP; Quốc Huy, “The mystery of 38,000 billion lent to catfish” <http://vietnamnet.vn/vn/kinh-doanh/103976/bi-an-38-000-ty-cho-vay-ca-tra.html>, VietnamNet, 1/6/2013
198 Interview F27.
199 Figures in this paragraph come from Bush, Khiem, and Sinh (2009) and Bush and Belton (2012).
The race to the bottom and the crisis in quality: 2010-2015

As credit-fueled growth slowed and competition intensified, processors began cutting corners on quality by adding extra water to fish, egged on by buyers chasing lower prices. Processors used two methods to add water weight to frozen fish. The first was “soaking” filets in a chemical solution to moisture retention. Soaking is a common practice used in the global fish processing industry to preserve the moisture content of frozen fish: after being cut and trimmed, filets are washed in large mechanical tumblers filled with a salt and tripolyphosphate solution. Safe to eat in small quantities, the chemicals are regarded by pangasius buyers as desirable because they improve the texture and appearance of frozen fish flesh by extending freezer life and reducing post-thaw drip.200 Vietnamese catfish processors, however, began soaking fish beyond for longer than was required for preservation, enabled by pangasius’s unusually high absorptive capacity.201 Pangasius has a natural moisture content of around 79-81% (water as a percentage of weight), which increases to 82-85% after fish is fileted and washed in chlorine, but processors increased moisture levels up to 90%, as much as doubling natural

200 Interviews F25, executive, catfish processor, An Giang, 3/19/15; BU0, agent, U.S. catfish buyer, 5/12/15. This form of treatment has become standard practice, and is not banned by the FDA, since the chemicals are food-grade.
201 Interview BU4, U.S. catfish buyer.
Locking in higher water levels allowed producers to reduce production costs and prices by selling more water and less fish.

Processors also cut corners by adding extra ice coating to the fish to increase water weight. To avoid freezer burn, frozen fish is usually covered in a protective layer of ice, or glaze, before it is packaged and shipped. Glaze is added by passing filets through large industrial flash freezers and dipping them in water. As with soaking, processors increased the ratio of ice glazing to cut costs. According to Britain’s national seafood agency, standard industry glazing levels are 4-10% of the net fish weight, depending on the species (Seafish 2008). Vietnamese processors, however, often at the request of buyers, glazed up to 40% or 50% of net weight, allowing them to pack fewer fish into a box with the same gross weight (e.g. 8 pounds of fish in a carton labeled at 10 pounds). This practice of “short-weighting” essentially allowed producers to charge consumers more for less. As one seafood buyer explained, “If you add phosphate or glaze at a high level, you are basically selling water.” The practices were widespread. In 2013, researchers in the Mekong Delta reported that 9 out of 14 catfish processors acknowledged using phosphates (Kelling et al. 2013, 31).

The problem, though, was complex because there was market demand for fish sold at a variety of quality standards. In interviews, both processors and buyers emphasized that importers, who were mainly intermediaries and not end-retailers, knew that they were buying treated fish (though these agreements were often tacit). One U.S. buyer noted that “You basically can’t make money in the industry without soaking.” A trade magazine wrote that soaking and excessive glazing were “the only way” for pangasius processors to meet prices demanded by foreign buyers. Another buyer explained,

*If you produce a fish without chemicals, the production costs are $1.80 per pound. If you soak the fish a little, the cost per pound decreases to $1.60. If you soak a little more, then it decreases to $1.50 or $1.40. They use that in order to compete. The sellers know this, and the importers know it too... U.S. customers can pay for fish with 85-86% moisture content, but Latin Americans can only pay ... $1.40.*

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204 Interview BU1, quality assurance manager for U.S. seafood company.
205 Interviews BU0; F2, F6 (11/20/14), F22 (3/18/15), F16, catfish processors, Mekong Delta; G24, retired senior official, An Giang, 3/24/15. These agreements to adulterate quality were often tacit. Invoices and packing lists might state that the product would be glazed at 20% of the fish’s weight, but with a spoken agreement between buyer and seller that the actual rate would be 40%.
206 Interview BU11.
208 Interview BU0, agent, U.S. catfish buyer.
In other words, adding water up to a certain point was acceptable to most buyers, and quality demands differed by country depending on consumers’ purchasing power. Over a certain level, however, adding water was detrimental to quality, and sometimes — but not always — involved cheating.

Declining quality and cheating created a reputational liability for the entire sector. While many importers explicitly requested fish with higher water content, end retailers had only hazy knowledge of it, and consumers had none.209 Every stage in the supply chain became a market for lemons, where buyers further down the chain suffered from asymmetrical information about product quality. Excessive soaking destroys fish filets, making them, in the words of one buyer, “mushy, like jelly,”210 while short-weighting gave pangasius producers a reputation for dishonesty. Consumers and retailers developed negative associations with Vietnamese catfish. Buyers dismissively called Vietnamese catfish “ice cubes;” according to one, “this is an issue that threatens to destroy the whole market.”211 In interviews, catfish processors confirmed that cheating and the drive for lower market niches created reputational and price externalities for the whole industry.212 One explained that, “If I follow the standards and treat the fish at 86 or 85% [moisture content]. I can sell fish for $2.45. But the companies that treat it up to 89 or 90%, they can sell a lot, and for $2.20, which destroys my market.”213 Pangasius processors, in the words of a British buyer, were “killing the goose which lays golden eggs... at the behest of importers.”214

By 2011, pangasius was losing market share in Europe, which buyers attributed to declining quality and short-weighting.215 The EU had accounted for half of Vietnam’s sales in 2007, but fell to just one-fifth in 2013 (Figure 4.4). To compensate, Vietnamese producers diverted sales to less demanding markets in Southeast Asia, Latin America, and Russia.216

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209 Interview BU11, U.S. catfish buyer; G12, agricultural official, Dong Thap, 3/17/15.
210 Interview BU11, U.S. catfish buyer.
211 Interview BU0, U.S. catfish buyer agent, Vietnam.
212 Interviews F6, F14 (12/16/14), F27, BU11, catfish processors and buyers.
213 Interview F26, catfish processor.
216 Interview BU4, 1/16/2015, Interview BU11, 1/14/2015, Interview F16, F25, catfish processors. One exporter explained that in the EU “the price is too competitive. but the standards are very high. so production cost is also high.”
Catfish processors tried and failed to organize to shore up prices. VASEP started trying to organize members to adhere to export floor prices in 2008.\textsuperscript{217} Vietnamese producers, who controlled over 90\% of the global pangasius market, should in principle have been able to set a modest floor prices, but processors proved chronically unable to cooperate. Floor prices were agreed to, but never stuck.\textsuperscript{218} Competitive dynamics revolved around major trade fairs in Boston, Brussels, and Ho Chi Minh City. VASEP members would gather before the fair and agree on a floor price, then immediately break them on the exhibition floor.\textsuperscript{219} Buyers shopped around, frequently changing suppliers.\textsuperscript{220} According to VASEP’s vice-chairman, “At the Brussels trade fair, they would agree on a price level, and nothing lower, but whoever stuck to it wouldn’t have customers. Customers would go to buy from [someone else] for 5 or 10 cents less. So whoever was strict, that guy was foolish, and he couldn’t sell. But VASEP didn’t have the power...to force firms to follow.”\textsuperscript{221} Defections were across the board. Large firms blamed small, fly-by-night operations for the price undercutting – somewhere between 200 and 300

\textsuperscript{217} Catfish floor prices were cited as a priority issues in VASEP’s 2008 yearbook (p. 51).
\textsuperscript{219} Interviews BU0; G14, agricultural official, An Giang, 3/19/15.
\textsuperscript{220} Interviews F21, catfish processor; BU7, European importer.
\textsuperscript{221} Interview A3.
companies were exporting catfish, only a third of which actually owned factories. But big companies also broke floor prices. Most firms were deeply indebted, and they lowered prices to sell their inventory and pay bank interest. Cutting quality through glazing and soaking, in turn, was the only way that firms could meet those costs and stay afloat.

The industry could not cooperate because it was diffuse and mistrustful. The top ten exporters comprised only 40-45% of exports, and years of U.S. antidumping suits had eroded what trust might have existed among larger producers such as Hung Vuong and Vinh Hoan. Some large producers were perceived to be contributing to the industry’s decline by pursuing customers in low-end markets that demanded high soaking and glazing levels. Mistrust was also exacerbated by instances of collusive business-state behavior. In 2009, for instance, an export control board was established within MARD to regulate seafood exports to Russia. Ostensibly formed to reverse sliding quality, the board operated as a cartel to protect insiders. It consisted of five companies that were allowed to continue exporting to Russia, led by behemoth Hung Vuong; other firms were excluded, and seafood exports to Russia dropped by two-thirds from one year to the next. It was widely viewed as a scheme that functioned to protect “a few firms,” in the words of a senior MARD official. In short, private collective action failed.

Fractious processors competing one another into the ground, falling quality and prices, and declining market share in Europe, all against the heightened media focus on bankrupted farmers, fostered a sense of crisis in the Mekong Delta. As competition increased and prices fell, processors reneged on payments to farmers. In 2010 and 2011, the news was filled with reports of heavily indebted processing companies, farmers protesting outside factory gates demanding payment for fish supplied months earlier, and sensational cases of seafood CEOs fleeing the country to escape their debts. The mood in the Delta was captured in a 2012 television special on the sector:

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223 Interview A14, Vietnam Pangasius Association official; VTV1, 2012.
225 Interview F5, industry lawyer, 11/14/14.
226 Interview G28, senior MARD official.
228 One high-profile case was Binh An Seafood Joint Stock Company, a large processor in the Delta whose owner was had invested heavily in real estate and land and owed millions of dollars to farmers. Farmers protested outside of Binh An’s factory in Can Tho, filling the national news. Another example was Anvivish, started by the owner of a construction company opened a pangasius processor in 2005, and listed on the Ho Chi Minh Stock Exchange in 2010. In 2012, Anvivish reportedly had $54 million in debt – three times its equity; the company’s director general director shortly thereafter fled the United States.
Never before have the people of the Mekong Delta been as desperate as they are now. Farmers are leaving their ponds out to dry. Companies are operating below capacity, and catfish is being sold below production costs. Companies are indebted to farmers, farmers are indebted to the banks, and the banks don’t trust the companies. This raft of problems in the $2 billion industry all point to one question: what is the role of the state? And when will the state intervene to save the catfish industry?229

The prevailing narrative, captured in a report by a group of retired fisheries officials, was that the industry had been mismanaged, allowed it to destroy itself through price competition (often referred to as “unhealthy competition” or cạnh tranh Không lành mạnh) despite Vietnam’s near-total monopoly on global pangasius sales (N.T.H. Minh et al 2011, 28). This created calls for sectoral governance reform, and particularly for the central government to intervene.

III. Attempts to construct new sectoral institutions

This section presents the state’s attempts to reform governance in the catfish sector in order to rein in quality adulteration, shore up prices and recover market share in high-end markets, focusing on the Ministry of Agriculture and Rural Development’s (MARD) regulatory reform effort. (A full chronology of industry, association and state proposals and actions is presented in the chapter appendix.) Local governments, hamstrung by their inability to resolve cross-provincial externalities and frustrated by the failure of catfish processors to coordinate a private solution, pressured central government policymakers to act. Sectoral policymakers had bureaucratic space to respond to these demands, and they issued a regulation that set new minimum quality standards for exporters. The new generation of fisheries policymakers, however, was not embedded with businesses as the previous generation had been. Instead of incorporating business input to address collective challenges of quality and reputation, they relied on an internal bureaucratic process to set quality standards, resulting in rigid, commercially insensitive standards. The failure to incorporate information from the private sector dissolved support for reform, as firms and their association rallied local governments – precisely the stakeholders who had initially pushed for regulatory action – against it.

Bottom-up stakeholder pressure to regulate

Provincial governments were the first actors to advocate aggressively for state intervention. The state had played little role in the catfish sector’s development in the

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2000s. Processing, farming, and input suppliers such as feed mills and drug companies were almost entirely private (Belton, Little, and Sinh 2011), and the sector was heavily exposed to international markets, which limited central government’s tools for direct intervention. Local governments had little incentive to obstruct or regulate the sector’s development, which became an agricultural and industrial pillar for a handful of Delta provinces. At its height, the industry supported 100,000 farming livelihoods, and 116,000 processing sector jobs (Khoi 2011). Five provinces had large farming sectors, and four had more than a dozen frozen fish factories (Table 4.3), which tended to be among the largest and best-paying factories in the province. Twenty-four factories employed over 1000 workers. In Dong Thap, for example, fish processing accounted for $514 million in export revenue, or 63% of the provincial total; in the words of a local economic development official, the province “owes its industrialization” to catfish. In An Giang, the Mekong Delta’s most populous province and the birthplace of commercial catfish farming, a senior official noted that the province “lives or dies” by rice and catfish; one district built a 14-meter high statue to memorialize the miracle fish that had lifted thousands of farmers out of poverty. Thus, when prices plummeted and bankruptcies rose, provincial governments had strong incentives to pay attention to the industry’s plight.

Beyond the industry’s local economic importance, catfish farmers also wielded political influence through their size and personal ties to provincial governments. More than in other agriculture or aquaculture sectors, catfish farmers tended to be large and politically connected because of high production costs and the scarcity of prime farmland. During the boom years between 2001 and 2006, competition for fish farming land in wetlands and islands near major tributaries drove prices up from 25 million VND to over 100 million VND ($1500 to $7500) per hectare. Officials allocated choice land to family members and other well-connected individuals. Catfish farming also required significant resources: digging a one hectare pond cost 2 billion VND ($100,000), and operating costs for a six month fish harvest was around a quarter million dollars (Belton, Little, and Sinh 2011, 572). As price volatility forced smaller farmers to shift to other activities in the late 2000s, catfish farming became increasingly consolidated with larger, influential farmers with significant landholdings. These farmers formed a fairly

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230 This fact was lamented by former Minister of Fisheries Ta Quang Ngoc, who in 2007 declared he was “not happy with the slowness” of the government to regulate land use planning, environmental impacts, and drug use in catfish. Tuoi Tre. “Not at all happy with the slow work” [Không vui vẻ với việc chậm chạp], 7/23/2007.
231 According to GSO enterprise survey data, in 2013 the median employment size of frozen fish processors in Dong Thap and An Giang was 812 employees. Average worker income in aquatic processing facilities in the Mekong Delta was $3.8/day, compared to $2.7/day in other human food processing factories (Little et al. 2012, 743).
232 Interview G13, trade official, Dong Thap province.
233 Interview G36, retired senior official, An Giang province.
234 Interviews A23 and A27, large catfish farmers.
236 The global economic crisis also heightened an already extant trend of boom and bust in pangasius farming, driving consolidation: in 2004, most farms were under one-tenth of a hectare, while in 2008, it
concentrated group (total pond acreage across the Delta was only 6,000 hectares, compared to four million hectares of rice farming). After 2011, these large farmers pushed provincial and central governments to intervene, organizing through provincial fisheries associations, which were often run by prominent farmers or former local officials.\(^237\)

Led by the An Giang Provincial People’s Committee, provincial governments rallied around two reform proposals. First, they pushed the central government to intervene; according to an An Giang agricultural official, the province petitioned the Ministry “more than ten times,” asking for a “legal framework” for the industry.\(^238\) The province had pushed its case with the central government as early as 2009, when it hosted the prime minister on a fact-finding trip about the catfish sector.\(^239\) Second, local governments advocated for the creation of a new sectoral coordinating body, called the Vietnam Pangasius Association (Hiệp hội Cá tra), and forming a committee to create the new association with the goal of putting pangasius “path of sustainable development.”\(^240\)

### Table 4.3: Economic data, top catfish producing provinces

<table>
<thead>
<tr>
<th>Province</th>
<th>% of GDP from:</th>
<th>Catfish farm production (metric tons)</th>
<th># frozen seafood processing companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FIEs</td>
<td>SOEs</td>
<td>Private domestic</td>
</tr>
<tr>
<td>Dong Thap</td>
<td>.03</td>
<td>6</td>
<td>93</td>
</tr>
<tr>
<td>An Giang</td>
<td>.3</td>
<td>10.6</td>
<td>89</td>
</tr>
<tr>
<td>Can Tho</td>
<td>3.6</td>
<td>20</td>
<td>76</td>
</tr>
<tr>
<td>Tien Giang</td>
<td>6.8</td>
<td>8.6</td>
<td>85</td>
</tr>
<tr>
<td>Vinh Long</td>
<td>3</td>
<td>15.6</td>
<td>81.4</td>
</tr>
<tr>
<td>Ben Tre</td>
<td>2.2</td>
<td>18</td>
<td>79.8</td>
</tr>
</tbody>
</table>

Source: All data from 2010 except last column. Catfish production from Provincial DARD and D-FISH Reports, 2010, provided by Vietnam Pangasius Association; GDP data from 2010 provincial statistical yearbooks; number of processors from 2013 GSO enterprise survey.

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was just one-third. Farm-gate prices fell to below production costs, thanks to the combination of oversupply and increased costs linked to rising feed input and oil prices (Belton, Little, and Sinh 2011, 570). In 2009, seventy percent of farmers made losses.

\(^237\) Interviews G36; A23 (5/7/15), A10 (2/30/15), A27 (5/10/15), leaders of fisheries associations in An Giang, Vinh Long, Can Tho.

\(^238\) Interview G19, agricultural official, An Giang, 3/19/15.

\(^239\) Interview G24, retired senior leader, An Giang.

Local governments and their farmers were not the first industry stakeholders to push for governance reforms in the catfish sector. VASEP had made numerous proposals to the central government between 2010 and 2013 for public-private governance mechanisms, including state support for floor prices, a marketing fund to promote the pangasius brand globally, modeled on a similar fund in Norway’s salmon aquaculture industry, and a clearing house for pangasius sales to Europe at a major Belgian port. MARD policymakers had not been responsive to VASEP’s proposals, but as pressure increased from provincial governments, sectoral policymakers wound into gear. The Prime Minister directed MARD to draft a comprehensive regulation to address the sector’s problems. Sectoral policymakers focused on several questions: “Why is it that our exports have flattened out but prices are falling? Why can’t we control output? How can we sell to markets with higher prices?”

The effort culminated with a sweeping new government regulation, issued in April 2014, intended to rationalize the industry. The regulation, called Decree 36 on Farming, Processing and Exporting Catfish, had three components: (1) an attempt to rationalize farming by mandating new environmental standards, farm registration requirements, and a floor price for farm-gate purchases; (2) strict quality standards for processors intended to end product adulteration; and (3) a requirement that exporters to register their export contracts with a new sectoral association, the Vietnam Pangasius Association.

The new decree prompted an immediate backlash, focused on the new quality standards for processors. MARD had set strict and rigid quality standards, decreeing that moisture content in catfish filets should be no more than 83%, and ice glazing no more than 10%, of the fish’s weight. In an interview, Phạm Anh Tuan, the vice-director of MARD’s fisheries department and chief architect of Decree 36, argued that the standards were necessary to improve Vietnam’s “problematic reputation for quality.” He explained:

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241 The proposal was to share transport costs (a strategy used by other agro export sectors like Chilean tomato paste and New Zealand kiwi producers), establish minimum prices, and introduce transparency into sales. Senior Vietnamese government leaders expressed interest in the idea, and VASEP signed an agreement with the port authority at Zeebrugge, but state support never materialized. Thuận Hải, “Establishing a catfish distribution center in Europe is still a long-shot.” 11/17/2013. http://cafef.vn/nong-thuy-san/thiet-lap-trung-tam-phan-phoi-ca-tra-tai-chau-au-duong-den-con-xa-2013111708381521715.chn
242 Interview G24, An Giang provincial leader.
243 According to the MARD official in charge of drafting the regulation, heated discussions focused around the question of “freedom” versus “management” – that is, whether the market should be left to sort things out or whether the state should intervene. This tension is evident in the range of proposals for state intervention. Initial proposals were to use two regulatory tools common in global aquaculture industries, minimum standards for entry and quotas. Both VASEP and MARD pushed for minimal capital requirements and a requirement that exporters own factories and farms, but the Ministry of Industry and Trade opposed entry barriers, however, arguing that they were contrary to Vietnam’s progress toward freer markets. VASEP also advocated for farming quotas to regulate oversupply, which central policymakers rejected out of hand. MARD objected that quotas were “non-market” and likely to create distributioinal conflict among provinces. Interviews A3, G28, G27. “Vietnam considering pangasius farming quotas,” Undercurrent News, 11/4/2013.
244 Decree 36/2014/ND-CP.
Currently, firms are free, so they can sell at whatever moisture content or glaze level they want, as long as importers accept it. That influences the image [of Vietnamese catfish] with consumers, who then complain about quality. [We are] weak. That’s precisely why it has to be fixed. That’s the reason.

Firms, however, viewed the standards as technically and commercially infeasible.\(^{245}\) The disparity arose because MARD and its food safety agency, NAFIQAD (the successor to NAFIQACEN, discussed in Chapter 3), had treated the quality standards as though they were state-regulated food safety rules, like other chemical and microbiological standards that the government was accustomed to regulating. NAFIQAD had arrived at the moisture and ice glazing standards through internal processes, consulting FAO international guidelines on ice levels needed to preserve fish, and conducting internal research on the natural moisture content of pangasius catfish. The standards, regulators argued, left ample room for processors to treat the fish.

The industry, however, saw the issue as a matter of quality and consumer taste, not food safety. Ice glazing and moisture content, unlike sanitary standards, are not generally regulated by governments. The prevailing view among catfish suppliers and buyers was that moisture content of up to 85%-86% was acceptable to the market; only fish with moisture content above 86% was unacceptably mushy. Ice glazing, meanwhile, was a matter of customer taste, not quality, and thus only required transparent labeling to ensure that suppliers were not short-weighting, i.e. fraudulently mislabeling the weight on the packaging.\(^{246}\) Furthermore, buyer specifications differed across countries: richer markets wanted higher quality, and developing economy markets wanted lower quality. Processors also objected that the state had misunderstood the processing procedures inside of factories and had thus underestimated the baseline water content of processed fish.\(^{247}\) Table 4.4 summarizes differences in the two sides’ positions (the contract registration requirement is discussed below).

**Table 4.4: MARD and industry positions on Decree 36**

<table>
<thead>
<tr>
<th></th>
<th>Decree 36 provisions</th>
<th>Industry position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moisture content</td>
<td>≤ 83% water</td>
<td>≤ 86% water</td>
</tr>
<tr>
<td>Ice glazing</td>
<td>≤ 10% net weight</td>
<td>Transparency in labeling but no hard limit</td>
</tr>
<tr>
<td>Export contract registration with Vietnam Pangasius Association</td>
<td>Require</td>
<td>Oppose</td>
</tr>
</tbody>
</table>

\(^{245}\) Interviews F18 (3/17/15), F19 (3/17/15), F21, F25 (3/19/15), G14. Đức Vĩnh, “Chaos around the ice glazing and moisture content regulations” [Loay hoa vgu quy dinh ma bng, do m], Weekend Tuoi Tre, 4/13/2015; and “A fundamental solution is needed” [Cn hi n phng cán c], Weekend Tuoi Tre, 4/21/2015.

\(^{246}\) Interview A3.

\(^{247}\) Standard processing procedure was that the fish be washed twice, not once, which increased baseline moisture content. Interview BU0; Đức Vĩnh, 4/13/2015.
In interviews, processors and buyers argued that the market would not accept the decree’s standards. One processor stated that they had “never” sold fish at the strict levels required by the decree, and another declared that

*Ten percent glazing and moisture content of 83 [percent]...maybe we get one order per year at those specifications, but in a month we normally don’t sell any; while fish [at 85, 86%] we can sell more than 30 containers. We have never sold a container of fish [at the Decree 36 specifications].”*

Processors claimed the would drive up prices between 30 and 100 percent. According to one, “The decree is not sensitive to the demand of the market. It is going to force higher prices;” it would cause “shock in the market.” Foreign buyers confirmed that there was little commercial demand for pangasius at 83% moisture content, and called the specifications “complicated” and “drastic.”

The decree’s market insensitivity was not for lack of information. On the contrary, sectoral policymakers knew exactly what the industry’s proposals were. During the drafting of Decree 36, MARD held regular meetings to take input from industry, provincial governments and farmers, as is legally required. In 2013, VASEP had contributed detailed comments on the draft regulation, identifying what it viewed as acceptable moisture content and glazing levels and proposing adjustments to the draft. But the feedback had not been incorporated. Responding to provincial governments and farmers’ demands that processors be regulated more tightly, sectoral policymakers had autonomously determined what it believed were water levels that would force the sector to upgrade quality.

After the decree’s release, processors protested in multiple venues. In May 2014, a group of companies met with the deputy prime minister release to object to the new standards. Though individual firms were initially reticent to publicly criticize the policy, VASEP mounted an aggressive lobbying campaign, arguing that the standards represented an existential threat to the industry. It sent letters to the prime minister and MARD detailing requests for changes, particularly elimination of the moisture content rule and replacement of the rigid glazing standard with a transparent labeling requirement. Faced with processors’ angry objections, MARD was forced to delay

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248 Interview F21 and F26, catfish processors.
249 Interviews F26, F27, F18, catfish processors. “Pangasius giant has fingers crossed over glazing law outcome” Undercurrent News, 8/26/2015.
251 The MARD official responsible for the decree estimated that ten such formal meetings were held.
252 Interview G28, senior official, MARD. VASEP letters included 247/2013/CV-VASEP to the Prime Minister, “VASEP’s ideas about the draft decree on catfish farming, processing and export” and 46/2013/CV-VASEP to NAIFIQAD, “Suggestions on the draft regulation to control quality in tra and basa for export.”
254 Interview F26, catfish processor; 105/2014/CV-VASEP; CV 120/2014/VASEP-KN.
implementation, originally planned for June, to the end of 2014. In a confrontational meeting in July, VASEP and NAFIQAD argued about the technical basis for the standards. Shortly thereafter, MARD issued an implementing circular for the decree without any of the revisions the industry had requested. VASEP sent more letters "urgently" requesting meetings with MARD and the Prime Minister's office.²⁵⁵

The relationship between VASEP and MARD became acrimonious. MARD accused VASEP of advancing its organizational prerogatives rather than its members' interests. In response, VASEP submitted a letter to MARD signed and stamped by 30 executives from member companies to demonstrate that firms were unified in their objection to the new standards.²⁵⁶ In the fall, MARD fielded objections from processors at a series of heated meetings in the Mekong Delta.²⁵⁷ Executives and buyers personally lobbied Minister of Agriculture Cao Đức Phát to roll back the standards.²⁵⁸

The debate centered around the technical and commercial validity of the new quality standards. MARD contended that the Decree 36 requirements were "based on science" and "international standards,"²⁵⁹ while VASEP and firms countered that ice glazing and chemical soaking were quality specifications dictated by markets. Regulators, they contended, should focus on deterring outright cheating and unacceptable quality, and otherwise leave the issue to suppliers and their customers to determine.²⁶⁰ In late 2014, a council of a dozen representatives from NAFIQAD, firms, universities and VASEP convened at the headquarters of Vinh Hoan, a major catfish processor, to conduct a sensory test to determine the ideal moisture content of processed catfish. The result favored the industry’s stance that moderate chemical treatment (soaking) improved the fish’s taste and smell, but NAFIQAD delayed the report’s release, digging in to their original position.

Provincial governments had initially supported strict new standards as a means to restore order in the industry, but as the end-of-year implementation deadline approached, they defected, nervous that major local processing companies would be forced out of business. The decree had created substantial uncertainty among firms. Emblematic was one processing company, interviewed two weeks before the decree was to go into effect, whose sales manager said the company had no plan for what to do with its non-compliant inventory, and that customers had not expressed interest in purchasing at the new specifications.²⁶¹ Provincial administrations, including the An Giang People’s Committee which had led the original push for governance reforms, sent a letter asking MARD to

²⁵⁶ Collective proposal from catfish companies regarding Decree 36/2014/ND-CP. Number 120/2014/VASEP-KN.
²⁵⁸ Interviews F27, catfish processor.
²⁵⁹ Interview G28; Interview A23, large catfish farmer.
²⁶⁰ Interview A3.
²⁶¹ Interview F16, catfish processor.
relax or delay the standards. In late December 2014, six processors met with the provincial government of Tien Giang, a province with a large catfish processing industry ($130 million in exports in 2014), which immediately sent a letter to the central government requesting that the standards be postponed. Under pressure from all sides, the Minister intervened at the last minute, announcing on New Year’s Eve – one day before the deadline – that implementation would be postponed for another year.

Despite the setback, sectoral policymakers dug in, rather than incorporating business input. In early January, MARD justified the standards in a letter to provincial governments. The industry continued its lobbying efforts, directing its entreaties to more sympathetic central and local state actors, pressuring MARD from both above and below. Processors again met with the deputy prime minister in February 2015. VASEP sent another series of letters reiterating its demands that the standards be amended. Tilting to the industry’s side, the prime minister’s office designated the Ministry of Planning and Investment to mediate the conflict, and, in a victory for processors, directed MARD to “research” VASEP’s suggestions in order to “solve the difficulties facing firms that raise, process and export catfish.” Provincial governments also continued to push for reversing the reform. In June and July 2015, Tien Giang and Dong Thap People’s Committees sent letters to MARD and the Prime Minister supporting the industry position. In the public letters sent by various provincial governments, it is evident that provincial leaders had adopted the industry’s lines of arguments. After a meeting with processors and VASEP, for example, Tien Giang leaders wrote to the prime minister:

If the new standards on ice glazing and maximum moisture content for net weight are implemented, it will currently be very difficult to find customers (a few firms have embraced the standard and tried producing about 100 tons, but there are no customers; without customers, the firms will have to close).

Contributing to provincial governments’ about-face was that their distributional considerations had changed. While the policy debate had dragged out, processors had moved to directly control costs and quality by integrating their supply chains and obtaining private industry certifications, transforming the industry’s structure. Processors took advantage of the industry shakeout to buy up farmland from distressed farmers. In 2008 only 20% of supply had been farmed in integrated supply chains, but by 2014 the proportion had been reversed, with 70% to 80% of supply farmed directly by companies or by closely-linked contract farmers. Many indebted factories had become

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262 The letter is not publicly available, but it is cited as 699-CV/TU in MARD’s reply.
263 Interviews F26, F27, catfish processors, Tien Giang.
264 MARD 293/VNN-QLCL
265 14/2015/VASEP-CV, 37/2015/CV-VASEP
266 Office of the Government, 1247/VPCP-KTN, signed by Deputy Prime Minister Hoang Trung Hai, sent in response to l4/2014/CV-VASEP.
267 2875/UBND-KTN, Letter from Tien Giang People’s Committee to the Prime Minister, “Suggestion to fix the conditions for processing and exporting catfish according to Decree 36/2014-CP” June 22, 2015.
268 Interview BU4, U.S. catfish buyer; F25, catfish processor.
269 Interviews A4, VNPA official; A3. See also “The reverse M&A strategy of the fish king” [Chiến lược thu mua tươi của vua cá], Cafef, 3/17/14.
zombies" that were operating far under capacity, with perhaps only a quarter of factories remaining profitable.\textsuperscript{270} Consolidation and the processing industry’s dire straits had increased the relative importance of firms over farmers for local governments.

Ultimately, processors’ efforts were successful. Industry lobbying had mobilized provincial governments and the Prime Minister’s office, putting pressure on MARD and forcing it to back down. In December 2015, MARD signaled defeat, stating that it would seek to amend the decree to allow for the more permissive levels that the industry had advocated for (86% moisture content and 20% glazing).\textsuperscript{271} The new rules would be implemented in July, 2016, two years after the initial regulation was supposed to be implemented, and four years after the debate about sectoral governance reforms had begun in earnest.

\textit{A new sectoral association}

MARD also promised to rescind a second element of the reform that processors had protested: a new requirement that they register their export contracts with the Vietnam Pangasius Association (VNPA). First proposed around 2008 when the concepts of clusters and value chains were new in Vietnamese policy and academic circles, VNPA had been conceived as an all-encompassing industry organization to promote stronger linkages in the sector.\textsuperscript{272} Midwifed by central and local government officials in 2013, VNPA membership included the entire supply chain – processors, farmers, feed mills, as well as local government representatives from producing provinces – and was intended to amplify farmers voices and “represent the entire industry.”\textsuperscript{273} VNPA had been the brainchild of provincial governments, who viewed VASEP as having failed to rein in processors and as a narrow “interest group” (a term with a negative connotation in Vietnamese, implying self-serving politics rather than pursuit of consensus).\textsuperscript{274} VNPA’s main functions were to help enforce Decree 36 by registering export contracts and to coordinate among provinces to reduce oversupply.

The new state-created organization, however, was structurally weak and muddled in purpose. The charge to create VNPA had been led by a prominent provincial leader from An Giang, but another, long-retired central government official was installed as chairman. VNPA was set up under the aegis of an existing state organization, the Mekong Delta branch of the Vietnam Chamber of Commerce and Industry (VCCI) – a semi-corporatist organization that served as a forum for policy dialog, research and advocacy for the Delta’s business sector, but that had no particular connection to or expertise in the catfish industry. The organization lacked stakeholder support, rendering it unable to solve complex coordination tasks. Though it was originally intended to provide a voice for


\textsuperscript{272} Interview A4, senior official, VNPA.

\textsuperscript{273} Ibid.

\textsuperscript{274} Interviews A4, G28, A23.
farmers, the industry had rapidly consolidated while the policy process ground on, meaning that there were few independent farmers left.\textsuperscript{275} Provincial leaders had supported it in principle, but lacked incentives to cooperate. Without power and resources, VNPA was “hamstrung,” according to retired provincial officials, and lacked the authority to enforce quotas among Delta provinces; the outcome, one conceded, was “not as we had hoped.”\textsuperscript{276}

The comparison of VNPA and VASEP (discussed in the last chapter), both created by the state but 15 years apart, suggests that creating a state-penetrated association was more difficult in a $1.8 billion export industry than it had been in 1998, when the sector was incipient. Interests were diffuse. Catfish processors were required to join VNPA, but the largest processors were hesitant to become too deeply involved in an organization that they saw as an arm of the state.\textsuperscript{277} Other firms who had felt excluded from VASEP’s leadership and supported VNPA. Firms divided into pro-VNPA and pro-VASEP camps.\textsuperscript{278} As the fight over Decree 36 unfolded, VNPA and VASEP held competing meetings and released competing statements, with VASEP advocating for the abolition of contract registration, VNPA’s key source of funding.

Processors’ unease about VNPA was crystallized in the requirement in Decree 36 that export contracts be registered. Export contract registration, like labeling, can be delegated to agricultural associations by states as a means to monitor and enforce standards (Coslovsky 2014; Doner and Schneider 2000). However, firms did not buy into the reform, and instead viewed the registration requirement with suspicion. In interviews, firms often mentioned that the only other export sector requiring contract registration was Vietnam’s heavily state controlled rice industry (see Chapter 5). Without industry buy-in, the new requirement was unviable. Under pressure from the industry and its local government supporters, MARD reversed the contract registration requirement in the fall of 2015.\textsuperscript{279}

IV. Explaining outcomes: The politics of failed reform

Why were sectoral governance reforms initiated, and why did they fail? Two factors emerge from the last section: stakeholder support and its erosion, and the failure of MARD policymakers to incorporate information about market demands. The chronology constructed above reveals that sectoral policymakers initiated governance reforms in response to pressure from industry stakeholders, particularly provincial

\textsuperscript{275} VNPA’s membership list includes 112 companies, including processors and feed producers, 151 farming households and seven cooperatives, nine provincial departments of agriculture, among other industry participants.

\textsuperscript{276} Interview G36, former senior leader, Mekong Delta province.

\textsuperscript{277} Interviews BU0; F2; F6; F26; F27, catfish processors; A27, head, catfish cooperative.

\textsuperscript{278} Interviews G20, An Giang official; F2, F23, catfish processors; BU0, buyer agent. See also Saigon Investment, “The two Mr. Dungs & the fate of pangasius” [Hai ông Dũng về số phận con cá tra], 9/18/2014.

governments and closely-linked catfish farmers. Stakeholder demand originated in strong market pressures, including intra-industry competition and falling export prices, which mobilized political demands for stronger coordination in the sector. The key stakeholders were local governments in catfish-producing provinces: VASEP had pushed a host of proposals for public-private governance, but when provincial governments got involved, central bureaucrats paid attention. They had bureaucratic space to pursue governance reforms, since catfish was not a priority area for the Party and the sector was almost entirely private (see Table 4.5, appendix). The drive for reform also addressed a real problem for the sector—the need for minimum quality standards and stronger coordination, the lack of which had allowed prices to plummet and undermined the sector’s global reputation.

But the state’s overly stringent approach to reform threatened already embattled catfish processors. Provincial governments did an about-face after being lobbied intensively by both firms and VASEP, persuaded that the decree risked wreaking havoc on their most important industrial sector. Firms and VASEP strategically lobbied multiple parts of the state, including MARD’s political principal, the Prime Minister’s office, and provincial governments, who had leverage both with MARD and with senior government leaders. The processing sector’s ability to mobilize multiple parts of the state to support their cause undermined MARD’s position, making it more difficult to ignore firm input.

Why were MARD policymakers unaccommodating? An important reason, I argue, is a dearth of sectoral policy entrepreneurs. Individual MARD policymakers had less connection with the processing sector than had their MOFI predecessors. Key figures in the reforms of the 1990s, discussed in Chapter 3, had had careers that were closely linked with business—one had been a manager at a local state-owned processor, and another worked closely with firms through Danida’s SEAQIP project. Other key figures at MOFI had not worked directly in businesses, but had degrees in engineering, food or seafood processing technology, as opposed to farming. When MOFI was merged into MARD in 2007, all of these top fisheries policymakers retired. New officials in MARD responsible for fisheries had backgrounds either in agriculture or in aquaculture (fish farming), as opposed to fish processing. Phạm Anh Tuấn, the vice-director of MARD’s fisheries department and the main drafter of Decree 36, had a doctorate in aquaculture and had previously led one of Vietnam’s aquaculture research institutes. At NAFLQAD, which had drafted the controversial catfish quality standards, a new director had taken over in 2008 who had had a conflictual and strained relationship with firms. Sectoral policymakers had a distrustful and somewhat dismissive views of the business sector’s demands. Local agricultural officials interviewed in early 2015 in An Giang and Dong Thap, for example, reflecting the views of MARD, their parent agency, claimed that the market would “adjust” to the new regulation. One senior agricultural official complained that “Our businesses do not understand the market’s demands. They only

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280 Administrative mergers have been ongoing through the reform period. There were 67 ministries and ministerial-level agencies in 1986. Major reductions occurred in 1992 (down to 27) and 2007 (down to 22) (World Bank 2010, 11).

know how to compete by cutting their prices. This is a failure by businesses, and this is what Decree 36 is going to fix.” Pham Anh Tuan, the decree’s author, similarly argued that firms’ opposition reflected “short-sightedness” and “lack of understanding.”

The shift in business-government relations was also evident in VASEP’s altered relationship with the state. At its inception, VASEP had been thoroughly interpenetrated with MOFI, which we saw in Chapter 3 had actually helped to represent firms’ interests within the state. When MOFI merged into MARD, VASEP signed a formal cooperation agreement with MARD, signaling a more arm’s length relationship. The nature of VASEP’s political influence changed. As we saw in Chapter 3, when VASEP was created, it brought firm’s voices into the policymaking process through its leaders, sectoral policy entrepreneurs who served simultaneously as association officials and senior MOFI policymakers. Over the course of the 2000s, it developed an independent resource base and a powerful membership – allowing it, for example, to construct a stand-alone headquarters in Ho Chi Minh City, outside of any government compound – yet it lost its inside advocates in the sectoral bureaucracy, all of whom retired in 2007 when MOFI was dissolved. Without advocates within the state, the association’s mode of influence has shifted to that of an outside lobbyist.

In the absence of sectoral policy entrepreneurs willing to break with established bureaucratic procedures, NAIFIQAD did what it knew how to do best: regulate hard standards based on state-mandated criteria. The reality was that the catfish sector had a nuanced quality problem: there was significant market demand for low-quality fish, and Vietnam was filling that niche. There were multiple market segments for different fish quality and the market widely viewed at 85-86% moisture content and multiple glazing levels to be acceptable. Fraud was widespread, but it was not ubiquitous. MARD’s own survey of processors suggested that adopting the industry’s standards would still have cut off a significant amount of cheating: three-quarters of surveyed firms were selling fish with over 86% moisture content, the threshold for unacceptable quality agreed to by the industry.

Yet NAIFIQAD, which as we saw in the last chapter was created to integrate foreign sanitary regulations into the seafood processing sector, treated the catfish quality problem as a problem that could be regulated away through a hard standard, rather than

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284 Interview A3; VASEP (2008).
285 VASEP’s strident, public opposition to the catfish decree was deeply controversial within the association. The administrator who had led the charge against Decree 36, Nguyen Hưu Dung – one of the original drivers of the first round of governance reforms – accused other VASEP leaders of having colluded with MARD to obstruct revising the regulation, and was ultimately forced out of the association that he had founded. Nguyen Hưu Dung “Associations and personal interest groups” Seafood Commerce 189, 9/2015. http://tepbac.com/news/full/15036/Hiep-hoi-va-nhom-loi-ich-ca-nhan.htm.
what it was – a subjective, market-driven quality standard that was best understood by firms. This is not particularly surprising: its staff were trained in state-regulated sanitary standards, not public-private consultation or market research on issues of consumer taste. The technical agency had conflated the two problems. The chairwoman of Vinh Hoan, Vietnam’s largest pangasius company, identified this problem in a speech, suggesting that the sector’s institutional needs had changed:

We hope that ... sectoral organizations and state agencies will see that the catfish [sector] needs to be managed, rather than controlled. NAFIQAD should transition from being an agency that controls [implying top-down enforcement] to one that works together with businesses to create quality.

A discouraged provincial official who had led An Giang’s initial push for sectoral governance reform reflected that the decree was “just not feasible. It’s because our thinking is not market thinking.”

Would better standards have actually made a difference? We cannot observe the counterfactual, but there is reason to think that they could have. Commodity exporters’ international reputation depends on a uniform set of recognized, transparent minimal standards (Perez-Aleman 2003, 205). In most cases of quality upgrading in an export agribusiness sector, firms and associations take the lead in developing and implementing quality standards with support from the state in coordinating, setting, and monitoring the new standards. Examples include Colombian coffee, Bolivian brazil nuts, Brazilian sugar, Thai jasmine rice, and multiple agro-export industries in Chile including salmon, fresh fruit, and tomato processing (Perez-Aleman 2003, Doner & Schneider 2000, Coslovsky 2013, 2014).

The blowback to Decree 36 suggests that it was not possible to govern a major, globalized consumer industry without participatory governance. After fifteen years of development, the state faced an industry worth nearly $2 billion, led by large, privately-owned, globally networked, with an increasingly vocal and combative associational representative. According to a local official involved in the policymaking effort, MARD was not prepared for the force of the backlash from the industry. This points to a key difference between the first and second cases in the seafood sector: in the case of market entry, the upgrading initiative was largely state-led, initiated by sectoral policy entrepreneurs. In catfish, though, the challenge required a different approach, namely intensive public-private consultation and a larger role for the private sector. The basic insight from industrial policy literature applies: states need market information that only the private sector understands. For complex policy tasks like setting standards, implemented by numerous actors inside and outside of the bureaucracy, knowledge from policy participants is a critical input to policymaking because it generates knowledge that bureaucrats would otherwise lack (Moffitt 2014).

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287 Interview G10, NAFIQAD official.
289 Interview G24.
290 Interview G24.
Incorporating feedback could have increased buy-in to the reforms and aided implementation. Research on local policymaking in Vietnam has shown that firms are more likely to view regulations as legitimate – as opposed to excuses to extract bribes – when they participate in the policymaking process and feel that their views are considered (Malesky 2014, 75–105). But in this case, firms felt that their views were not heard. One executive from a large processor complained that officials had held “a lot of conferences, analysis, taking opinions” about Decree 36, “but in the end [the outcome] is just the state’s subjective ideas.” Another executive said in a speech that “our firm’s opinions seem to have not been acknowledged in all of the state’s policy documents.” When powerful stakeholders are not included, politics becomes conflictual, and firms can rally other parts of the state, as VASEP and processors did with the local governments and prime minister’s office, to make their voices heard.

Effective sectoral governance reform requires more than providing information to the state. In the case of governance reform in catfish, MARD policymakers were aware of firms’ preferences – businesses and sectoral policymakers interacted frequently, they held conferences and meetings, and the issue filled the news. They were also aware of foreign organizational models, which both policymakers and VASEP had explicitly referred in crafting Decree 36. But public-private governance – institutional models that were neither fully commercial nor administrative – were deemed impracticable in Vietnam. The issue was not the availability of information; the problem was that that information was not used.

V. Conclusion

Even after agro-exporters succeed in entering global markets, they face new collective challenges, including how to maintain and improve quality. This chapter has presented a case study of efforts by producers, associations, and various state actors to construct a new institutional framework to support upgrading in Vietnam’s catfish sector. It has argued that a non-participatory approach to governance dissolved stakeholder buy-in for reforms that might plausibly have benefited the entire sector. The issue of catfish quality standards was exactly the sort of problem that the new industrial policy literature identifies as demanding a public-private approach: state intervention was needed to compel adherence to basic standards, but only firms understood the nuanced nature of global markets’ demands for quality. Yet contrary to the prevailing notions in the literature, neither information exchange nor market pressures were sufficient to produce an effective state intervention. Without sectoral policy entrepreneurs willing to use information from the business sector, reform efforts failed.

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291 Interview F18, catfish processor.
The comparison between this case and the first case also reveals the ways in which development changes state-business relations. Writing about the evolution of the alliance between big business and the state in Korea, Peter Evans (1995, 16–17) notes that he initially set out to study the state’s role in industrial transformation, but “ended up intrigued by the way in which the very success of state efforts could undercut the political possibilities for sustaining state involvement.” Alliances between Korean chaebol and foreign technology giants – deals that had been “midwifed” by the state – undermined the foundations of the business-state alliance. He goes on to say that “State involvement was associated with economic dynamism, and the result was political contestation, not symbiosis,” and that any further state efforts would require “some sort of reconstruction of state-society relations.”

Likewise in Vietnam’s seafood processing sector, earlier state reforms had enabled the growth of a large industrial sector, full of privately owned, globally networked, and technologically modern firms. Top-down state leadership and the creation of state-penetrated associations had worked in the 1990s, but the very success of those initial reforms transformed the composition of the sector in ways that ruled out future state-led interventions. The problem demanded participatory governance, but policymakers failed to seize the opportunity presented by bureaucratic space and market pressures. Resolving these sorts of problems may require, in Evans’s terms, some sort of reconstruction of state-business relations.
## Chapter 4 Appendix

### Chronology: Governance reform initiatives and stakeholder actions in catfish sector

<table>
<thead>
<tr>
<th>Date</th>
<th>Actor</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2010</td>
<td>VASEP</td>
<td>Numerous attempts to establish catfish export price floors</td>
</tr>
<tr>
<td>2010-2011</td>
<td>VASEP</td>
<td>Various proposals for reform to central government including farm production quotas and export tax for marketing fund.</td>
</tr>
<tr>
<td>2009</td>
<td>MARD</td>
<td>Creation of coordinating board for seafood export to Russia (Ban điều hành xuất khẩu thủy sản Nga)</td>
</tr>
<tr>
<td>2010</td>
<td>MARD</td>
<td>“Catfish operating committee” proposed by Minister of Agriculture Minister Cao Duc Phat</td>
</tr>
<tr>
<td>2010</td>
<td>VASEP</td>
<td>Petitioned MOIT and NAFIQAD on helping to create floor prices.</td>
</tr>
<tr>
<td>2010-2013</td>
<td>Provincial governments</td>
<td>Mobilization Committee to Establish the Vietnam Pangasius Association created, led by An Giang Provincial People’s Committee and consisting largely of provincial governments</td>
</tr>
<tr>
<td>Late 2010</td>
<td>MARD</td>
<td>Establishment of drafting committee for catfish decree.</td>
</tr>
<tr>
<td>2013</td>
<td>VASEP</td>
<td>VASEP sends letter to Prime Minister proposing a catfish production quota and export trading floor in Belgium, and protesting contents of draft decree, including arguing for its own inclusion in the framework.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>VASEP suggests major revisions to the draft catfish decree.</td>
</tr>
<tr>
<td>April 29, 2014</td>
<td>MARD</td>
<td>Decree 36/2014/ND-CP on farming, processing</td>
</tr>
</tbody>
</table>

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296 See interview G24 and interviews in An Giang in March 2014.


298 Letter 46/2013/CV-VASEP to NAFIQAD, “Suggestions on the draft regulation to control quality in exported catfish”. Specifically, VASEP objected to the hard glazing limits, arguing that different markets had different requirements, and suggesting instead labeling requirements, and argued for an 86% limit on moisture content instead of 83%, providing citations from international Codex requirements, import market laws, and information on moisture content of competitor fish provided by NFI. It also opposed state inspections to enforce the two rules, citing Vietnam’s law on product quality.
and exporting pangasius is issued.

<table>
<thead>
<tr>
<th>Date</th>
<th>Group(s)</th>
<th>Action/Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>May/June 2014</td>
<td>Firms, government</td>
<td>First meeting between firms and deputy prime minister about Decree 36. Firms object to glazing and moisture content rules. 299</td>
</tr>
<tr>
<td>June 3, 2014</td>
<td>VASEP</td>
<td>VASEP sends letter to Prime Minister objecting to glazing and moisture content rules in Decree 36. 300</td>
</tr>
<tr>
<td>June 9, 2014</td>
<td>VASEP, MARD</td>
<td>MARD holds meeting with firms about Decree 36; VASEP proposes postponing the decree for a year. 301 MARD postpones export contract registration requirement for 6 months due to objections. 302</td>
</tr>
<tr>
<td>June 20 &amp; 26, 2014</td>
<td>VASEP</td>
<td>VASEP sends detailed proposals to government and MARD to make radical amendments to Decree 36, including replacing ice glazing rule with transparent labeling requirements and getting rid of the moisture content standard, contract registration, and fee. 303</td>
</tr>
<tr>
<td>July 28, 2014</td>
<td>NAFIQAD, VASEP</td>
<td>NAFIQAD and VASEP meet and argue about moisture levels; NAFIQAD presents research justifying moisture content regulation 304</td>
</tr>
<tr>
<td>July 29, 2014</td>
<td>MARD</td>
<td>MARD issues circular on Decree 36 implementation, setting implementation deadline for glazing and moisture content standards for December 31, 2014. 305</td>
</tr>
<tr>
<td>August 27, 2014</td>
<td>VASEP</td>
<td>VASEP repeats its “urgent” request for a meeting between the government and industry about Decree 36. 306</td>
</tr>
<tr>
<td>December 13, 2014</td>
<td>VASEP, NAFIQAD</td>
<td>11 person council including inspectors, VASEP and firms sent by the Minister to conduct research to determine ideal moisture and glazing levels at a firm in Dong Thap province. 307</td>
</tr>
</tbody>
</table>

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299 Interview F26
300 105/2014/CV-VASEP, letter to the Prime Minister. VASEP also objected to VietGAP, arguing that firms had already implemented international standards; suggested stronger controls on production levels and a mechanisms for enforceable agreement among provinces.
305 Circular 23/2014/MARD.
307 According to F26 and at least one newspaper article, the result was not announced publicly because it contradicted the 83%/10% specifications in ND36. Cite: See article “Lo cả trà tác đầu ra”.
<table>
<thead>
<tr>
<th>Date</th>
<th>Actor(s)</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>~ December 25, 2014</td>
<td>Firms, provincial government</td>
<td>Six processing companies in Tien Giang met with provincial government to ask local officials to intervene to delay Decree 36 implementation. Tien Giang Provincial People’s Committee sent a letter to the central government requesting a delay.</td>
</tr>
<tr>
<td>December 30, 2014</td>
<td>MARD</td>
<td>Minister of Agriculture announces delay of Decree 36 requirements for a year, one day before the implementation deadline.</td>
</tr>
<tr>
<td>January 13, 2015</td>
<td>MARD</td>
<td>MARD sends letter to provinces with catfish production, justifying requirements in Decree 36.</td>
</tr>
<tr>
<td>January 19, 2015</td>
<td>VASEP</td>
<td>VASEP thanks the Prime Minister and MARD for postponing Decree 36 and again requests changing the quality standards and eliminating contract registration.</td>
</tr>
<tr>
<td>February 4, 2015</td>
<td>MARD, MOIT, VNPA, firms</td>
<td>Dialogue between MARD, MOIT, VNPA and firms.</td>
</tr>
<tr>
<td>February 10, 2015</td>
<td>VASEP</td>
<td>VASEP sends letter to MARD reiterating detailed suggestions for revising Decree 36.</td>
</tr>
<tr>
<td>February 2015</td>
<td>Firms, Prime Minister’s office (Office of the Government)</td>
<td>Meeting between some firms and Deputy Prime Minister. The Prime Minister directs Ministry of Planning and Investment to mediate the conflict.</td>
</tr>
<tr>
<td>May 7, 2015</td>
<td>MARD</td>
<td>MARD states that it will revise Decree 36, without stating specifics.</td>
</tr>
<tr>
<td>May 2015</td>
<td>NAFIQAD</td>
<td>NAFIQAD publicly releases results of research on glazing and moisture content.</td>
</tr>
<tr>
<td>June 5, 2015</td>
<td>VASEP</td>
<td>VASEP sends letter to MARD detailing threats to catfish industry in current global economic climate</td>
</tr>
</tbody>
</table>

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308 Interviews F26, F27 with two Tien Giang catfish processors.
309 MARD 293/VNN-QLCL
310 14/2015/VASEP-CV, Letter to Prime Minister and Minister of Agriculture “Consider fixing several items in Decree 36.” 1/19/2015.
311 37/2015/CV-VASEP, Letter to Minister of Agriculture & Rural Development. [enumerating market difficulties, Euro’s decline, continued antidumping duties and rise of new competitor species as justification for dropping the glazing and moisture requirements; objecting to the floor price and contract registration; and request for assistant with market promotion campaign to combat negative views of pangasius – should quote from this]
312 Interview F26.
313 Office of the government sends Cong van 1247/VPCP-KTN, in response to Cong van 14/2014/VASEP, from Hoang Trung Hai

125
<table>
<thead>
<tr>
<th>Date</th>
<th>Subject</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 17, 2015</td>
<td>Provincial government, firms, VASEP</td>
<td>Tien Giang Provincial People’s Committee organizes meeting with processors and VASEP about Decree 36.</td>
</tr>
<tr>
<td>June 22, 2015</td>
<td>Provincial government</td>
<td>Tien Giang Provincial People’s Committee sends letter to the prime minister saying Decree 36 is hurting local export businesses and asking that it be revised.</td>
</tr>
<tr>
<td>July 4, 2015</td>
<td>Provincial government</td>
<td>Dong Thap Provincial People’s Committee sends letter to prime minister asking that glazing &amp; moisture rules be amended, contract registration be ended, and several other changes.</td>
</tr>
<tr>
<td>September 4, 2015</td>
<td>MARD</td>
<td>MARD indicates that it will seek to amend the regulation, allowing for 86% moisture content and 20% glazing until 2019 (at which point the stricter standards will come into effect) and that contract registration requirements will be loosened.</td>
</tr>
<tr>
<td>September 25, 2015</td>
<td>Prime Minister’s office</td>
<td>Deputy Prime Minister agrees to MARD’s proposal to amend decree and pushes even further, suggesting reconsideration of the entire Decree 36. It suggests MARD should “focus on these problems: the difficulties and problems facing firms in implementing Decree 36; the necessity of VietGap or international standards...; consider replacing the maximum moisture and ice glazing... with a mechanism where firms declare information about product ingredients and quality; reconsider the continuation of the contract registration requirement.”</td>
</tr>
</tbody>
</table>

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315 82/2015/CV-VASEP, Letter to Minister of Agriculture Cao Duc Phat. [Also talks about how two key goals – production regulation and price stabilization – not happening.]
316 2875/UBND-KTN, Letter from Tien Giang People’s Committee to the Prime Minister, “Suggestion to fix the conditions for processing and exporting catfish according to Decree 36/2014-CP” June 22, 2015.
317 376/UBND-KTN
### Table 4.2: U.S. fish consumption by species (pounds per capita)

<table>
<thead>
<tr>
<th>Year</th>
<th>Type</th>
<th>Lbs</th>
<th>Year</th>
<th>Type</th>
<th>Lbs</th>
<th>Year</th>
<th>Type</th>
<th>Lbs</th>
<th>Year</th>
<th>Type</th>
<th>Lbs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1</td>
<td>Tuna</td>
<td>3.7</td>
<td>2000</td>
<td>2</td>
<td>Shrimp</td>
<td>3.2</td>
<td>2005</td>
<td>Shrimp</td>
<td>4.1</td>
<td>2010</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Shrimp</td>
<td>2.2</td>
<td></td>
<td>3</td>
<td>Cod</td>
<td>1.4</td>
<td></td>
<td>4</td>
<td>Pollock</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Cod</td>
<td>1.9</td>
<td></td>
<td></td>
<td>5</td>
<td>Salmon</td>
<td>2.4</td>
<td></td>
<td>6</td>
<td>Carfish</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Pollock</td>
<td>2.0</td>
<td></td>
<td></td>
<td>8</td>
<td>Flatfish</td>
<td>0.6</td>
<td></td>
<td>9</td>
<td>Carbs</td>
</tr>
</tbody>
</table>

Source: [www.aboutseafood.com](http://www.aboutseafood.com/about/about-seafood/top-10-consumed-seafoods) and Steve Otwell, “Food Safety may be an attribute and opportunity for Aquaculture Products,” Presentation at GOAL Conference, October 2014 in Ho Chi Minh City.

### Table 4.5: Top ten catfish companies

<table>
<thead>
<tr>
<th>Company name</th>
<th>Ownership/type</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vinh Hoan</td>
<td>Non-state (public, HOSE*)</td>
<td>Dong Thap</td>
</tr>
<tr>
<td>Hung Vuong</td>
<td>Non-state (public, HOSE)</td>
<td>Tien Giang</td>
</tr>
<tr>
<td>Bien Dong Seafood</td>
<td>Non-state (LLC)</td>
<td>Can Tho</td>
</tr>
<tr>
<td>Golden Quality</td>
<td>Non-state</td>
<td>Hau Giang</td>
</tr>
<tr>
<td>Navico</td>
<td>Non-state (equitized military)</td>
<td>An Giang</td>
</tr>
<tr>
<td>IDI</td>
<td>Non-state (&lt;50% state share)</td>
<td>An Giang</td>
</tr>
<tr>
<td>Godaco</td>
<td>Non-state</td>
<td>Can Tho</td>
</tr>
<tr>
<td>Agifish</td>
<td>Non-state (private)</td>
<td>An Giang</td>
</tr>
<tr>
<td>Hung Ca</td>
<td>Non-state (private)</td>
<td>Dong Thap</td>
</tr>
<tr>
<td>Dai Thanh Tien Giang</td>
<td>Non-state</td>
<td>Tien Giang</td>
</tr>
</tbody>
</table>

*Ho Chi Minh Stock Exchange
Figure 4.5: Catfish production by province

Catfish production volume, Mekong Delta provinces, 2000-2013

Source: Reports from Departments of Agriculture & Rural Development and the Department of Fisheries, 2001-2013
Chapter 5: Institutional continuity in Vietnam’s rice export sector

I. Introduction

The last two chapters have demonstrated how pressure from industry stakeholders, particularly local governments in the Mekong Delta, pushed central bureaucrats to initiate governance reforms in the seafood sector. In the seafood processing industry in the 1990s (Chapter 3), provincial governments sought to break Seaprodex’s monopoly over export quality control, providing political support for policymakers in the Ministry of Fisheries to establish a new, impartial regulator. After 2010 (Chapter 4), fierce competition drove a race to bottom in prices and quality among catfish suppliers, leading provincial governments to demand stronger central regulation; but when central agricultural policymakers tried to enforce infeasible quality standards that created uncertainty and threatened local factories’ markets, provincial governments switched sides, lobbying with firms and their associational representative for the new regulation to be revised, resulting in delays, uncertainty and the collapse of key provisions. In both cases, sectoral policymakers had bureaucratic space to attempt reforms, since fisheries was not a Party priority. Likewise, process tracing reveals that in both cases support from stakeholders with a direct interest in solving specific competitive problems facing the seafood industry preceded action by sectoral policymakers, who had discretion to respond to stakeholder demands. The counterfactual implied by this analysis is that in cases of non-reform – cases where the central government does not attempt sectoral governance reforms – we should observe an absence of bureaucratic space and/or bottom-up stakeholder pressure, particularly from provincial governments.

This chapter examines this counterfactual in Vietnam’s rice export sector. If seafood was a case of successful governance reforms, resulting in low entry barriers, a modern food safety regulator and a business association providing collective resources for firms, rice is on the opposite end of the governance spectrum. The export sector is regulated by a large, state-owned quasi-monopolist, and has high policy barriers to entry and a deficit of supporting institutions. A central government SOE, Vinafood 2, dominates the sector, and regulates rice exports through a state-mandated cartel, the Vietnam Food Association, which controls contract registration and quota distribution. The official rationale for this governance structure is ensuring food security. It has also, however, crowded out new private entrants, including those attempting to introduce new value-added rice varieties for export to high-end markets. In part as a consequence of non-reform in export governance, Vietnamese rice exporters have struggled to upgrade quality. The chapter explores the causes of non-reform.

There are compelling reasons to compare rice and seafood in Vietnam. They are two of the country’s top non-oil commodity exports, totaling nearly $3 billion and $8 billion respectively in 2014. Most rice and seafood exports originate in the same region, the Mekong Delta, which combines large arable areas, rivers that allow for cheap, flood-
based irrigation and easy transport, and lower population density than the Red River Delta in the north. The Mekong Delta accounts for 95% of Vietnam’s rice exports (and 55% of its total rice production), all of its catfish exports, and 60% of overall seafood exports. Conversely, both industries are economically vital to these localities: rice, catfish and shrimp are these provinces’ largest farming and industrial sectors, and virtually their only export products. In upriver An Giang province, for example, catfish accounts for over 80% of export revenue, and rice most of the remainder. By contrast with more diversified, industrialized economies that receive significant FDI, such as those neighboring Ho Chi Minh City, Delta provincial governments should have clear incentives to support major local firms in the sector.

What, then, explains this non-reform in export governance? The chapter argues that two key factors, stakeholder support and bureaucratic space, were absent. Process tracing reveals that in the 1990s when the sector opened up, provincial governments supported consolidating central government control over rice export to reduce externalities from inter-provincial competition, similar to provinces’ support for tighter regulation of catfish exporters in the 2010s. By the 2000s and 2010s, however, when the institutional structure proved disadvantageous to provincial interests, there was little bureaucratic space for reforms. Rice policy was among the Communist Party’s top political priorities, and the status quo was considered sacrosanct by senior leaders. Vinafood 2 and the Vietnam Food Association had also become powerful players. The high politics of the rice sector, and Vinafood’s significant regulatory powers, made the governance arrangements too sensitive to protest, rendering industry stakeholders — firms and provincial governments — reticent to openly advocate for policy change. Delta provincial governments’ interest also dimmed when Vinafood acquired their local rice trading companies in the late 1990s, and later as the locus of the rice export industry shifted to areas around Ho Chi Minh City. This contrasts with seafood processors, which had to be co-located in farming provinces and thus remained “local” firms.

It must be acknowledged upfront that the comparison between rice and seafood is an imperfect one, despite the industries’ geographic overlap and economic importance in Vietnam in general and in the Delta in particular. The two products have very different production technologies and market structures. The mobile, individualized nature of fishing and the perishability of seafood make it particularly ill-suited for centralized state control, whereas rice can be stored in large warehouses for months. On the demand side, global seafood markets are entirely private, whereas governments have historically organized much of the international rice trade. External constraints are also lower for rice than seafood: fish spoils easily, so market standards are high, while in rice, there is significant market demand for low quality rice in countries where governments stockpile rice for food security.

320 This is true more generally about peninsular versus island Southeast Asia, which is why Thailand, Vietnam, Cambodia and Myanmar are surplus exporters and Indonesia, Philippines, and Malaysia are importers (Baldwin et al. 2012).
321 Interview G32, trade official, Dong Thap, 12/7/15; Interview G34, trade official, An Giang, 12/8/15.
Perhaps the most significant difference with respect to export governance is that rice is uniquely political. Rice is the main staple food of half of the world’s population, and accounts for nearly a third of total caloric intake in Asia (FAO 2006). The International Rice Research Institute (IRRI) calls rice prices a “barometer of government performance,” and nearly every East Asian government intervenes deeply in its rice market to ensure supply for consumers and/or farmer welfare. The international rice trade is thin and segmented, with just 6% of global production internationally traded and five countries – India, Pakistan, Thailand, the U.S. and Vietnam – accounting for 80% of global exports (Zorya et al. 2014). Because of its importance as a staple, national governments in importing countries have historically been deeply involved in the rice trade, using quasi-state organizations to organize centralized tenders (“government-to-government” sales) for large volume imports. Rice processing is also capital-intensive, and the export sector tends to be dominated by a relatively small number of large players (in Thailand, for example, as is discussed below, ten firms control 70% of exports). Rice policy tends to be a major vehicle for patronage politics in Asia (Fang 2015). Specific institutional arrangements, however, vary across countries. Asian governments use a variety of arrangements to maintain control over their rice export sectors, including export restrictions, mandatory stockpiling for national rice reserves, minimum export prices, and licensing, but most governments do not employ export monopolies and formal barriers to entry like Vietnam does. India and Thailand, the two other major Asian exporters, allow any state or private firm to export, subject to past performance. Vietnam is the only major exporting nation that grants a single SOE near-monopolistic control over its export sector. The question addressed in this chapter is not why Vietnam’s rice trade does not operate as a perfectly competitive free market, but rather what politics created and maintain its specific governance arrangement – a dominant central SOE with substantial regulatory power and formal barriers to entry – despite the ostensibly negative impact on export quality upgrading, and the seemingly wide array of interests that would benefit from more open sectoral governance. The seafood cases in Chapters 3 and 4 provide a counterfactual by illustrating the political process by which sectoral governance reforms might have occurred in the Vietnamese context.

The remainder of the chapter proceeds as follows. Section II provides background on Vietnam’s rice exports since the late 1980s. It demonstrates that Vietnam has become the world’s bulk provider of low cost rice but it has struggled to capture premiums on

322 Governments intervene at all stages of the supply chain. States subsidize production through input subsidies and floor prices for farmers; directly procure and store rice; and manage and restrict trade (Zorya et al. 2014, 37). Rich producers like Japan and Korea heavily subsidize and protect rice farmers through sky-high tariffs, while in poorer nations governments seek to control trade to ensure sufficient supply for consumers (Timmer 2010). In Vietnam, the state maintains a heavy state-owned enterprise presence in the export sector, but also locks agricultural land into rice farming and subsidizes companies’ procurement activities.

323 A recent example is the Thai government’s populist “paddy pledging scheme” to buy rice from farmers at above-market prices, which ultimately precipitated a coup to oust Prime Minister Yingluck Shinawatra in 2014.

international markets. Section III presents sectoral governance arrangements, focusing on Vinafood and the Vietnam Food Association – a quasi-monopolistic general corporation and a state-linked rice exporters cartel – and Decree 109, a 2010 policy which formalized barriers to entry by excluding small firms from the market. It shows that these institutional arrangements have contributed to blocking new entrants and movement into higher value-added rice varieties and markets. Section IV analyzes the politics that led to the consolidation of Vinafood and barriers to entry in rice export, arguing that competitive dynamics among provinces created support for consolidating central administrative control over the sector in the 1990s, but that in the 2000s and 2010s, bureaucratic space for reforms had closed, and industry stakeholders, particularly local governments, did not push for reform. A brief Section V concludes.

II. Industry background & upgrading challenges

In Vietnam, as in the rest of Asia, rice occupies a special position in the national psyche because of its importance for nutrition, livelihoods, and culture. Rice accounts for over half of total caloric intake, and rice farming occupies most of the arable land and agricultural labor force. Only recently in the past two decades, though, has Vietnam become a major exporter. Rice production stagnated after the country was reunified under communist control in 1975. State attempts to collectivize southern rice farmers caused production to fall off sharply (Luong 2003, 7), and by the late 1970s, local governments faced with shortages were engaging in fence breaking, or illegal experimentation with private trading, to feed their populations. In 1979, for example, the HCMC People’s Committee formed a “rice smuggling committee” to procure rice directly from farmers at market prices, outside of the state trading system (Rama 2008, 16–18). Confronted by negative growth and the stark failure of central planning, Hanoi began to dismantle the rice command economy in the early 1980s. Reforms proceeded in two waves (Pingali and Xuan 1992). A system of household-based contracts analogous to the Chinese household responsibility system was introduced in 1981, allowing farmers to produce outside of cooperatives and sell a contracted part of their output to the state at fixed prices, with the remainder to be consumed or sold on private markets. Decollectivization and more dramatic liberalization followed in 1988-89. Households were granted long-term leases on land, input markets were decentralized and output markets were effectively privatized, and farmers were allowed make their own procurement and production decisions. Private traders were allowed to participate in domestic rice marketing and processing. In partnership with IRRI, new seeds were promoted and irrigation was modernized, and large-scale extension programs educated farmers on techniques to raise productivity.

Decollectivization and privatization led to rapid growth in production, not only making Vietnam self-sufficient in rice, but transforming it into a major global exporter. Once farmers had incentives to grow, productivity began to increase, and after 1989 both

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326 See also (Riedel and Turley 1999; Young et al. 2002; Fforde and Vylder 1996, 134).
cultivated land area and yields grew swiftly.\textsuperscript{327} The government opened the doors to export in 1989 (Young et al. 2002, 26). Export volume increased steadily, promoted by officials at all levels of government who were evaluated, in part, on their ability to increase rice output.\textsuperscript{328} Since the mid-1990s, Vietnam has consistently ranked as the world’s second or third largest exporter (Table 5.1, appendix). By 1999 its exports of 4.5 million tons accounted for a quarter of total global rice trade, and in 2012 exports reached 8 million tons worth $3.6 billion. Vietnam also achieved the world’s highest yields, attaining productivity far higher than other exporters through a combination of state investment in irrigation, heavy fertilizer and pesticide use, and cultivation of high-yield, fast-growing seeds.\textsuperscript{329} In short, production boomed and a substantial portion of Vietnam’s rice sector moved from producing a staple food for domestic consumption to producing a trade commodity.

Quality upgrading outcomes have been mixed. When Vietnam began to export, equipment was antiquated and mills were small. The 1990s and 2000s saw major new private investments in modern rice polishing factories, significantly improving Vietnam’s ability to meet foreign buyers’ specifications (Slayton and Muniroth 2012, 30). One key quality grading criterion for milled rice is the percentage of broken grains: <10% broken is considered high-quality, 10-20% broken medium quality, and >20% broken low quality.\textsuperscript{330} In the early 1990s, almost all of Vietnam’s exports were 35%-45% broken, but thanks to new investments in processing equipment, it had made inroads into high and medium quality markets by the mid-2000s (Nielsen 2003; Q. Tran 2015). On the other hand, Vietnam has struggled to move into high quality niches, a counterfactual that is evident in comparisons with Thailand. While different types of rice are not entirely substitutable, Thailand and Vietnam produce similar varieties and compete in the same markets for regular long-grain white rice and jasmine rice. In 2014 over 40% of Vietnam’s exports were still medium or low quality white rice, compared to just 12% of Thailand’s (Table 5.2). Thailand’s exports are also more diverse than Vietnam’s, enabling it to export to all markets, while Vietnam’s exports are generally restricted to a single variety of milled long-grain white rice (Baldwin et al. 2012).

\textsuperscript{327} Yields doubled and production tripled, from 11 to 33 million tons, between 1980 and 2000 (Dang and Tran 2008, 207, 218; Young et al. 2002, 8, 22).
\textsuperscript{328} Interview R7, rice expert, Mekong Delta, 12/1/15.
\textsuperscript{329} Vietnam’s average yield in 2011 was 5.5 tons/ha, compared to 3.0 in Thailand, 3.1 in India and 3.7 in Pakistan (Tran Cong Thang et al. 2013, 13). The Mekong Delta has three annual harvests, compared to one in India and Thailand.
\textsuperscript{330} Other grading criteria include grain length, chalkiness, consistency, and translucency. (Slayton and Muniroth 2012; Zorya et al. 2014)
Table 5.2: Vietnam and Thai rice exports by quality grade (2014)\textsuperscript{331}

<table>
<thead>
<tr>
<th>Type</th>
<th>Vietnam percent of exports</th>
<th>Type</th>
<th>Thailand percent of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-10% broken (high quality)</td>
<td>22.6</td>
<td>5-10% broken (high quality)</td>
<td>24.1</td>
</tr>
<tr>
<td>15-25% broken (medium-low quality)</td>
<td>42.3</td>
<td>15-35% broken (medium-low quality)</td>
<td>11.9</td>
</tr>
<tr>
<td>100% broken</td>
<td>2.9</td>
<td>100% broken</td>
<td>7.4</td>
</tr>
<tr>
<td>Fragrant rice (jasmine)</td>
<td>16.1</td>
<td>Hominy (jasmine)</td>
<td>12.2</td>
</tr>
<tr>
<td>Japanese</td>
<td>0.6</td>
<td>Glutinous</td>
<td>1.2</td>
</tr>
<tr>
<td>Parboiled</td>
<td>1.2</td>
<td>Parboiled</td>
<td>29.7</td>
</tr>
<tr>
<td>Other</td>
<td>3.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: % of exports by volume. Vietnam data from AgroMonitor 2014; Thai data from Thai Rice Exporters Association website.

There are many possible upgrading routes for rice exporters, including moving upstream in rice processing and packaging, or downstream into marketing and branding (Demont and Ndour 2015). One product upgrading option for Vietnam is to move into jasmine rice, in addition to standard white rice. Markets for high-quality, specialty rice, including jasmine, have grown in recent years, particularly in North American and Europe.\textsuperscript{332} Jasmine is one of the world’s two higher-value “fragrant” rice varieties (along with basmati), grown in Thailand, Vietnam, and Cambodia. It is a trade commodity, rather than a food security staple, which sells at a premium because of its taste, aroma and relative scarcity (Giraud 2013; Zorya et al. 2014, 51). High-quality, unbroken jasmine is consumed in China, Hong Kong, Singapore and increasingly the United States (while basmati is grown in South Asia and exported mainly to the Middle East). Cheaper broken-grain fragrant rice is exported mainly to West Africa. Thailand has historically had a near-monopoly on jasmine exports.

Vietnam has recently entered the jasmine market, exporting 900,000 tons in 2012-2013 (Q. Tran 2015), but its jasmine sells at a discount of 30-40% compared to Thai jasmine (Figure 5.1).\textsuperscript{333} According to IRRI, “The average spread between Thai Hommali and Vietnamese jasmine has been around US$400 per ton ($1,000 per ton for Thai Hommali vs. $600 per ton for Vietnamese jasmine) in recent years.”\textsuperscript{334} Thai rice is also sold under recognized national brand names – Thai jasmine or Hommali – while Vietnamese rice is usually labeled “long grain white rice” without note of national origin, and branded by the multinational or supermarket intermediary (D.T. Anh and B.K. Dong 2015). In 2012, Vietnam exported 20% more rice than Thailand in terms of tonnage, but

\textsuperscript{331} There is no single standardized system for quality grading, and countries supply different statistics, so a perfect comparison between the two countries is not possible.

\textsuperscript{332} http://ricepedia.org/rice-as-food/quality-factors

\textsuperscript{333} This is true even for the period prior to Thailand’s hefty price supports in 2011-2014. Other sources note a spread of 20-35% in jasmine: in 2013, the Thai Rice Exporters Association said that Thai jasmine was $1231/ton, versus Vietnamese fragrant at $850-$950. Petchanet Pratruangkrai, “Chinese importers mix costly Thai jasmine rice with cheaper grains to maintain profit,” The Nation, 4/17/13. Slayton and Muniroth (2012, 9) note a discount of $350/ton.

captured 20% less in export value; indeed, Vietnam captures less revenue per ton exported than any of the other top four exporters (Table 5.1, appendix), and receives lower premiums than its competitors in every category where it competes (Nielsen 2003).

**Figure 5.1: Monthly export prices, Thailand and Vietnam**

![Monthly export prices, Thailand and Vietnam](image)

A host of upstream quality and technology problems have thwarted efforts to capture more value. Backward post-harvest technology and limits on land ownership keep production small-scale and fragmented, resulting in a high percentage of broken and unusable rice (Tran, Do, and Le 2013, 14; Nielsen 2003). Some firms have started to contract directly with farmers, but most still purchase on spot markets through a long chain of small traders (Rutsaert and Demont 2015). Exporters estimate that 45% of rice cannot be processed because of chemical residues and poor post-harvest handling, which cause it to mold and degrade faster than competitors’ rice. Companies also describe chemical residues, a byproduct of excessive application of pesticides and chemical fertilizers, as a central barrier to entering high-end markets. Value chain researchers find there are more than 100 seed varieties circulating in the Mekong Delta, compared to two main varieties in Thailand (D.T. Anh and B.K. Dong 2015).

Vietnam has found buyers for its rice mainly in large, less demanding markets. From the 1990s through around 2009, most of Vietnam’s rice was exported on

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335 Vietnamese jasmine prices are not available from USDA or FAO. However, AgroMonitor (2015) shows that the average jasmine export price from the three largest contracts 2013-2015 is 550 USD/ton (FOB).

336 Interview F34, rice exporter, Dong Thap, 12/7/15.

337 Interviews F34; G33, agricultural official, Dong Thap 12/7/15; F35, rice exporter, An Giang, 12/9/15; F29, rice exporter, HCMC, 11/24/15. G14 noted that Vietnam is not allowed to bid on government rice contracts in Korea because of concerns about pesticides. See also “Vietnamese rice resumes exports to Japan, Tuoi Tre News, 1/29/13.

338 Interview R4, agricultural researcher, HCMC, 11/10/15.

339 Interviews F29; F32, F33, F34, rice exporters, Dong Thap, 12/7/15; G14, agricultural official, An Giang, 12/9/15; G30, MARD official, Hanoi, 11/19/15; G32.
government-to-government contracts (tenders organized by importing governments) to the Philippines, Malaysia, Indonesia, and West Africa. These markets import large quantities of low-grade rice for food security needs. For example, the Philippines is one of Vietnam’s major buyers, but it mainly imports 25% broken rice from Vietnam for resale to poor consumers. Volumes are high – in 2013-2014, Vietnam exported over 400,000 tons per month on government contracts – and commercial terms are low-risk.  

Centralized markets tend to lack quality controls, and exporters say they can resell containers rejected by European border inspectors for excessive chemical residues to Southeast Asian neighbors. Despite the ease of selling to the low-end, though, there are substantially larger margins to be made in high-end markets. In an interview, a private rice exporter in the Mekong Delta claimed that her company could make more money exporting a ton of specialty rice to high-end markets like Western Europe or the U.S. than exporting 100 tons of low quality rice on a government-to-government contract. Another firm working on commercializing Japonica, a premium rice normally grown in temperate climates, said that there was a “huge market demand” for the specialty rice.

Inability to move up the value chain opens countries to intense competition from lower-cost entrants (Gereffi 1999). In the 1990s and 2000s, Vietnam cut into Thailand’s market share for non-fragrant white rice in Africa and Asia by producing large volumes of cheap rice. Since 2010, though, it has faced its own new low-cost competitors, including India, now the world’s largest exporter, and Cambodia and Myanmar, both of which have exported over a million tons of milled rice annually since 2010. Pushes for rice self-sufficiency by governments in traditional Southeast Asian import markets like the Philippines and Indonesia have reduced demand for Vietnamese rice, and the share of government-to-government (as compared to commercial) contracts declined from two-thirds of Vietnam’s total exports in 2007 to just a quarter in 2012 (N. D. Thanh and D.T. Minh 2015, citing AgroMonitor; Rutsaert and Demont 2015).

To compensate for these losses and new competitive pressures, Vietnamese firms have increasingly relied on selling to China, which consumes a third of Vietnam’s estimated total exports (around 3.5 million tons) (Table 5.3). More than half of that amount is exported through unrecorded border trade – basically, smuggling – instead of through customs at Chinese ports. In 2015, Vietnamese companies shipped 1.8 million tons of rice by truck across the northern land border (Pham and Nguyen 2015). The border trade is risky. Prices are low, either government could cut it off at any time, and firms risk getting caught trading illegally. Estimates suggest that the quality of rice traded over the border is lower than what goes through official channels (Table 5.4). Although data is not available on prices, research on Myanmar’s semi-formal border rice trade with China suggests that Chinese traders were capturing the gains by marketing the rice as Chinese to benefit from government price supports (Dapice 2013). Vietnam’s

341 Interviews G14, F34. A local trade official noted that she had never heard of an exporter having a container returned due to chemical residues in an Asian market. Interview G32.
342 Interview F34.
343 Interview F35, private rice exporter, An Giang, 12/9/15.
344 Interview R8, rice expert, Hanoi, 12/11/15.
dependence on China has surpassed that of any other top rice exporter on any single market (Table 5.5, appendix). The Chinese market, in short, has proved a vent for excess supply, but represents a risky alternative for Vietnamese farmers and firms.

| Table 5.3: Vietnam’s rice export markets (official exports), 2010-2014 (’000 USD) |
|-----------------|---------|--------|--------|--------|--------|
|                 | 2010    | 2011   | 2012   | 2013   | 2014   |
| China           | 124     | 309    | 2,077  | 2,176  | 1,938  |
| Philippines     | 1,476   | 978    | 1,112  | 508    | 1,371  |
| Indonesia       | 688     | 1,887  | 928    | 156    | 311    |
| Malaysia        | 398     | 530    | 758    | 466    | 385    |
| Ivory Coast     | 321     | 293    | 477    | 567    | 116    |
| Singapore       | 532     | 385    | 267    | 360    | 587    |

| Table 5.4: Vietnam’s rice exports to China by quality grade (% of total) |
|-----------------|---------|---------|
| 5% broken       | 17      | 12      |
| 10% broken      | 8       | 21      |
| 15% broken      | 24      | 30      |
| 25% broken      | 5       | 12      |
| 100% broken     | 4       | 0       |
| Fragrant        | 11      | 1       |
| Glutinous       | 22      | 6       |

Source for Tables 5.3 and 5.4: (P.Q. Dieu 2015)

To summarize, the first stage of reform in Vietnam’s rice economy was one of the great successes of đổi mới. Decollectivization, liberalization of input and output markets and new investments transformed the Vietnamese countryside, and turned a food-insecure rice importer into one of the world’s largest exporters. This was a momentous accomplishment. However, over the course of the reform era, a substantial portion of rice production became focused on producing rice not as a domestic food security staple but as an export commodity. In the 2000s and 2010s, Vietnamese exports came to occupy a high quantity but low value-added niche, and, despite increasing pressures from new competitors, struggled to enter new, lucrative markets for higher quality, higher value-added rice.

III. Non-reform in rice export governance

This section discusses three key institutions that govern rice export, which were consolidated over the course of the 1990s and 2000s: Vinafood 2, a central SOE that exercises market and regulatory powers over rice export; the Vietnam Food Association, a closely state-linked exporters’ cartel managed by Vinafood; and Decree 109, a 2010 policy that formalized policy barriers to entry. These governance institutions are certainly not the only cause of the sector’s upgrading challenges – among other factors, Vietnam was a relatively late entrant to the global market, compared to Thailand; policies at multiple stages of the supply chain discourage stable value chain linkages between farmers and processors, including most prominently restrictions on land ownership and
conversion that keep farming plots small and fragmented (H.D. Hoa et al 2010) and the state’s promotion of high-volume production and triple cropping, which favors low-quality seeds and depletes the soil. But, as this section explains, Vinafood’s dominance has discouraged new entry, particularly by creating uncertainty that undermines new investments and boxing out new entrants attempting to move into high-quality, high value-added niches.

**Vinafood 2, the Vietnam Food Association and Decree 109**

The semi-monopolistic structure of the rice export market originated in broader attempts by the central government to recentralize control over the economy in the 1990s. In an attempt to rein in local state commercial activities, Hanoi liquidated and consolidated thousands of the small provincial SOEs that had burgeoned immediately following the start of đổi mới (see Chapters 2 and 3) into dozens of large, central SOEs called general corporations. Among the largest general corporations (technically called state business groups) created in 1994 were two rice trading companies, the Northern and Southern Food Companies, or Vinafood 1 and 2.\(^{345}\) Provincial rice trading SOEs in the north were acquired by Vinafood 1, and Mekong Delta rice companies became subsidiaries of Vinafood 2. The Vinafoods were granted regulatory powers in the rice market, most importantly responsibility for negotiating and fulfilling government-to-government export contracts. Vinafood 2 is the dominant company of the two, since almost all rice exports originate in the south. Vinafood 2 manages government-to-government contracts with major Southeast Asian markets, while Vinafood 1 manages sales to Vietnam’s smaller centralized markets like Iraq and Cuba.

In its WTO accession documents, the Vietnamese government justified the Vinafoods’ existence as necessary to stabilize domestic rice prices (Dang and Tran 2008, 228). The companies’ main business activity, though, is exporting: they neither procure directly from farmers, nor sell directly to domestic consumers (Dang and Tran 2008, 209). Vinafood 2 directs rice markets together with a quasi-state organization called the Vietnam Food Association (VFA), a state-mandated rice exporters’ cartel that companies must join to be permitted to export. VFA, together with the Prime Minister’s office, several ministries, and local governments, sets rice export targets and minimum export prices, and is tasked with registering commercial export contracts and distributing quotas for fulfillment of major centralized contracts. The director of Vinafood 2, or a close ally, has doubled as VFA’s chairman since the 1990s, making Vinafood 2 both a market regulator and the major market participant – as it is commonly put in Vietnamese, “both player and referee” [vĩa đánh bại vĩa thời côi]. VFA is also supposed to ensure floor prices are paid to farmers and enforce the government’s annual rice export targets, though the Vinafoods themselves are exempted from quotas and minimum export prices, as, periodically, are closely-linked companies (Slayton 2009, 14).

VFA is the only sectoral association for rice exporters. Its core focus is distributing quotas and negotiating government-to-government contracts, rather than

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\(^{345}\) The name of Vinafood refers to the word **luong thuc**, which means cereal but is often translated as simply as “food.”
other sorts of supporting services like trade promotion, R&D, investment or technology
transfer to farmers, quality management, or provision of market information.\textsuperscript{346} Industrial
policy tasks – for example, the state’s 2015 initiative to “build a national brand” for
Vietnamese rice – are delegated to VFA along with various state agencies.\textsuperscript{347} As with
other state trading companies, Vinafood’s dominance reduces the flow of information and
technology through the supply chain (Pincus 2015b, 30). Other sectoral institutions to
support export quality have been neglected; value chain researchers note, for example,
antiquated national quality grading standards and a lack of regional quality assurance

This institutional structure creates uncertainty and lowers profits for other rice
exporters. Together, VFA and Vinafood 2 exercise a great deal of control over who can
export rice, and how much. Firms without export licenses, and sometimes those with
export licenses, are required to pay commissions to export through Vinafood 2 and close
associates, or to act as subcontractors.\textsuperscript{348} VFA’s approval of export contracts, even those
that have already been negotiated, is opaque and can be unpredictable, making long-term
business planning difficult and discouraging investment. New exporters have difficulty
gaining entry to the association, and sometimes rely on provincial leaders to appeal
personally to the Prime Minister to gain individualized approval for contracts or entry
into VFA (see Section IV). Vinafood 2’s power to set prices in government-to-
government contracts disadvantaged firms in other ways. When it negotiated a contract at
below-market prices with the Philippines in 2014, for example, Vinafood 2 distributed
the quota fulfillment to other exporters, forcing losses onto VFA members and causing
some Vinafood subsidiaries to resort to lying to their parent company about their
stockpiles to avoid having to fulfill the contracts.\textsuperscript{349} The playing field was also tilted in
more subtle ways. Like other general corporations, the Vinafoods were generously
supported by “hidden subsidies” including free credit and land, tax exemptions and
warehouse facilities (Perkins and Vu-Thanh 2011; Dang and Tran 2008, 206).\textsuperscript{350}

The practical impact of this system has been to squeeze out private exporters. In
the late 1990s, private millers were officially allowed to apply for export quotas, but few
obtained licenses (Minot and Goletti 2000). The quota system was lifted in 2001, but an
array of formal and informal restrictions remained. Table 5.6 in the chapter appendix lists
the largest export enterprises between 2000 and 2013. In 2000, the Vinafoods and their
subsidiaries accounted for 97% of rice exports. In 2010, sales through the Vinafoods and

\textsuperscript{346} Interviews F29, F30; R5; R3, rice researcher, Hanoi, 11/5/15.
\textsuperscript{347} 706/QD-TTg, 5/21/2015.
\textsuperscript{348} Interview F30, private rice exporter, HCMC, 11/30/15.
\textsuperscript{349} \textit{Ng\textecircumflex{a}i l\textecircumflex{o} d\textecircumflex{o}ng}, “Companies return rice export quota” [\textit{Doanh nghiệp trả chỉ tiêu xuất khẩu gạo}],
5/12/14; Interview, Vinafood 2 subsidiary, Mekong Delta.
\textsuperscript{350} It was also allowed to diversify horizontally into unrelated industries (including banking, insurance,
tourism, cement and transportation. By the 2010s, Vinafood 2 and its subsidiaries were heavily indebted.
\textit{Dân trí}, “Making losses, Vinafood 2 will be under financial supervision” [\textit{Kinh doanh thua lỗ Vinafood 2
bi giữ sát tài chính}], 10/9/15; \textit{Ng\textecircumflex{a}i Lao Động}, “Vinafood 2 spends money like trash: signs of intentional
wrongdoing” [\textit{Vinafood 2 xài tiền như rác có dấu hiệu cố ý làm trái}], 5/6/14; Trung Chanh, “General
director of Vinafood 2: the rice business needs a new strategy” [\textit{TGD Vinafood 2 kinh doanh gạo cần đổi
mô hình chiến lược}], \textit{The Saigon Times}, 1/24/15; Ngoc Hung, “Vinafood 2 will withdraw capital from unrelated
sectors,” [\textit{Vinafood 2 sẽ thoát vốn các lĩnh vực ngoại ngành}] \textit{The Saigon Times}, 9/30/12.
their subcontractors still accounted for 80% of exports (Slayton and Muniroth 2012, 28). By 2013, some large private exporters had made it into the top ten, but 70% of exports were still from SOEs. Vinafood 2 itself regularly accounted for at least half of exports between 2000 and 2012.

The arrangement also, unsurprisingly, enables corruption. In 2009, Vinafood 2 was found to be engaging in transfer pricing through a Singaporean subsidiary. Newspapers reported that Vinafood 2 had sold two million dollars worth of rice to its subsidiary, Saigon Foods, at $406 per ton – below the government’s $430 floor price – for sale at an unknown price to an African buyer (Cheshier 2010). In 2008, the Vinafoods had posted cumulative revenues of two billion dollars, despite a temporary state ban on commercial exports, in large part by selling rice to the Philippines for $1,200/ton while paying $500/ton to domestic farmers (Tran, Do, and Le 2013; Fang 2015, 108; Van Arkadie et al. 2010).

As private sector activity in the domestic supply chain grew over the 2000s, middlemen proliferated, and the central government moved to crack down on private sector activity that was perceived to be driving down prices. In 2010, the government issued a new regulation to formalize informal barriers to entry into rice export, stipulating minimum capital requirements for rice exporters to maintain an export license, including for warehousing (5,000 tons) and milling (10 tons of paddy per hour), and later for export volume (10,000 tons per year). Owning these physical assets required a significant capital investment and came during a credit crunch. The new rule swiftly pushed small firms out of the market, and the number of companies approved to export fell from 200-250 companies to around 100. As is discussed further in the next section, the main proponents of Decree 109 seem to have been VFA and Vinafood 2, together with central government policymakers.

One pernicious effect of Decree 109 has been to inhibit new, small firms trying to export specialty rice to high-end market niches (N.D. Thành and Đ.T. Minh 2015, 90-94). Small firms that cannot make the requisite capital investments must pay a commission to export through a larger company, impeding their ability to enter reputation-sensitive niche markets. One newspaper article, for example, reported on a company producing organic rice that was required to fulfill its contract with a U.S. buyer through Vinafood 2 – an unknown, uncertified third party. Another firm in Dong Thap had imported Japanese sorting machinery and was paying premiums to farmers to grow specialty rice

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351 This is certainly not unusual – The Economist (2015) pointed out that interventions in the rice market ended up disadvantaging poor farmers in most developing Asian economies.
352 Interviews G14, agricultural official, An Giang, 12/9/15; G32, trade official, Dong Thap, 12/7/15; Interview G34, trade official, An Giang, 12/8/15.
354 Chuong Phucng, “Exporting rice: many firms could be excluded” [Xuát khẩu gạo: Nhiều doanh nghiệp có thể bị loại], VnEconomy, 6/17/11; Phạm Quang Diệu, “Trends in the rice business after Decree 109” [Xuất khẩu nông lúa, gạo sau Nghị định 109], Saigon Times, 1/25/11; Ngọc Hùng, “37 firms may not be able to export rice” [37 doanh nghiệp có thể sẽ không được xuất khẩu gạo], Saigon Times, 5/19/15.
355 Thành Luân, “Professor Vo Tong Xuan: Vinafood 2, let companies sell rice” [GS Vô Tổ Xuan:Vinafood 2 hãy trả cho doanh nghiệp bán gạo], Đại Việt, 11/25/14.
to export to Singapore, but had to pay a commission to a large SOE to export for it, causing the transaction to be unprofitable.\textsuperscript{356} Decree 109 did not force all private firms out of the market: a handful of large companies, including most prominently a large pesticide supplier from An Giang, had already made the requisite capital investments, and in 2013-2014 were moving toward integrating their supply chains, contracting with farmers to produce high quality rice for high-end markets.\textsuperscript{357} These companies, however, were the exception.

A comparison with the institutional organization of the Thai rice export sector is useful to illustrate commonalities and differences. Thailand has long been Asia’s leading rice exporter. The country’s Ministry of Commerce has maintained control over the export sector through a tax on exports, minimum selling price, export licenses allocated based on past performance, and a host of price support programs for decades (Siamwalla and Setbooonsarng 1989). Around 10 companies account for 70\% of exports (Titapiwatanakun 2012). There are several crucial differences, though, in export governance. First, the industry is left to private traders (excepting a brief period of nationalization immediately after the second world war). The state is heavily involved in regulating the sector, but it is not a market participant. Second, government-to-government contracts were negotiated either by private Thai companies or by the Thai government, and exporters are allowed to negotiate and fulfill private contracts with buyers without selling through an intermediary. Third, the state has at times used its power over export quotas to enforce product quality standards (Laothamatas 1992).

In sum, an SOE with state-granted market power and policies establishing entry barriers serve to reinforce Vietnam’s high-volume, undifferentiated market profile (D.T. Anh and B.K. Dong 2015, 5). Even as the domestic rice supply chain liberalized and Vietnam became one of the major global rice exporters, export governance was characterized by institutional continuity. Rice export was dominated by a cartel and an extractive state-owned monopolist that managed the system for the benefit of a handful of large companies and made few or no investments in research and technology or upgrading quality. Its monopolistic control increased transaction costs and undercut firms’ ability to pursue specialization or a reputation for quality. The causes of institutional continuity are addressed in the next section.

IV. The politics of non-reform

This section explores two contributing factors to the persistence of non-reform in export governance: the absence of bureaucratic space and a lack of dissent from industry stakeholders. First, there was little bureaucratic space for reform. Unlike seafood, rice policy is a top priority for the party-state, and its broad outlines are determined by high politics, not by stakeholder input. Food security, defined as rice self-sufficiency, was long stated as the Communist Party’s top objective. In 1998, the Politburo stated that its first

\textsuperscript{356} Thanh Huong, “Co May rice goes to Singapore” [Gạo Cơ may đi Singapore], \textit{Nhip cầu đấu tư}, 6/2/15; Văn Trương, “Bringing the Vietnamese rice brand abroad” [Dưa thương hiệu gạo Việt ra nước ngoài], \textit{Tuổi Trẻ}, 3/6/15.

\textsuperscript{357} Interviews F29, F30.
priority was to “ensure food security in any circumstance,” and in 2009 it reiterated that food security was a “problem of great significance [trong đai] for the country in the short and long term.” The preoccupation with rice self-sufficiency derives from memories of rice shortages in the 1970s and 1980s, and famine as recently 1945. Although Vietnam has produced enough rice for itself since 1990, and now exports a quarter of the total volume consumed domestically every year, the party-state’s political focus on rice self-sufficiency has persisted (H.D. Hoa et al. 2010). Rightly or wrongly, the role of Vinafood 2 and VFA is very closely enmeshed – and for some political leaders synonymous – with this objective.

Second, industry stakeholder pressure was muted or absent. Bottom-up pressure from provincial governments and firms was a key driver of liberalization in seafood processing and the drive to improve quality in catfish export, and could plausibly have occurred in rice as well. In the 1990s, local governments did attempt to advance the interests of local rice trading companies. As is explained below, however, by the 2000s the power of the major incumbents and high-level party-state involvement had coopted potential sources of opposition, making industry stakeholders less willing to criticize rice export policy. This section shows that in rice, provincial governments and firms did not advocate for wholesale policy change, instead requesting one-off exceptions on an individual basis when major local firms needed them.

Initially, at the start of the reform era, the provinces did advocate for more local control over rice exports. In the 1990s a tug-of-war emerged between provincial governments, protective of their local rice trading companies, and the centrally owned Vinafood, just as provincial governments had fought with Seaprodex in the early 1990s. The dispute was over allocation of rice quotas. In 1996, Vinafood 2 was allocated 80% of the rice export quota. Provincial governments in the Mekong Delta protested, arguing that the monopoly was depressing prices paid to farmers; in response, the next year Prime Minister Võ Văn Kiệt allocated 70% of the rice export quota to the provincial companies (Dang and Tran 2008, 217; Huy Duc 2013, Chapter 21). Provincial governments were also worried, however, that inter-provincial competition among local companies was driving down prices. In the early 1990s, the market was “quite free,” in the words of one SOE manager, and provincial rice companies competed with one another for export contracts. A long-time industry observer remembered that provincial governments would send “spies” to neighboring provinces to follow buyers, cutting prices and providing kickbacks, which buyers took advantage of to push down prices. According to an account from state agricultural researchers, “Stiff competition between companies resulted in a decline in the export price combined with an eagerness to sign contracts, and hence, many SOEs found themselves in a position of not being able to deliver to contract

359 Ho Dang Hoa et al (2010) demonstrate that there is a disjuncture between rice self sufficiency and access to food, which is a function of poverty. World Bank data show that as of 2013, 12% of Vietnamese children under five were underweight – a major improvement from 37% in 1990, but an indicator of the absence of universal food security; other sources suggest that in the mid-2000s, 8.7% of rural households experienced food shortages.
360 Interview F29.
361 Interview R7.
specifications” (Dang and Tran 2008, 216). Many local SOEs made losses (Cheshier 2010, 85), and price cutting created demand for tighter central controls from the provinces. In response, the central government restricted the number of companies licensed to export, from 40 in 1992 down to 15 in 1996 (Dang and Tran 2008).

Fierce inter-provincial competition created a sense among local governments that, in the words of a former provincial Party chief in one major rice producing province in the Mekong Delta, a more “orderly” system for rice exports was needed. When Vinafood 2 was formed, provinces initially acquiesced to giving up control of their local rice trading companies. In the same Party chief’s words, “We thought it was alright” for the local rice company to be incorporated into Vinafood 2, at least “for two or three years.” Between 1995 and the early 2000s, 18 provincial rice companies in south, including the official rice trading company in every single Delta province, were subsumed into Vinafood 2. By 2000 Vinafood 2 and its subsidiaries accounted for essentially all exports (see Table 5.6, appendix). Local governments lost administrative control and rights over most revenues when local firms were transferred to Vinafood 2. In seafood, by contrast, local governments had retained control over the earnings of their own state-owned seafood exporters. This consolidation had the effect of co-opting potential sources of dissent among provincial governments. Slayton (2009) notes that “Vinafood 2 owns controlling interest in a number of what were previously provincially-owned food companies (under the so called ‘mother-daughter’ system), it is a rare occurrence when [it] is over-ruled.”

As Vinafood 2 consolidated power, bureaucratic space for reform narrowed. MARD leaders and the Prime Minister’s office were not open to altering the role of Vinafood 2, despite years of heated criticism and a widespread view – espoused even by officials in private – that the company was corrupt, inefficient, and a net drain on the rice sector. For some senior government leaders, it was equated with the state’s ability to maintain control over rice production. Directors of Vinafood 2 have also been powerful figures, perceived to be close to the Prime Minister and as influential as a senior policymaker. For example, the minimum capital requirements for rice export in Decree 109 seem to have been conceived mainly by the central government and VFA, rather than provincial governments. At times, Vinafood 2 and VFA appeared to exercise power independently of the sectoral policymakers responsible for rice policy. In 2008, for example, a deputy minister of agriculture told the press that he did not realize that the rice association had set floor prices above the global market price – seemingly to force farmers to stockpile rice and then sell it cheaply (Hayton 2010). In 2014, VFA appointed a chairman that the Ministry of Home Affairs, which oversees personnel appointments in associations, rejected, provoking a months’ long standoff that ended in the official’s arrest.

362 Interview G35.
363 A list of Vinafood 2 member companies is available on the company’s website.
364 Interviews G30, G36, R5.
365 Interview R8; G14.
The high politics of the rice sector made it difficult for provincial officials to object to the system, even when it hurt local firms. Outside observers, including the media and some academics, did criticize the system; eminent rice expert Võ Tòng Xuân publicly stated that “The term ‘food security’ has been corrupted by interest groups.” But despite their considerable influence with the central government (discussed in Chapter 2) criticism of Vinafood and VFA was muted and did not spill into the public. Asked whether provincial officials objected to Vinafood’s role, given the harm it did to local companies, a former Vinafood official noted that “That’s the theory. But the fact is that we are all a single Party” and that “Nobody dares to speak up” about VFA’s role. A retired senior official in the Delta said that the role of VFA and Vinafood 2 is “very sensitive” and that “to make it easy to work” with the central government, provincial governments do not bring up the issue. Public objections may could have damaged the future career of local officials. As a case in point, Huỳnh Thế Năng, the vice-chairman of Provincial People’s Committee in An Giang, the largest catfish and rice producing province in the Delta, was appointed as the director of Vinafood 2 in 2014. Rice presents a clear contrast with catfish, which was a far lower priority for the central government – Năng, for example, had been very active in pushing for reforms in the catfish sector.

When local rice exporters ran into problems or discriminatory treatment with VFA or Decree 109, provincial governments tended to advocate for local rice exporters through individualized requests for exemptions, instead of wholesale policy change. This is a stark contrast to the catfish sector, where provincial governments openly advocated for Decree 36 to be revised – a programmatic, not a personalistic appeal. New rice entrants relied on provincial leaders to make personal appeals to the Prime Minister to gain VFA membership. In one instance in 2009, VFA refused to grant an export license to a Kien Giang company that had signed a contract to export 53,000 tons of rice. The province’s Communist Party chief petitioned the Prime Minister, who then intervened with the head of VFA/Vinafood 2. VFA ultimately allowed the shipment, but required that 30% be subcontracted to Vinafood 2 subsidiaries. Likewise, when 9 of Dong Thap’s 14 rice companies could not meet the requisite export volume required to maintain an export license under Decree 109, Dong Thap requested that the Ministry of Industry and Trade make special exceptions to allow these firms to keep their licenses.

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367 Interview F30, R7.
368 “Who influences the rice market?” VietnamNet English, 12/16/14.
369 An article on Decree 109 obliquely mentions “interminable arguments between companies, economic experts, and even between provincial officials with VFA.” Hồng Văn, “Draft decree on rice export doesn’t solve the root problem” [Đuợc thảo nghị định xuất khẩu gạo chưa giải quyết gốc vấn đề], The Saigon Times, 11/6/09. Also Interview G36, retired senior provincial official, Mekong Delta, 12/8/2015.
370 Interview F29.
371 Interview G36.
373 Interview G3.
374 This account is from an FETP case study by P.D. Nghia (2011).
375 CV 732/UBND-KTN Re: suggestion to relieve difficulties for firms trading and exporting rice in Dong Thap [để ngừng gỡ khó khăn cho doanh nghiệp kinh doanh, xuất khẩu gạo Đồng Tháp], 11/17/15.
Another factor that may have further diluted provincial government interest was a geographic shift in the locus of the rice milling and export industry away from the Delta. In 2000, all of the largest rice exporting firms were based in the Delta. By 2013, four out of the top five non-Vinafood exporters were located in HCMC or Long An (Table 5.6, appendix), which have far more diversified economies than rural rice farming provinces like, for example, An Giang or Dong Thap. According to a local trade official, Dong Thap has 13 rice companies that export a total of 300,000 tons of rice – a fraction of the total 2 million tons of its rice that is exported, mainly by firms headquartered, and thus paying taxes, elsewhere. In seafood, by contrast, processors continued to represent a major concentrated industrial interest in Delta provinces even after they had all been privatized. Rice companies thus formed a less concentrated interest group than seafood processors.

V. Conclusion

Despite Vietnam’s enormous growth in rice production and export since market reforms were initiated, the sector has struggled to upgrade. Over the 1990s and 2000s, the central government consolidated a series of policies and institutions, including Vinafood 2, VFA, and Decree 109, that created barriers to entry for new players, neglected quality-promoting institutions and services, and maintained the status quo of high-volume, low-quality and reliance on low-end markets. This strategy seemed increasingly vulnerable as the country’s cost advantages eroded (Rutsaert and Demont 2015), creating market pressures to restructure the sector, but sectoral governance reform did not occur.

Ultimately, sectoral governance reform requires some political pressure from stakeholders and bureaucratic space. This chapter has argued that the bottom-up pressure was present in the 1990s, but that provincial governments acquiesced to tighter central control to alleviate inter-provincial competition. By the 2000s, a variety of factors contributed to a silencing of local dissent. Vinafood had acquired local rice companies; rice policy was a bedrock priority of the Communist Party and politically sensitive; Vinafood 2 was too powerful and had become enmeshed with the state bureaucracy; and urgency diminished as the major firms shifted to HCMC, away from the Delta. Absent bureaucratic space and stakeholder support, significant sectoral governance reforms were unlikely.

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376 Interview G32.
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Source: IRRI Rice Statistics, from FAO.
Table 5.5: Export markets of largest exporters (2013)

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Source: Table is from N.D. Thành and D.T. Minh (2015, 25). Data for India and U.S. from USDA, Thailand from Thai Rice Exporters’ Association, Vietnam from GSO.
Table 5.6: Top rice exporters, 2000-2013

### Top exporters, 2000

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<th>SOE?</th>
<th>Volume ('000 tons)</th>
<th>Share</th>
<th>Location</th>
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<td>Y</td>
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<td>HCMC</td>
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<td>5%</td>
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<td>Y</td>
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<td>5%</td>
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<td>180-200</td>
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Source: Dang and Tran (2008), from General Office of Customs

*100% or majority state-owned

### Top exporters, 2004

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<td>Dargimex</td>
<td>N</td>
<td>Y</td>
<td>49.6</td>
<td>6%</td>
<td>Dong Thap</td>
</tr>
<tr>
<td>Vinh Long Food</td>
<td>Y</td>
<td>Y</td>
<td>41.7</td>
<td>5%</td>
<td>Vinh Long</td>
</tr>
<tr>
<td>Gentraco</td>
<td>N</td>
<td>?</td>
<td>34.2</td>
<td>4%</td>
<td>Can Tho</td>
</tr>
<tr>
<td>Long An Food</td>
<td>Y</td>
<td>Y</td>
<td>29.3</td>
<td>3%</td>
<td>Long An</td>
</tr>
<tr>
<td>Kigitraco</td>
<td>N?</td>
<td>Y</td>
<td>17.4</td>
<td>2%</td>
<td>Kien Giang</td>
</tr>
</tbody>
</table>


148
## Top exporters, 2008

<table>
<thead>
<tr>
<th>Company</th>
<th>Vinafood member company?</th>
<th>SOE?</th>
<th>Volume (thousand tons)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>VINAFOOD 2</td>
<td>Y</td>
<td></td>
<td>1,695</td>
<td>36% HCMC</td>
</tr>
<tr>
<td>VINAFOOD 1</td>
<td>Y</td>
<td></td>
<td>507</td>
<td>11% Hanoi</td>
</tr>
<tr>
<td>Tourist Trade Kien Giang</td>
<td>N</td>
<td>Y</td>
<td>289</td>
<td>6% Kien Giang</td>
</tr>
<tr>
<td>Gentraco</td>
<td>N</td>
<td>Y</td>
<td>199</td>
<td>4% Can Tho</td>
</tr>
<tr>
<td>Agro-forestry Kien Giang</td>
<td>N</td>
<td>Y</td>
<td>109</td>
<td>2% Kien Giang</td>
</tr>
<tr>
<td>An Giang Import-Export</td>
<td>N</td>
<td>Y</td>
<td>90</td>
<td>2% An Giang</td>
</tr>
<tr>
<td>Tien Giang Food Company</td>
<td>Y</td>
<td>Y</td>
<td>85</td>
<td>2% Tien Giang</td>
</tr>
<tr>
<td>Vinh Long Food Company</td>
<td>Y</td>
<td>Y</td>
<td>99</td>
<td>2% Vinh Long</td>
</tr>
<tr>
<td>Long An Food Company</td>
<td>Y</td>
<td>Y</td>
<td>85</td>
<td>2% Long An</td>
</tr>
<tr>
<td>Agribusiness Kien Giang</td>
<td>N</td>
<td>Y</td>
<td>90</td>
<td>2% Kien Giang</td>
</tr>
<tr>
<td>Others</td>
<td>Y</td>
<td></td>
<td>148,206</td>
<td>31%</td>
</tr>
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</table>

Source: Oxfam 2013, from Agroinfo
# Top exporters, 2013

<table>
<thead>
<tr>
<th>Vinafood member company?</th>
<th>SOE?</th>
<th>Volume (thousand tons)</th>
<th>Share</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>VINAFOOD 2</td>
<td>Y</td>
<td>751.65</td>
<td>16%</td>
<td>HCMC</td>
</tr>
<tr>
<td>VINAFOOD 1</td>
<td>Y</td>
<td>704.90</td>
<td>15%</td>
<td>Hanoi</td>
</tr>
</tbody>
</table>

Phuong Quan Co., Ltd

Gia International Corporation - GIA INTERNATIONAL CORP

PHAN MINH Production and Trading Company Limited

Kien Giang Trade and Tourism Company - KTC

Intimex Import-Export Joint Stock Company

Kien Giang Import And Export Company Limited - KIGIMEX

Vinh Long Import-Export Joint Stock Company - IMEX CUULONG

Long An Food Company - LONGANFOOD CO.

Kien Giang Agriculture Product Trading Joint Stock Company - KIGITRACO

Hiep Loi Joint Stock Company

Hanoi General Service Export Import Stock Company

Gentraco Corporation - GENTRACO

THUAN MINH IMPORT EXPORT CORPORATION

Source: Data provided by Dao The Anh.
Chapter 6: Conclusion

I. Introduction

Dynamic sectoral institutions play an important role in the growth and upgrading of new export industries, yet we have little understanding of how they emerge. This dissertation has sought to remedy this gap by developing a theory of how and why sectoral governance reform occurs. The aim of this conclusion, which proceeds in four sections, is to summarize the findings, consider international comparisons, and identify theoretical and policy implications. In the next section, I review and synthesize the dissertation’s three main cases, arguing that the existing explanations of state effectiveness, information availability and market pressures cannot alone explain the observed empirical variation in governance outcomes in Vietnam’s agro-export sectors. This dissertation has instead presented a theory that revolves around political agents, particularly firms, provincial governments, and sectoral policy entrepreneurs.

I then briefly consider a shadow case of a public-private stakeholder organization in Vietnam’s coffee sector. One of the dissertation’s implications is that in political settings where civil society organizations are weak and considered politically threatening, as is the case under market Leninism, new forms of participatory or private sector-driven governance like business associations or public-private councils may not emerge from society. Instead, they rely on state actors – individuals whom I have called sectoral policy entrepreneurs – championing new modes of governance within the state. Whether or not these new organizational forms are sustained, though, depends on building up stakeholder buy-in, particularly from firms. My brief examination of the Vietnam Coffee Coordinating Board, a pioneering public-private partnership in Vietnam, shows that this finding can be generalized beyond the seafood sector.

The penultimate section of the conclusion considers international comparisons, suggesting that the importance of industry stakeholders, bureaucratic space and sectoral policy entrepreneurs in new industrial policy are generalizable beyond Vietnam. The final section discusses the dissertation’s implications for whether or not political reform is necessary for future economic development in Vietnam.

II. Review of the findings

Researchers and development institutions alike have declared that industrial policy is back. Policies can take many forms (Stiglitz and Lin 2013), but all sides agree that the most effective state interventions in an era of globalization occur not from the top down, but through coordination and communication among state and private actors aimed at solving key barriers to new export activities and sectoral upgrading. The new industrial policy literature, however, has neglected the central question animating earlier research on the developmental state: why are some states able to coordinate effectively, and others not? Most of the world’s states lack the preconditions identified by scholars of the developmental state, namely bureaucratic coherence and pro-developmental business-
government relations (Evans 1995), as well as the vulnerabilities and historical legacies that produce them (T. Vu 2010; Doner, Ritchie, and Slater 2005; Woo 1991). To the extent that the new industrial policy literature has sought to explain state behavior, authors have pinned state effectiveness (or pockets thereof), information availability, and market pressures. Each explanation, however, elides the fundamental quandary: that responsive, developmental sectoral governance institutions sometimes – but not always – emerge within broader contexts of weak institutions, unaccountable states, and disorganized private sectors.

That is the point of departure for this dissertation, which has sought to develop a systematic explanation for variation in governance outcomes in agro-export sectors in Vietnam, a country that lacks the preconditions for effective state intervention. As was explained in Chapter 2, Vietnam has a Leninist state that prioritizes state-owned enterprises in its development strategy, and a state-penetrated private sector lacking in institutionalized channels to participate in policymaking. Yet in the transition from central planning, its agro-export sectors experienced a range of sectoral governance outcomes: from a thoroughgoing modernization of sectoral governance that enabled rapid upgrading in the seafood processing sector in the 1990s, to an unfettered liberalization with no coordinating capacity in the catfish export sector in the 2010s, to continued SOE domination, barriers to entry and a lack of supporting institutions in the rice export sector in the 2000s and 2010s.

Chapters 3, 4 and 5 delved into case studies of particular sectors faced with specific upgrading challenges: incipient sectors entering new global markets (seafood processing), mature sectors attempting to raise quality in order to reduce intra-industry price competition (catfish), and attempts to move from high-volume, low-quality exporters into higher-quality, premium market segments (rice). Each chapter traced upgrading trajectories and constructed a detailed history of key governance institutions, exploring how business and actors within different parts of the state contributed to institutional construction, contestation or stasis. These chapters argued that sectoral governance innovations occurred through a combination of political pressure and buy-in from industry stakeholders, and bureaucratic space for sectoral policy entrepreneurs to push new models of governance.

In Vietnam’s seafood processing sector in the 1990s and early 2000s (Chapter 3), a cadre of policymakers in the Ministry of Fisheries set out to modernize the sector in order to attain acceptance for Vietnamese seafood on the high-standard EU market. Supported by newly powerful provincial governments and their local SOEs with a direct economic interest in export liberalization and neutral quality assurance, and operating in a fluid political and economic moment before the state-owned general corporations had become powerful vested interests, these forward-leaning central policymakers took advantage of the lack of top-down direction to advance transformative new ideas about the state’s role in sectoral governance. They understood the commercial demands of seafood processing firms on the basis of past training and career experiences, took a firm-and market-oriented approach to reform, and eagerly sought to absorb new know-how and ideas from their Danish advisors. The resulting governance reforms helped to spark
the entry of Vietnamese seafood into the world’s most demanding markets and the
growth of a major industrial sector.

In the catfish export sector in the 2010s (Chapter 4), local governments in catfish-
producing provinces in the Mekong Delta pushed for central government support to stop
free-riding and cheating that threatened to undermine the sector’s international
reputation. Sectoral policymakers in the Ministry of Agriculture and Rural Development
had the bureaucratic space to respond to this bottom-up political pressure, but they did so
inflexibly, refusing to take in information provided by firms about an arcane technical
issue that only companies deeply understood – the diverse demands of foreign markets
for water content of frozen fish. By releasing a policy that was insensitive to commercial
demands, sectoral policymakers sparked opposition and contestation in the industry,
losing the support of firms, their association, and even the local governments that had
originally advocated for reform. This reform failure illustrated that a lack of business
sector buy-in can be politically deadly once a sector has scaled up, and that that buy-in
depends on the state’s willingness to take in information that firms see as essential to
their interests.

Finally, in the rice export sector (Chapter 5) in the 1990s, local governments in
the Mekong Delta worried about harmful inter-provincial competition caused by newly
liberalized markets acquiesced to have their local rice trading companies absorbed by a
central state-owned general corporation. The institutional arrangement became fused to
the high-level Communist Party priority of food security. By the 2000s and 2010s, when
opportunities opened for Vietnam to move into high-quality rice niches, there was no
bureaucratic space for reforming governance of the export sector. Rice policy was
determined from the top down, not the bottom up, and the state-owned incumbent had
outsized influence in sectoral institutions and policymaking. Dissent from firms and
provincial governments in the Mekong Delta was also minimal. This was due to local
governments’ diminished interest in rice export companies – which either had been co-
opted by Vinafood or had moved to more diversified urban economies – and to the
political and economic risks of criticizing a powerful incumbent and high-profile Party
rice policies. The case illustrates that bureaucratic space can be path dependent.
Decisions made early on that increase the power of an incumbent can, further down the
line, reduce discretion for policy experimentation and bottom-up stakeholder influence.
The reverse is also true: in seafood, the decision to sideline Seaprodex in the 1990s in
favor of local SOEs created low entry barriers and supportive institutions that allowed the
private sector to burgeon.

How well would state effectiveness, information availability, or market pressures,
the alternate explanations found in the new industrial policy literature, have explained
these cases? In the case of seafood processing sectoral reforms, effective state-linked
organizations, NAFIQACEN and VASEP, were an outcome of sectoral governance
reform, not a precursor to it. What mattered was not that the Ministry of Fisheries was a
protected, meritocratic bureaucracy – it was not, any more than any other part of the state.
Instead, it was that the sector was relatively neglected. This bureaucratic space gave a set
of reformers, individuals with deep experience and understanding of the sector, the
opportunity to push for new forms of governance. State effectiveness was an outcome, and not a precondition, of sectoral reforms and upgrading.

Second, scholars of new industrial policy emphasize the importance of public-private information exchange. Nuanced information about technical and commercial aspects of standards and market demands was a critical input in both the seafood processing and catfish sectoral reforms. But the source of that know-how, and how it was used by the state, varied. First, the contrast between the two cases shows that codified information about import market regulations can come from foreign aid or other sources, particularly when firms lack knowledge about new markets; but that nuanced information about the markets of existing incumbents, like the catfish firms, must come from the private sector. Second, though, in political contexts where the private sector lacks power, the state’s willingness to use that information cannot be assured. Instead, it depends on the existence of sectoral policymakers who are open to the business sector’s input on commercial and technical issues. In the catfish case, sectoral policymakers had abundant information about the industry’s preferences, but they mistrusted the business sector and did not incorporate its input, resulting in contested and ultimately failed reform.

Third, international market pressures were an important background condition in all three cases. International exposure reduces rents and creates incentives for efficiency on all sides. In the seafood processing sector in the 1990s, EU regulations set clear external benchmarks for upgrading; in the catfish sector, buyers drove prices down and squeezed farmers and firms, creating incentives to cooperate to upgrade; and in the rice sector, a competitive strategy based on factor cost advantages became increasingly strained in the face of new competitors. But by studying variation in outcomes and tracing the political and historical process of governance reform in each sector, this dissertation has revealed that sectoral vulnerability is a necessary but not sufficient condition for sectoral governance reform (Doner 2009). Market pressures do not translate automatically into sustained collective action or institutional shifts. Instead, they are mediated through domestic politics. The construction and transformation of new sectoral institutions is a process that plays out through agency and contestation among competing interests and ideas, and one that does not always succeed. Positing a mechanistic, direct relationship overlooks these critical mechanisms.

III. Shadow case: the Vietnam Coffee Coordinating Board

This dissertation identifies two categories of reform drivers: bottom-up stakeholder pressure, and top-down initiatives by sectoral policymakers. The creation of NAFIGACEN and the catfish decree both proceeded from stakeholder pressure to state action. In the cases involving new forms of business participation in governance, however, reform sequencing was the opposite: it began with sectoral policymakers inside of the state pushing new modes of governance, then proceeded to building up stakeholder buy-in. Support from state actors was necessary because of bureaucratic and ideological resistance to new governance models that would empower business actors and potentially pose a threat to state authority. These new institutions succeeded when they were able to build up stakeholder support. VASEP, for example, was created by two sectoral policy
entrepreneurs within the Ministry of Fisheries, with resources and expertise from Danish foreign aid; but business buy-in grew over time as firms came to believe that VASEP served their interests. The Vietnam Pangaisus Association, the new catfish association discussed in Chapter 4, was also created by the state. Firms, however, saw it as a state attempt to control them, and pushed to undermine its state-delegated powers.

To demonstrate that this finding generalizes beyond the seafood sector, this section very briefly presents a recent governance reform effort initiated by sectoral policy entrepreneurs in Vietnam’s coffee sector. In 2012-2013, the Ministry of Agriculture and Rural Development (MARD) created a body called the Vietnam Coffee Coordinating Board (VCCB), intended to be Vietnam’s first public-private sectoral organization. As in rice, Vietnam is the world’s most efficient low-cost, high-yield coffee producer; it exports 60% of the world’s robusta, which is used mainly for instant coffee, and is the second largest global coffee exporter after Brazil. The sector, however, concentrated in the coffee-growing Central Highlands region, has a number of severe social and sustainability problems, particularly related to environmental stress from excessive groundwater and fertilizer use and poverty among the smallholders who farm nearly all of Vietnam’s coffee (TechnoServe 2013). There is also an institutional void in the sector: there are no real farmers’ organizations or cooperatives, unlike in most other major coffee-producing countries, and the exporters’ sectoral association, VICFOA, was long dominated by state-owned trading companies (Coe 2006; Roldán-Pérez et al. 2009).

The Vietnam Coffee Coordinating Board originated with the efforts of a handful of MARD officials. Two agricultural researchers at MARD’s internal research institute, including its director Đặng Kim Sơn, had conceived of a public-private institution, modeled on the commodity boards and associations in major Latin American coffee-producing countries, to improve coordination into Vietnam’s fragmented coffee value chain focused on environmental issues, farmer livelihoods, and international sustainability standards. Son and his colleague, together with the vice-director of MARD’s cultivation department, championed the idea within MARD, cultivating support from the Minister of Agriculture and organizing for central government officials to travel to Brazil and several other Latin American countries to learn about the role of the private sector and farmers on their coffee coordinating bodies. Like the founders of VASEP fifteen years earlier, these policy entrepreneurs had support from international organizations. They linked the initiative to a broader international effort around coffee sustainability organized by the World Economic Forum, and received resources, staff time and expertise from the Dutch Sustainable Trade Initiative’s (IDH) Sustainable Coffee Initiative. The champions of the VCCB also faced strong resistance within the bureaucracy to sharing power or oversight with the private sector or farmers, and confusion about the purpose of a public-private body. They advocated intensively within MARD to get the VCCB approved, meeting multiple times with both lower-level and

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377 This section is based on interviews with VCCB participants including G31, NGO7, F31, and with Đặng Kim Sơn.
378 Interview G31, MARD official, 12/2/15.
senior bureaucrats in each of the four MARD departments that had to approve the proposal.\[379\]

The VCCB was established in 2013, composed of 7 government representatives and 9 other industry stakeholders.\[380\] Stakeholder support for the board, though, was thin. Business sector interests were fragmented between domestic trading companies and foreign giants like Nescafé. Domestic firms focused their lobbying energies on seeking protection from foreign investors.\[381\] They neither advocated for the board’s establishment, nor were they or their associational representative, VICOFA, supportive of it, seeing it as a stalking horse for FDI interests.\[382\] Provincial governments in coffee-producing provinces were also not deeply involved in the board’s creation;\[383\] there is no concentrated business interest in coffee provinces – unlike in seafood – because coffee farming and processing are not co-located.\[384\] In short, sectoral policy entrepreneurs succeeded in creating the VCCB, but stakeholder division and state suspicion have kept it from playing a major role in the sector. The VCCB’s main function has been to comment on draft regulations; it has not been endowed with control over resources or played a role in decision-making that is fundamentally different from existing business associations. It is a promising initiative, but it remains to be seen whether it can build stakeholder support to provide services to the sector, or whether it will become a case of weak reform.

More generally, the creation of the VCCB helps to shed light on how new forms of governance emerge under market Leninist regimes, which view private sector participation in governance as politically and ideologically anathema. Contentious sectoral governance reforms required champions inside the state. Both VCCB and VASEP were new sectoral organizations that pushed the limits of the state’s acceptance for civil society, and both were created by state actors with support from international donors. The origins of the VCCB in 2013 were in many ways very similar to those of VASEP in 1998: sectoral policy entrepreneurs within the state pushed for new modes of governance to solve sectoral challenges. Both initiatives challenged the Vietnamese state’s inherent resistance to empowering business organizations or the private sector, and involved internal political battles over the new mode of governance. And both succeeded in establishing new sectoral organizations, despite bureaucratic resistance, largely through the efforts of committed individuals within the state.

379 NGO7, G31.
380 The board included 7 MARD representatives, 2 from provincial governments in coffee-farming provinces, 1 from the exporters’ association, VICOFA, 1 from a foreign-invested enterprise, 2 from private coffee exporters, 2 farmers’ representatives, and 1 representative from the Dutch Sustainable Trade Initiative (IDH).
382 Interview F31, Large coffee exporter; Interview NGO7.
383 NGO7; G31.
384 Three provinces, Dak Lak, Lam Dong, and Dak Nong, account for around three-quarters of Vietnam’s total coffee acreage. However, many coffee processing factories are located around Ho Chi Minh City, rather than in the highland provinces where coffee is grown, meaning there is not a concentrated business interest comparable to the Delta’s seafood sector.
Whether or not these organizations endure, though, depends on their ability to develop stakeholder support and buy-in. Building stakeholder buy-in was easier in an incipient sector, like the seafood sector in the 1990s, than in a large, already globalized sector with diverse interests, like catfish or coffee in the 2010s. Research on state effectiveness in the areas of economic development and social policy alike emphasizes the need for societal “buy-in” (Evans, Huber, and Stephens 2014). But building buy-in is harder in mature sectors than in incipient ones because the interests to be accommodated are both more powerful and more varied (for example, the domestic-FDI split in coffee). Understanding whether and how such buy-in can be built in the presence of such diverse interests is an important issue for future research on state-society relations and industrial policymaking (e.g. Almeida and Schneider 2012).

IV. Stakeholders, bureaucratic space and sectoral policy entrepreneurs: Comparisons and implications

Panning out from Vietnam, how do these case studies compare with cases of sectoral governance reform and agro-export upgrading in other countries? This study’s argument is crafted in an admittedly unusual context. The key characteristics of Vietnamese political economy are a unitary yet significantly decentralized, single-party regime with ideological roots in Marxism-Leninism, and a high-growth but weakly institutionalized market economy with a large state-owned sector. In these specifics, Vietnam is directly comparable only to China (Malesky and London 2014). Yet, when we trace the origins of specific sectoral institutions in Vietnam, what is surprising is not how different politics looks from more pluralistic contexts, but how surprisingly familiar it is. Sectoral transformation was not imposed from the top-down; it was negotiated among diverse interests within the state and between the state and business. As was explained in Chapter 2, power is diffuse in Vietnam, spread among local governments, various central government agencies, state-owned commercial entities, and an increasingly vocal private sector and its associational representatives. Particularly in the catfish case, the state’s response looks very much like “normal” interest group politics. Parts of the state were responsive to the demands of industry while others were not, and coalitions shifted as producers jockeyed for support from various local and central government actors. Nor is the Vietnamese state’s aversion to delegating to civil society, or the existence of diverse interests within a nominally unitary state, unique. Hybrid regimes that are neither fully autocratic nor truly pluralist are widely prevalent (Levitsky and Way 2010), as are market economies populated by politically connected firms (for example, see Fisman 2001; Khwaja and Mian 2005; Faccio 2006). Thus, the theory, or at least elements of the theory, should travel within Evans’s broader category of intermediate states: states that lack both embeddedness and coherent, autonomous bureaucracies.

Contemporary Vietnam is also characteristic of other trends in developing economies, including participation in global supply chains and trade liberalization, the growth of agro-industries and decentralization. The era of comprehensive developmental states is over. The top-down, centralized, disciplined developmental authoritarian regimes of East Asia evolved from the confluence of a specific Cold War-era security
environment and particular historical and colonial legacies (Woo 1991; T. Vu 2010), and relied on a model of industrialization involving vertically integrated industrial firms in well-established industries (Amsden 1989). The fracturing of production activities and widespread decentralization of the late 20th and early 21st centuries highlight the need to study sectoral and subnational development trajectories (e.g. Breznitz and Murphee 2011). The global trade in high-value foods, and their integration into supply chains, is also a general phenomenon that presents opportunities and risks for developing economies (Jaffee 2005b). In short, while Vietnam is unusual in some respects, it is representative in others.

In comparing across countries, it is useful to separate the argument’s two core components about industry stakeholders and the state. First, the dissertation has argued that sectoral governance innovations are often responses to demands from industry stakeholders. Fuentes and Pipkin (2016) likewise argue that firms needed to be willing to engage in “search” before state intervention or business-government dialog can be effective, profiling multiple cases of agro-export upgrading in Central America in the 1980s and 1990s where firms sought out state support for building new business models when faced with severe market pressures. In Nicaragua, Salvadorian cheese plants proactively asked state agencies for help with reorganizing production processes to meet new export market hygiene and environmental standards, while cattle rancher associations sought state and foreign aid agencies’ support to cope with liberalization and the loss of their stable buyers, the state-owned industry dairy processing plants. Likewise in Guatemala, sugar plant owners and managers faced with falling demand, increasing competition and civil unrest undertook a massive search for new markets and strategies to improve productivity, including through alliances with state research and training agencies (Fuentes and Pipkin 2016, 170–172).

I have suggested that other stakeholders who internalize firms’ interests can also initiate the process of search, particularly if the private sector lacks strong channels of influence or the business class is immature. One of the dissertation’s findings is that in the Mekong Delta, provincial governments advocated for institutional reforms to benefit local agro-export industries. It is well known that local governments played pivotal roles in Vietnamese as well as Chinese market reforms. In both countries, fiscal decentralization spurred local governments to promote economic growth by taking on a variety of hitherto unimagin ed, unorthodox roles (e.g. Oi 1992; Rithmire 2014). The mechanism that I identify linking local governments to growth is distinct, though, from local industrial policy or Oi’s “local state corporatism.” In many cases, Vietnamese provinces are too small and industries too diffuse to create coherent support structures for export industries. Instead, what I find is that provincial governments in the Mekong Delta, embedded with local seafood companies, are aggregating and representing the seafood export industry’s interests to central policymakers.

Intermediate states are by definition not monolithic, and scholars have clearly identified the importance of politics within the state in producing industrial policy outcomes in other contexts. Such intra-state politics are usually understood to be detrimental to industrial policy outcomes. Chibber (2002), for example, details Indian
ministries’ resistance to the country’s post-independence Planning Commission, which they worked to undermine by ignoring its authority and refusing to cooperate or share information. This dissertation suggests, though, that within broader contexts of fragmentation, parts of the state can use their influence to represent the long-term interests of a sector and support productive reforms, not just to sow chaos and obstruct policymaking. Thus, in contexts where export-oriented business sectors are disorganized and not particularly powerful themselves, we should be attuned to the possibility of other sorts of political actors – associations, local or regional governments or parties, and even individual policymakers – that may be internalizing and representing exporters’ interests to the state.

The specific alignment of business and state actors will vary, of course, across contexts; the importance of the interaction between local and central governments is particular to the Vietnamese case, where provinces are too small to carry out their own industrial policies but exercise outsized influence within central party-state institutions. But the more general point is that we need to consider a broad spectrum of actors who can participate in the politics of industrial policy beyond the elite technocrats and industrialists treated in the developmental state literature. These actors can include local governments, central bureaucracies, foreign donors, firms, local SOEs, and associations. By unpacking the different roles identified for business in the literature’s notion of state-business collaboration – providing expertise, negotiating objectives, building consensus – and examining what sorts of actors might play those roles on behalf of exporters, it is possible to identify elements of embeddedness, and its beneficial effects, within broader contexts of dysfunction or collusion (Schneider 1998, 108).

The second part of the dissertation’s argument is about the sectoral bureaucracy and policymakers within it. The dissertation has argued that responsive sectoral governance, or new industrial policy, requires some amount of bureaucratic space, which is more likely in relatively neglected sectors where high politics and powerful state-owned incumbents are absent or weak. These incumbents dominate policymakers’ attention and sectoral institutions and strangle opportunities for governance innovations. Within bureaucratic space, sectoral policy entrepreneurs – that is, individual policymakers who seek out new information and advance new, potentially controversial governance models – are the main agents of change. This finding might suggest that in contexts of emergent state capitalism with large state-owned or state-linked “national champions” (Bremmer 2010; The Economist 2012; Musacchio and Lazzarini 2014), it can be useful to point our attention to the fringes of state strategy, where sectoral policymakers and businesses may have more room to maneuver.

In the origins of the sectoral institutions that supported the growth of Taiwan’s IT industry, for example, elements of bureaucratic space and sectoral policy entrepreneurs are evident. Prior to Taiwan’s democratization, the KMT presided over a state-dominated economy based on import-substitution, directing financing and monopoly power to large state-owned and state-linked, mainlander-run firms in heavy industries and finance. Yet it was native-owned, downstream small and medium enterprises – the very companies that were squeezed out of the domestic market and ignored or neglected by the state – that led
Within this space created by an absence of major state-linked interests, a sectoral policy entrepreneur organized new modes of governance. Writing about the origins of venture capital in Taiwan's technology industry, Saxenian and Sabel (2008, 386-387) describe the role of Kuo-Ting Li, an engineer and government minister who was the "architect of Taiwan's technology strategy." Li assembled a group of U.S-educated engineers with deep experience in Silicon Valley, many of them members of Taiwan's diaspora, to gather know-how and create a plan for building private venture capital for Taiwan's technology industry. Venture capital was a completely new financing model in Taiwan, where enterprise finance had been dominated by conservative banks or closely held among families, and it encountered opposition from industry and within the bureaucracy. Yet in 1982, Li persuaded the Ministry of Finance to propose legislation creating and regulating venture capital in Taiwan. Though they do not use the term sectoral policy entrepreneur, Saxenian and Sabel identify the same phenomenon: an individual within the state taking advantage of a vacuum of major state-linked interests to actively absorb new know-how from industry actors and push innovative, potentially disruptive new models of sectoral governance.

In a completely different industry and political context, McDermott (2007) also shows that individual leaders' political approaches to sectoral reform can result in radically different governance outcomes. He compares restructuring and upgrading in the wine industry in two provinces in Argentina, a decentralized federal system. In one province, San Juan, the governor used a top-down strategy of arm's length investment incentives, and did not pursue institutional innovation. McDermott shows that state resistance to public-private collaboration in sectoral governance is not unique to Leninist states. The government of San Juan failed in multiple attempts to create a wine export promotion agency because it "refused to allow associations to participate in the governance of an agency that was financed with public funds," and "saw no need to share power and resources" (2007, 118) with private actors. In the other state, Mendoza, the governor sought to build a durable political coalition by promoting new models of participatory sectoral governance in the wine industry. The two provinces had similar socio-economic, climatic, and initial institutional endowments, but only Mendoza succeeded in developing a host of joint research, experimentation and extension programs, cooperatives, and public-private associations. This is an example of sectoral policy entrepreneur-initiated governance reform that built up stakeholder support over time, comparable to VASEP. By the early 2000s, Mendoza accounted for almost all of Argentina's $250 million wine export industry. These cases suggest that we should look for sectoral policy entrepreneurs within the state across a broader range of cases.

V. Prospects for economic development

Economic development becomes more institutionally and politically challenging as countries get richer (Sen 2013). Building the sectoral governance institutions that
underpin productivity improvements – technical training, public R&D, standards and testing, and so on – involves a large number of actors exchanging technical information and an ability to make credible commitments and manage distributional consequences (Doner 2009). These “middle income trap” issues may seem premature to discuss in Vietnam, which is still extremely competitive in labor-intensive manufacturing (Deloitte 2013). Yet these are nevertheless vital questions for Vietnam, which shares key features with its richer Southeast Asian neighbors: increasing dependence on FDI to produce exports, a lack of domestic linkages, and stalled productivity growth (World Bank 2016; Perkins et al. 2008; Pincus 2015b). Without an ability to promote industrial deepening, aid producers in building know-how, and achieve economies of scale, Vietnam remains vulnerable to competition from the next low wage Asian reformer, or at best a future enclave economy – as Doner (2009) phrasing it in his discussion of Thailand’s auto sector, a “maquiladora of Japan” rather than a “Detroit of Asia.”

There are two ways to view the dissertation’s implications for Vietnam’s development prospects. One is that Leninist ideology, closed institutions and cronyism present a hard, fundamental constraint to the country’s future growth, as Acemoglu and Robinson (2012) argue about China. Similar arguments have been presented about Vietnam, suggesting that the only path forward is toward increasing inclusivity (T. T. A. Vu et al. 2015). This dissertation, however, has suggested that profound improvements in sectoral governance are possible even absent a sea change in the country’s institutions. Overhauling the nature of the state in order to accomplish industrial policy tasks is difficult, if not impossible, given that institutions change slowly; a more winning strategy might be to identify the existing institutional capabilities and opportunities to take full advantage of them (Thun 2004, 1303). Tracing patterns of dynamism in Vietnam’s seafood and rice sectors reveals that bureaucratic space and receptive policymakers are key. Opportunities to create new, dynamic institutions of sectoral governance exist in industries where large state-owned conglomerates are absent or weak. The Vietnam Coffee Coordinating Board discussed above, for example, was created only after the sector’s general corporation, Vinacafe, went bankrupt. Some other potentially promising sectors include those that lack major SOEs. Wood furniture, worth $6.2 billion in exports in 2014 and composed of largely private, domestic firms, is one possibility. Fruit, cut-flowers, and pepper are other sectors composed of smaller, private companies. The catfish case study, though, illustrates that sectoral bureaucracies would need to be staffed with responsive policymakers who are willing to take in information from businesses and to experiment with new models of governance. If and when the Vietnamese government begins to seriously pursue structural reforms to reduce the size of the state-owned sector (Taussig, Nguyen, and Nguyen 2015), the question of how it will govern and promote upgrading in sectors dominated by private firms will become increasingly important. The experience with the catfish reforms, which was a sort of trial run for public-private collaboration in sectoral policymaking, is a cautionary tale.

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385 Vietnam’s total factor productivity growth was 2.5 percent between 1990 and 2000 but fell to 0.1 percent between 2000 and 2012. Vu Minh Khuong, “Vietnam needs to focus on productivity in its next wave of reforms,” East Asia Forum, 2/13/2015. http://www.eastasiaforum.org/2015/02/13/vietnam-needs-to-focus-on-productivity-in-its-next-wave-of-reforms/
Well-targeted foreign aid can make a real difference, especially in incipient sectors. Assistance focused on agro-export firms, as opposed to farmers, is not particularly in vogue for international aid agencies, but for fairly little money long-term sectoral projects can have a profound influence by creating and building capacity in local sectoral organizations, including business associations and regulators (Fuentes 2014; Bruszt and Langbien 2014). Businesses are the critical link between farmers and end markets. Donors and borrowing governments may pour tens of millions of dollars – or more – into supply-side assistance to help farmers implement sustainability or quality standards, but these practices are usually abandoned when there is no end market for their products. The success of Vietnam’s seafood export sector is not attributable only to VASEP, NAFIQCEN, and HACCP training programs, but without a technologically and commercially sophisticated set of processors and exporters underpinned by a robust institutional framework, the sector could not have taken off. Lasting change, however, depends on domestic political actors adopting the cause as their own and leveraging foreign assistance to affect institutional reform and build local stakeholder support.

This dissertation has sought to outline the beginnings of a theory of the politics of new industrial policy. Over the past several decades, development scholars have moved from re-asserting a role for the state and its institutions in economic development in the era of globalization to empirically investigating what that role might be. Understanding the political processes that produce effective institutional responses to market challenges is the next step in determining opportunities for development in the intermediate states present throughout most of the world.
Appendix: List of interviews

Interview code, position/department, organization, interview location, date(s). Some details, and several interviews, are omitted to protect anonymity.

Associations
A1, Executive Director, Global Aquaculture Alliance, Ho Chi Minh City (HCMC), 10/5/2014
A2, Official, European seafood importer association, HCMC, 10/7/2014
A4, Senior official, Vietnam Pangasius Association, HCMC, 11/13/2014
A7, Vice-general secretary, VASEP, HCMC, 12/8/2014 (by email)
A8 and A9, Officials, VASEP, Hanoi, 12/10/2014
A10 and A11, An Giang Fisheries Association, An Giang, 3/20/2015
A12, Vietnam Fisheries Society (VINAFIS), HCMC, 3/28/2015
A13, Director, WTO Center, HCMC, 4/2/2015
A14, Chairman, Vietnam Pangasius Association, HCMC, 4/6/2015
A15 and A18, Officials, VITAS (Vietnam Textile Association), HCMC, 4/7/2015, 4/15/2015.
A16, General secretary, VASEP, HCMC, 4/10/2015
A17, Official, HCMC Food Association, HCMC, 4/14/2015
A19, Official, Vietnam Rubber Association, HCMC, 4/15/2015
A20, Official, Ho Chi Minh City Business Association (HOBA), HCMC, 4/16/2015
A21, Official, HAWA (Wood furniture association), HCMC, 4/22/2015
A22, Official, Lefaso (Leather, footwear and handbag association), HCMC, 4/28/2015
A23, Vice-chairman, Vietnam Pangasius Association, Vinh Long, 5/7/2015
A24, Official, Legal department, VCCI (Vietnam Chamber of Commerce and Industry), Hanoi, 5/14/2015
A25, Official, Vietnam Pepper Association, HCMC, 11/10/2015
A26, Official, shrimp farmers association, Soc Trang, 12/15/2014
A27, Head, catfish cooperative, Can Tho, 12/20/2014, 5/10/2015

International buyers
BU0, Agent, U.S. catfish buyer, HCMC, 11/25/2014, 5/12/2015
BU1, Quality assurance manager, U.S. seafood buyer, Seattle, 9/21/2014
BU2, Aquaculture industry consultant, Seattle, 9/26/2014
BU3, Director of Asian operations, U.S. seafood buyer (by phone), Seattle, 9/26/2014
BU4, Marketing and business development manager, U.S. seafood buyer, Seattle, 9/29/2014 (by phone), 1/16/2015
BU5, Procurement manager, U.S. seafood buyer, HCMC, 10/6/2014
BU6, Procurement manager, U.S. seafood buyer, HCMC, 10/8/2014
BU7, Seafood importer and former director, European importers association (by phone), 10/23/2014
BU8, Agent, Japanese shrimp buyer, Mekong Delta, 12/17/2014

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BU9 and BU10, Executive director and procurement manager, U.S. seafood buyer, New England, 1/6/2015
BU11, U.S. catfish buyer, Seattle, 1/14/15.

**Industry consultants**
C1, Consultant, catfish industry consultant, HCMC, 12/7/2014
C2, Former lead national expert, SEAQIP, Nha Trang, 3/26/2015
C3, Former technical consultant, SEAQIP, Denmark (by phone), 8/31/2015

**Firms**
F1, Executive, Shrimp processor, Soc Trang, 6/5/2012
F2, Executive, Catfish processor, Tien Giang, 10/22/2014
F3, Executive, Seafood processor, HCMC, 10/29/2014
F4, Manager, Catfish processor, Vietnam, 11/3/2014
F5, Attorney, Seafood industry, HCMC, 11/14/2014
F6, Executive, Catfish processor, Mekong Delta, 11/20/2014
F7, Sales, Catfish processor, Mekong Delta, 11/20/2014
F8, Executive, Shrimp processor, Ca Mau, 11/27/2014
F9, Quality control manager, Shrimp processor, Ca Mau, 11/27/2014
F10, Executive, Shrimp processor, Ca Mau, 11/28/2014
F11, Executive, Shrimp processor, Soc Trang, 11/30/2014
F12, Former executive, Cholimex, HCMC, 12/1/2014
F13, Sales, Seafood processor, Hau Giang, 12/16/2014
F14, Executive, Seafood processor, Hau Giang, 12/16/2014
F15, Quality control manager, Shrimp processor, Soc Trang, 12/15/2014
F16, Sales manager, Catfish processor, Can Tho, 12/20/2014
F17, Manager, Shrimp breeding company, HCMC (by phone), 1/11/2015
F18, Executive, Catfish processor, Dong Thap, 3/17/2015
F19, Executive, Catfish processor, Dong Thap, 3/17/2015
F20, Manager, Hatchery, Dong Thap, 3/17/2015
F21-F24, Sales, quality and production managers, Catfish processor, Dong Thap, 3/18/2015
F25, Executive, Catfish processor, An Giang, 3/19/2015
F26, Executive, Catfish processor, Tien Giang, 4/20/2015
F27, Executive, Catfish processor, HCMC, 4/21/2015
F28, Executive, Pepper processor, Hanoi, 12/10/2015
F29, Executive, Rice exporter, HCMC, 11/24/2015
F30, Executive, Rice exporter (equitized), HCMC, 11/30/2015
F31, Executive, Coffee exporter, HCMC, 12/2/2015
F32, Director, Rice exporter (SOE), Dong Thap, 12/7/2015
F33, Director, Rice exporter (private), Dong Thap, 12/7/2015
F34, Manager, Rice exporter (equitized), Dong Thap, 12/7/2015
F35, Research scientist, Rice exporter, An Giang, 12/9/2015
F36, Director, Vegetable exporter, An Giang, 12/9/2015
F37, Manager, Rice exporter (SOE), Dong Thap, 12/7/16

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Government officials
G1, Former official, NAIFIQAD, HCMC, 11/17/2014, 12/22/2014
G2, Director, Area 5, NAIFIQAD, Vietnam, 11/28/2014
G4, Former official, Ministry of Industry and Trade, Hanoi, 12/10/2014
G5, Founding director, NAIFIQACEN/NAFIQAD, Hanoi, 12/11/2014
G6-G9, Aquaculture officials, Department of Agriculture and Rural Development, Soc Trang, 12/17/2014
G10 and G11, NAIFIQAD, Can Tho, 12/18/2014
G12, Department of Agriculture and Rural Development, Dong Thap, 3/17/2015
G13, Department of Industry and Trade, Dong Thap, 3/17/2015
G14, Department of Agriculture and Rural Development, An Giang, 3/19/2015, 12/19/2015
G15-17, G19, Aquaculture officials, Department of Agriculture and Rural Development, An Giang, 3/19/2015
G18, Department of Industry and Trade, An Giang, 3/19/2015
G20, Department of Planning and Investment, An Giang, 3/19/2015
G21, Department of Natural Resources and Environment, 3/19/2015
G22, Former senior official, An Giang, 3/20/2015
G23, Former official, NAIFIQAD, HCMC, 3/23/2015
G24, Former senior official, An Giang, 3/24/2015
G26, Official, NAIFIQAD, Nha Trang, 3/26/2015
G27, Official, Ministry of Industry and Trade, 5/13/2015
G28, Senior fisheries official, Ministry of Agriculture and Rural Development (MARD), Hanoi, 5/14/2015
G29, Former Minister, Ministry of Fisheries, 5/15/2015
G30, Official, MARD, Hanoi, 11/19/2015
G31, Cultivation department, MARD, 12/2/2015
G32, Department of Industry and Trade, Dong Thap, 12/7/2015
G33, Department of Agriculture and Rural Development, 12/7/2015
G34, Director, Department of Industry and Trade, An Giang, 12/8/2015
G35, Former senior official, An Giang, 12/9/2015
G36, Former senior official, An Giang, 3/18/2015, 12/8/2015
G37, Fisheries planning official, MARD, HCMC, 12/8/2014
G38, Senior official, Dong Thap, 3/17/2015

NGOs
NGO1, Aquaculture program, World Wildlife Fund, Hanoi, 10/23/2014
NGO2, IDH, Ho Chi Minh City, 11/25/2014
NGO3, Aquaculture program, Sustainable Fisheries Partnership, 12/18/2014
NGO7, IDH, Hanoi, 11/18/2015

Researchers and academics
R1, Researcher, Research Institute for Aquaculture 2 (RIA2), 3/25/2015
R2, Former director, Institute of Policy and Strategy in Agriculture and Rural Development (IPSARD), Hanoi, 11/5/2015
R3, Rice researcher, IPSARD, Hanoi, 11/5/2015
R4, Agricultural researcher, IPSARD, HCMC, 11/10/2015
R5, Rice researcher, Hanoi, 11/18/2015
R6, Director, Center for Vietnam Economic Policy Research, 11/19/2015
R7, Rice expert, Can Tho, 12/1/2015
R8, Rice researcher, Hanoi, 12/11/2015
R9, Policy academic, HCMC, 11/12/2015
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