

# **Welfare Regimes in the Wake of State Socialism: Viet Nam, China, and the Market-Leninist Welfare Regime**

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**ABSTRACT:** This paper shows how a country's exit path from state socialism exerts path-dependent though non-deterministic effects on the subsequent development of its welfare regime. It examines how the erosion of state socialist institutions unfolded in Viet Nam and China and its implications for the welfare regimes in those countries. Overall, the paper suggests Viet Nam and China represent a distinctive type of welfare regime, the *market-Leninist regime*. In market-Leninist regimes, market economic institutions are subordinated to Leninist forms of political organization. These contradictory modes of social integration generate parallel and overlapping stratification effects. While Viet Nam and China do evidence some convergence with other welfare regimes in East Asia, they also display distinctive attributes, owing to their histories of socialist revolution and state socialism. At the same time, Viet Nam and China display significant differences in their welfare regimes, owing to distinctive patterns of state-socialist evolution and involution and of post state-socialist development. These differences explain why Viet Nam's welfare regime is more redistributive in its character.

**KEYWORDS:** Welfare regime, Market-Leninism, Viet Nam, China

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## THE MARKET-LENINIST WELFARE REGIME

*Welfare regimes* are distinctive sets of institutional arrangements that govern the creation and allocation of welfare and its stratification effects. Welfare regimes analysis seeks to explain the historical determinants and stratification effects of welfare regimes in different geographical and historical settings. ‘First generation’ welfare regimes studies sought to explain variation in the welfare states of advanced capitalist countries in Western Europe and North America (Esping-Andersen, 1987; 1990). More recent scholarship has sought to extend welfare regimes analysis to other economic and regional settings (Gough 2000, Gough and Wood 2006), in East Asia (Gough, 2001; Holliday, 2000; Park, 2008; Goodman *et. al.*, 1998; Kwon, 1998; Cook and Kwon, 2007), South Asia (Davis, 2004), Latin America (Barrientos, 2004), and Africa (Bevan, 2004).

It is also suggestive that within the growing literature on welfare regimes, there have been few if any attempts to theorize the diversity of welfare regimes in formerly state-socialist settings. [For exceptions see Deacon (2000) and Ivan Szelenyi’s forthcoming analysis of welfare in Eastern Europe]. Surely, the diversity of these settings poses obstacles, as there are at least 33 formerly state-socialist countries. But a standard assumption of welfare regimes analysis is that a country’s welfare institutions exist and develop in interdependent relation with other social, political, economic, and cultural institutions. It is, by extension, reasonable to expect that the evolution and involution of state-socialism significantly affects the development of welfare regimes in the wake of state socialism. This is the third of a series of three papers whose overall aim is to extend the conceptual and theoretical foundations of welfare regimes analysis to explain the development of welfare regimes in Viet Nam and China in these countries’ pathways from state socialism.

The analysis is organized in three sections. In the first section I develop a conceptual and theoretical discussion of market transitions and its effects on welfare regimes. In the second section I explicate the core features of market-Leninist regimes, focusing on these regimes’ political and economic institutions. In the final section I compare and explain variation in the welfare regimes of Viet Nam and China.

The terminal crisis of state-socialism involves the erosion of one welfare regime and its replacement with another. Everywhere, however, the transition involved the breakdown of existing welfare regimes and their replacement by new ones. China and Viet Nam are frequently lumped together as instances of ‘gradual’ transitions. The most essential feature of market transition in these countries was the ability of Leninist states to survive the erosion of state socialist economic institutions and to employ markets to promote state goals, including the political supremacy of the communist party. The way this occurred in Viet Nam and China differed however, which in turn affected the subsequent development of the countries respective welfare regimes.

Overall, the paper suggests Viet Nam and China represent a distinctive type of welfare regime, the *market-Leninist regime*. In market-Leninist regimes, market economic institutions are subordinated to Leninist forms of political organization (London 2008,

2008, 2009). These contradictory modes of social integration generate parallel and overlapping stratification effects. While Viet Nam and China do evidence some convergence with other welfare regimes in East Asia, they also display distinctive attributes, owing to their histories of socialist revolution and state socialism. At the same time, Viet Nam and China display significant differences in their welfare regimes, owing to distinctive patterns of state-socialist evolution and involution and of post state-socialist development. These differences explain why Viet Nam's welfare regime is more redistributive in its character.

## PATHWAYS FROM STATE-SOCIALISM

The demise of state-socialist regimes took place differently in different settings but in all cases the impetus for change arose from systemic failures in state-socialist economic institutions and the political pressures they brought to bear on Leninist states. Most fundamentally, administrative allocation of capital and labor generated perverse incentives that promoted soft-budget constraints and a general scarcity in the economy (Kornai, 2000).

As the command economy was the economic foundation for Party rule, citizen's dependence on officials for the satisfaction of needs was the basis of official power (Oi 1985; 1989; Walder, 1983; 1986, cited in Walder, 1995). Hence, departures from the planned economy and systemic problems in the economy were always a potential source of political decline (Walder, 1995).

States responded differently to these pressures. In some instances, states sought to arrest any significant deviations from the formal institutions of state-socialist central planning, whereas in other contexts states tolerated deviations and eventually sought to co-opt them through various liberalizing reforms. Efforts at socialist reform could achieve so much in ameliorating systemic inefficiencies and poor as well as perverse incentives in the economy. The development of a market economy inside Hungary and China, for example, was accelerated by the assistance of the state, which provided an increasingly systematic legal infrastructure (Kornai, 2000).

Academic literature on the transition from state-socialism progressed from an at-times simplistic debate about the putative advantages or disadvantages of "rapid" versus more "gradual" approaches to market reforms to more fine-grained analyses of the transition. As the standard caricature put it, Russia and Eastern European countries took a rapid approach, while China was taking a gradual one.<sup>1</sup> Viet Nam, more populous than any of

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<sup>1</sup> From the beginning, theoretical literature on the so-called 'transitional countries' tended to reflect the biases, normative commitments, and ignorance of its authors, who were typically scholars or technocrats with little direct experience with state-socialism (#####). For example, the IMF and its academic sympathizers dispensed advice that the best path forward for economic reforms was a shock therapy approach. This approach, which proved disastrous in many respects, was based on rigid neoclassical assumptions as well as political calculations. The operative assumption, that a gradual approach to reform would galvanize opposition and prevent reforms of any depth, was reasonable in some respects. But the treatment – radical retrenchment of the state – produced a vacuum of economic governance. Over the

the European state-socialist countries save Russia, was seldom mentioned in the theoretical literature on the subject.

### **Viet Nam's Market Transition**

Viet Nam's transition to a market economy was a 10-year process of institutional decay whereby the core institutions of state-socialism gradually lost their force, threatening the coherence of the economy and the survival of the state. After 1975, war-damage, international isolation, and a severe poverty of resources undermined the viability of state-socialist developmentalism. But the mechanism that unraveled the state-socialist economy lay at the micro-foundations of the economy where, in all sectors, economic producers' grassroots deviations from the dictates of central planning.<sup>2</sup>

In principle, all economic actors in a planned economy, from agricultural producers to state-owned industrial enterprises, produce to boost economic accumulation and advance the political and economic causes of the state. Yet, by the 1980s, responding to conditions of extreme poverty and to incentives in a poorly integrated economy, economic producers (including state-owned enterprises) adopted increasingly brazen survival strategies that contravened formal state procedures and rules. The central government sought to contain these 'spontaneous' reforms by introducing successive rounds of top-down reforms designed to control, limit, and steer change processes that were already occurring.

Economic reforms toward the late 1980s, such as output-contracts in agriculture and new trade laws for state-owned enterprises, boosted economic outputs by allowing economic producers to engage in market exchange. These post-hoc reforms improved economic incentives. But this limited liberalization also had the effect of diverting economic resources from the central budget, and thus undercut the financial bases of state functions, including education. Politically, the gradual disintegration of the planned economy and its fiscal institutions weakened the powers of the central state vis-à-vis the localities and compromised the central state's fiscal integrity, resulting in a prolonged fiscal crisis that ended only with the abandonment of core state-socialist institutions.

However, and despite a high degree of decentralization, Viet Nam's transition resulted in a *temporarily fiscal weakening* of the central state, but did not result in a protracted political and fiscal decline of the state vis-à-vis the localities.

### **China's Market Transition**

China's economic reforms are better known. The application of a heavy industry priority model in a capital-scarce environment was designed to transfer value from rural areas to urban ones in order to spur industrialization. Instead, it resulted in poor incentives to

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course of the 1990s, the size of Russia's economy declined by half, while gangster-capitalism under the aegis of the old nomenklatura ruled the day.

<sup>2</sup> This account draws largely on the work of Adam Fforde (1999) and Melanie Beresford (1997).

peasants and workers. China's market reforms, beginning in the late 1970s, improved economic incentives in agriculture and created a stream of new economic resources.

Enterprise reforms granted state economic units partial autonomy, designed to improve incentives for workers, and later came to incorporate retention of profits and foreign exchange. Profit remittances to the central budget were in 1983 replaced with a profit tax, while in 1984 the government permitted enterprise to sell output in excess of centrally-determined quotas on the market. As Lin points out (Lin, 1994), "once a small crack was opened, it was pried apart even wider" and led eventually to the dismantlement of the state-socialist model.

Developments in the agriculture sector were even more important. As would occur in Viet Nam later, agriculture 'reform' in China in the form of the output contract system began secretly – by secretly leasing land and dividing procurement obligations – and was later approved by local and higher authorities. By 1981, 45 percent of China had instituted such a system and by 1983 this figure had increased to 98 percent (Lin, 1994:14). Lin (1992) estimated that almost half of the 42 percent growth in output between 1978 and 1994 was due to productivity gains permitted by the reforms, a finding in accordance with many other studies.

A third development was the rapid growth of township and village enterprises (TVEs). Enterprise reforms liberalized access to credits, raw materials and markets, while the new stream of rural savings from agricultural reforms created both a resource base for investment and demand for TVEs output. Between 1981 and 1991 the number of TVEs grew by 26 percent, its share of employment by 11 percent, and its output value by nearly 30 percent. In 1992 TVEs output represented some 32 percent of the nation's total, while the total share of industrial output from non-state enterprises increased from 22 percent in 1978 to 52 percent in 1992(Lin, 1994).

Overall, China's economy before and after the transition was highly decentralized and the market reforms reinforced this by conferring sub-national and local units of government increasing financial discretion. The dependence of localities on their local economic units for revenues and corresponding need for local units to compete in regional and national markets created powerful incentives for local officials to become developmentalist in their outlook (Shirk, 1993), but often to the detriment of essential social services. As Andrew Walder (2003) and numerous others have noted, cadres in China were quick to realize that their incomes and living standards and those of their family were closely related to the prosperity of 'their' localities and that they were likely to benefit more than most, even if they longer possessed a strict monopoly over the allocation of labor and capital. This, certainly, has been the case in Viet Nam as well. And yet, the political logic of economic reforms in China and Viet Nam exhibited differences that brought different implications for the welfare regimes of the two countries.

### **The Demise of State-Socialist Welfare Regimes**

The economic institutions of state-socialism were designed to ensure security through administrative and redistributive allocation of capital, full employment, and welfare producing goods, such as housing, education, and health services. Just as market coordination in capitalist societies exhibited patterns of inequality owing to relations to capital and the means of production, so state-socialist administrative coordination gave rise to inequalities reflective of unequal relations to the state bureaucracy (Szelenyi, 1987).

Outside of the household sphere, the provision and payment for social welfare occurred in part through access to employment and in part through state financed social services. When economic institutions faltered, fiscal malaise was soon to follow. Fundamentally, it was the failure of state-socialist economic institutions and the corresponding fiscal malaise that delivered a knock out punch to the state-socialist welfare regime.

Scholars of the transition who have addressed its welfare aspects have noted the devastating impacts of market transition on state-socialist welfare institutions. But it is important to identify what the transition from state-socialist welfare principles entailed. Drawing on and extending Polanyi's distinction between reciprocal, formal, and redistributive forms of market coordination, (1957), Szelenyi (*ibid.*) noted that, under state-socialism (a modern instance of redistributive state), households resorted to reciprocal and market exchange relations in order to secure their reproduction, the market transition promised to flatten the state-socialist opportunity structure by providing greater economic freedoms to those previously subject to administrative exclusion.<sup>3</sup>

The development of markets and the eventual preponderance of markets and a means of economic coordination would also create new market-based inequalities, which might only be ameliorated through administrative and redistributive means, or by individual households through various forms of reciprocal exchange and self-exploitation.

The problem for countries undergoing market transition was (1) the significant time gap – essentially a generation – between the collapse of the state-socialist welfare regime and recovery of regular economic growth; and (2) the adoption of new formal institutions governing welfare that were strangely more liberal than even the most capitalist of the welfare states. This minimalist approach to social welfare has been observed across the formerly state-socialist countries, suggesting perhaps a degree of institutional convergence. The subsequent development of welfare regimes in these societies is examined in the final section.

The collapse of social welfare arrangements in formerly state-socialist societies has been widely commented on, but not subject to a great deal of theoretical attention. This, I believe, is a reflection of the thinking that welfare institutions are epiphenomenal to the nature of economic institutions and relations of production. In some senses, this is a fair assumption. On the other hand, it is almost certainly the case that the manner in which welfare institutions collapsed in the transition from state-socialism affected their

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<sup>3</sup> Drawing on a quite different set of ideas, Nee (####) believed the transition would lead to the development of a bourgeoisie

subsequent development in the post-transition period. That is because, in all societies, social policies are subordinated to the broader mechanisms of economic coordination and the formal institutions governing welfare in the wake of state-socialism's collapse, and both were subordinate to the interests and (in)capacities of policy elites during and after the transition period.

In Viet Nam, the fiscal crisis of the central state combined with the disintegration of collectivist arrangements rapidly eroded institutional arrangements in place to finance education and health.<sup>4</sup> This would prove especially damaging to schooling in rural areas. As the 1980s wore on, the gradual dissolution of agricultural collectives gathered pace. The already-paltry amount of local resources available for education and health declined even further. In economic terms and with respect to living standards, the shift to household production in agriculture and the expansion of markets provided some immediate relief. Not so for the state-socialist welfare regime.

The withering of state-socialist economic institutions necessitated a reworking of the financial and fiscal basis of formal schooling. In 1989, the CPV took its first step away from the universalist principles that had guided education policies since the 1950s, when the (rubber-stamp) National Assembly met in a special session to pass a constitutional amendment permitting the state to charge school fees.

Whether sharp declines in enrollment at the time predated or were exacerbated by the introduction of fees is the subject of some debate. What is clear is that enrolment rates fell sharply while dropout rates soared. Between 1989 and 1991, dropouts increased dramatically by up to 80 percent in secondary schools in some areas, while nationally, new enrolments declined sharply and would not reach 1985 levels until the mid 1990s. The results were devastating. Between 1980 and 1990, Viet Nam registered only a minor increase in its gross enrolment, even though the country gained millions more school-age children.

With the hyperinflation and evaporating state budgets of the late 1980s, national and local investments in education and health fell sharply in real terms. Education and health sector workers faced declining wages from an already low base. In many (especially rural) areas, teachers and medical staff went for months without compensation. Responding to new opportunities, teachers and doctors across the country expanded their economic activities outside of the state sector. Some left education and health professions altogether in search of a living wage. Across the country, the quality of education and health services deteriorated as the flow of public resources into the education and health systems dwindled. The state-socialist welfare regime lay in ruins.

In China, the gap between urban and rural areas that was characteristic of the pre-reform period became sharper, as the fiscal capacities of Rural People's Communes declined precipitously with the advent of the household responsibility system (White 1998),

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<sup>4</sup> The continuing poor performance of Viet Nam's economy was compounded by the country's political and economic isolation under the US-Sino embargo.

whereas the urban systems eroded more slowly, particularly in the ‘prestigious’ heavy industrial sector, where workers’ benefits were protected.

In the late 1970s, major economic reforms affecting the health care system in China. Government financing was decentralized, enterprise reforms required health facilities to be self-supporting, greater economic openness allowed imports of modern medical technology and drugs, greater mobility of the population allowed both patients and health workers to move around the country, and salary reforms increased incentives for health worker performance.

At the beginning of the 1980s, the central government introduced fiscal decentralization, which weakened the influence of central health policy on health service activities. Provincial and municipal health departments, county and city health bureaus, and township and town health centers came to enjoy a considerable degree of autonomy within the health service structure. They also came more directly under the authority of their local governments. “The financial responsibility system” which was introduced with the economic reforms further weakened the influence of national health policy. Under this system, hospitals and other health institutions were required to maximize non-budgetary sources of revenue and did so by charging fees for their services. The reforms resulted in a shift of distribution of resources from lower to higher levels, from rural to urban areas, from preventive to curative services, and from planning and management to market forces (Dang and Bales, 2006: 33-37).

While this discussion of the decline of welfare regimes is rough in its present form, the fundamental points that need to be underscored are as follows:

- The breakdown of state socialist economic institutions involves a change of welfare regime, though the way this plays out varies from country to country;
- Viet Nam’s transition occurred as a gradual process culminating in a fiscal crisis and the collapse of institutional arrangements governing the finance of education and health, whereas China’s transitions – though initiated by bottom up deviations from the planned economy, nonetheless more resembled a top-down reform effort;
- In Viet Nam, the fiscal crisis of the state at the end of the 1980s resulted in retrenchment and greater decentralization, but within a unified polity; whereas in China, the transition undercut the power of the central state vis-à-vis the provinces while fiscal policies encouraged a “cooking in separate kitchens” system;
- In China decentralization took the form of fiscal federalism where local units of government resembled actual governments in their own right; whereas in Viet Nam, fiscal republicanism remained in tact and the political economy was characterized by significant redistribution; and,

- Both Viet Nam and China experienced the commodification of education and health, though the way this unfolded, its effects, and responses to it have varied.

## **THE POLITICAL AND ECONOMIC INSTITUTIONS OF MARKET-LENINISM**

The transformation of formerly state-socialist societies is among the most important developments of our times. Much of the existing literature on these societies is focused on changes in economic and political institutions. But how do welfare regimes develop in the wake of state socialism? As I have argued in this paper, answering this question inseparably entails analysis of the development and erosion of state-socialist institutions. Although state-socialist societies shared essential attributes, varieties of state-socialism existed. As we have also seen, the particular features of the transition vary from country to country. Today, formerly state-socialist settings still exhibit diverse institutional forms, and it is reasonable to speak of varieties of post-socialism.<sup>5</sup>

In both Viet Nam and China, markets have developed under and through Leninist institutions. This is the essence of market-Leninism.<sup>6</sup> China and Viet Nam, I argue, have developed a distinctive variety of post-state socialist political economy and with it, a distinctive type of welfare regime type. I examine what makes this regime type distinctive in political and economic terms and then examine the market-Leninist welfare regime. Perhaps as or more interesting, I explain differences between these two market-Leninist welfare regimes. I conclude that, Viet Nam and China exhibit important differences in their welfare institutions and outcomes, but that the principles and institutions governing Viet Nam and China are indeed categorically distinct from other welfare regime types.

### **Political Institutions of Market-Leninism**

In Viet Nam and China, communist parties have survived the erosion of state socialist economic institutions by using markets to promote political imperatives. These imperatives include eternal one party rule, economic accumulation, social order, social welfare, and legitimacy and consent among the ruled.

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<sup>5</sup> Some theorists have questioned whether the term ‘transition’ from state-socialism is appropriate at all (Stark 1992), given that formerly state-socialist societies display diverse institutional patterns and frequently resemble ‘capitalism’ in only a limited way.

<sup>6</sup> Others have referred to Viet Nam and China as “Managerial Socialism” (Apter 1999). In a private communication, Arrighi has indicated his belief that China and Viet Nam are still socialist. The U.S. Department of Commerce (2002) has ruled that Viet Nam is not a market economy, though this is largely to defend a protectionist trade policy regarding catfish. “Market Leninism,” by contrast, captures the degree to which these states’ functions are subordinated to the imperative of preserving communist parties’ indefinite political monopoly. Thus, I do intend that this concept of “Market Leninism” to have a generality beyond the Vietnamese context, but grant that determining whether this is reasonable will require additional research.

It is clear that political continuities and change in Viet Nam and China are different from in countries where state socialism led to political revolution. With respect to continuity, the communist parties of both countries maintain a deep sense of corporate identity and their activities continue to penetrate the grassroots. But the notion that Viet Nam and China have skirted political change is problematic. Market transitions in both countries have involved quite considerable changes in the nature and internal politics of the state as well as a rather fundamental reconstitution of state-society relations. These countries' political engagement with the international order has also changed significantly.

The relations between state and society are reciprocally determinant. The state is a product of society and affects social life through its policies, but is simultaneously shaped and constrained by actors and structures outside the state. The reconfiguration of social class in Viet Nam and China that is characteristic of market transitions is both an outcome of the market transition and a potential cause of changes in the welfare regime, reconstituting the social contract binding state and society.

### **Economic Institutions and Trajectories of Economic Change**

Viet Nam and China are market economies ruled by Leninist parties. To suggest they are market-socialist is to understate the importance of the party in organizing the economy and overstate the importance of socialist aims. To call them 'capitalist' is to suggest to the supremacy of liberal economic institutions (for example, private property) and the presence of a dominant capitalist class. To call it 'Capitalism' with Vietnamese or Chinese characteristics is too vague to be meaningful. In fact, market reforms in both Viet Nam and China grew out from the cracks in state socialist economic institutions and their character has and continues to be heavily shaped by the political logics of the communist party, hence market-Leninism.

We can clarify trajectories of economic change in Viet Nam and China by differentiating them from what occurred in other state-socialist settings.

Szelenyi and King (2005) have distinguished three different ideal-typical paths of transition from state-socialism. In some countries, the transition occurred through a 'revolution from above,' in which state elites followed the 'blue-print' of the neo-liberal economists but in a way that allowed the nomenklatura (and its clients) to transform itself into a 'grand bourgeoisie. This is the path taken by Russia. Other Eastern European societies (for example, Hungary) resembled a 'revolution from without,' in which an alliance of technocrats and elites adopted neo-liberal blueprints, blocked attempts at appropriation by the old nomenklatura, and forged economic alliances with foreign investors and multinational capital. Across almost all countries of Eastern Europe, the transition to a market economy entailed an end to communist party rule, even as subsequent political configurations varied considerably.

These two ideal-typical Eastern European experiences are contrasted with a third approach, which they call the 'Chinese' or 'East Asian' path, in which transition occurred

through a process of ‘transformation from below’ and later combined with developmental statism. In the Chinese case agricultural reforms, first introduced in the late 1970s and then expanded across the country, allowed for the generation and accumulation of rural savings, which were later channeled into hybrid and private firms as well as the reforming state enterprise sector (Oi, 1999). Economic growth was further catalyzed by a combination of rising domestic demand (based on aforementioned savings), surging foreign investment, and access to the giant U.S. and European markets.

While almost all of the formerly state-socialist states in Eastern Europe passed through a period of state retrenchment, subsequent patterns of development differed markedly (Szelenyi, 2008: 170). Russia, after the lost decade of the 1990s in which GDP fell by 50 percent, has recovered with respect to economic growth, while market institutions have developed and are more entrenched. The path dependence of the transition is still, however, unmistakable. The country displays a political economy whose commanding heights are contested by a neo-patrimonial elite and business ‘oligarchs’ – both remnants of the nomenklatura under the state-socialist regime. Eastern European countries – such as Poland and Hungary – have continued to adopt formal market institutions that are in many respects even more liberal than the U.S. and U.K. Economic growth, which was initially drive by massive foreign investment, is now also being propelled by a developing domestic bourgeoisie, comprised in part by a large contingent of former state managers.

In Viet Nam, the declining coherence of the centrally planned economy in the 1980s spurred a coalition of southern reformers and enterprise leaders to champion market reforms. Over the course of the 1990s and into the present, Viet Nam’s economic policies have appealed to various constituencies within the state, rather than conforming to a coherent developmentalist plan. In Viet Nam, state policies have aimed to secure state control over the commanding heights of the economy and simultaneously preventing the development of an independent bourgeoisie. What has emerged instead is a state business class whose favorable position within or on the borders of state power have enabled it to exploit market opportunities for personal gain.

In China, the political logic of economic reform that evolved in the 1980s and 1990s reflected China’s decentralized enterprise structure. Piecemeal economic reforms transformed enterprise managers into enterprise owners while the “eat in separate kitchens” fiscal model meant that provinces maintained a degree of financial autonomy from the center. Provinces have pursued developmentalist economic policies in a way largely unseen in Viet Nam.

China today, according to Szelenyi (2008), more resembles ‘capitalism’ from above than in the early stages of its transition to markets, in that the SOEs have been appropriated by well placed officials and their clients, who have also benefited disproportionately from multinational capital (*ibid.*: 171). The privatization of SOEs further suggests movement toward capitalism. Walder (2003), in the meantime, observes the rise of an economic elite separate from the state.

In both countries, communist parties have overseen a process of migrating from peripheries of world capitalism to central points in the international division of labor.

## **EXPLAINING VARIATION IN EAST ASIA'S MARKET-LENINIST WELFARE REGIMES**

Numerous analysts have sought to explain patterns of economic change in these countries. Social inequality and social mobility have figured prominently in the sociological literature on the transition. There is also now a substantial literature on social policies in formerly state-socialist societies, some of which have employed welfare regimes concepts in their analysis (for example, Deacon, 2002; Haney, 2002; Kornai, 1997; Sotiropoulos *et. al.*, 2003).

Variation in the welfare regimes of formerly state-socialist societies reflect their divergent class configurations and class politics (Eyal, Szelenyi, and Townsley, 1998; King 2001a; 2001b; 2002), and these are influenced significantly by the ideographic features of different countries, including historical and cultural heritage, different levels of economic development, geographic location, as well as the timing of industrialization (King, 2001b; Szelenyi *et. al.* 2005; 2007).

The welfare regimes that Viet Nam and China display today share core similarities.

- Within the eroded shell of state-socialism, both countries have experienced the commodification of most essential services under the authority of regimes that profess a commitment to achieving “socialist oriented” market economies;
- In both countries, economic development policies and corresponding patterns of production have promoted intensifying social inequalities;
- The design, conduct, and outcomes of social policies have also promoted inequalities;
- In both countries, emerging social inequalities have generated pressure on the state to respond with ameliorative policies and programs of varying magnitudes;
- In both countries, leaders profess a long-term commitment to universalist principles and programs; and,
- The stratification outcomes in both countries have a dual and overlapping character: the resilience of Leninist political organization continues to generate inequalities through the exercise of arbitrary power and the political allocation of economic resources; whereas markets generate their own inequalities.

### **Viet Nam**

The changes that Viet Nam has experienced over the last two decades have been extraordinary. In the early 1990s, Viet Nam was among the world's 'least developed' countries. Today Viet Nam is on the cusp of 'middle-income country' status. Viet Nam's rapid economic growth and declining poverty indicators have received world-wide attention. But the country has experienced momentous changes across the entire range of its social institutions, including its welfare regime. Applying an internationally defined poverty line, Viet Nam's poverty headcount declined from nearly sixty percent in the early 1990s to 16 percent in 2006.<sup>7</sup>

Since the early 1990s Viet Nam's state adopted welfare institutions that shifted institutional responsibility onto households. This amounted to a shift from the principles of socialist 'universalism' to that of a hybrid system in which the state provides a floor of basic services and a system of safety nets for certain segments of the population. Today, Viet Nam's state seeks to combine public, household, and other sources of finance in a way that ensures all Vietnamese access to essential social services. Viewed politically, the CPV appears intent on promoting the development of a welfare regime that combines market and redistributive elements.

Over the last two decades, rapid economic growth has enabled increases in both state and household expenditures on essential social services, but institutional responsibilities for the payment of these services has been shifted onto households, placing a greater proportional burden on poorer households. In the early 1990s, Viet Nam faced massive state retrenchment, and a large proportion of the costs of social services was shifted from the state onto households. By the mid 1990s, up to 80 percent of the total (that is, public and private) health expenditures were out of pocket expenditures – a remarkable inversion of the principles that had governed the provision and payment for health services under state-socialism.

Nonetheless, economic growth has enabled steady increases in total education and health expenditure. Access to education (measured by enrollments) and health (measured by utilization of public services) have increased. But there are large gaps in the quality of services between regions and access to quality services beyond a basic level of service provision has become highly contingent on out-of-pocket payments. Viet Nam's government is presently expanding a range of safety-nets and insurance schemes and the fate of these programs over the years ahead will indeed be of great importance.

At present, safety-nets and insurance schemes are reaching millions of Vietnamese, but these impact tends to be limited to softening the blow rather than absorbing the blow of large medical and educational costs. Total expenditure for national target programs increased by a factor 6 to 7 between 2002 and 2006. In the 2008 state budget, the amount allocated to national target programs represents about 2%.<sup>8</sup> While the idea of highly

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<sup>7</sup> Social Protection, Vietnam Development Report 2008, ADB, DFID, EC, the German Development Cooperation and World Bank, p.3

<sup>8</sup> Ministry of Finance ([www.mof.gov.vn](http://www.mof.gov.vn))

commodified education and health systems may not be acceptable to the CPV, it is a reality.<sup>9</sup>

In Viet Nam, the state's education and health policies in the wake of state socialism evidence a period of state-retrenchment during the early 1990s, after which education spending increased continuously, whereas health spending has remained low.

From the standpoint of 2008, the most important developments in the education in Viet Nam over the last two decades have been (1) large increases in the volume of economic resources being committed to education; (2) shifts in the core principles and institutions governing the provision and payment for education – away from principles of socialist universalism toward a hybrid system that relies on both public and “private” (that is, household) payment for education and which has increasingly subordinated education to market principles; and, (3) the increasing scale of education, as indicated by significant increases in enrollment and numbers of schools and other educational outlets.

These trends, which are discernable at all levels of formal education and across all regions of the country, have nonetheless manifested differently across different levels of education as well as different regions and segments of the population.

Since the early 1990s Viet Nam has experienced steep increases in the volume of economic resources used for educational purposes. The increases over this period have been fueled by economic growth, which has been sustained at around 7 to 8 percent per annum. Rapid and sustained economic growth has enabled continuous increases in total (that is, public and private) education spending.<sup>10</sup> Between 1990 and 2005, public budgetary spending in Viet Nam has increased from 1 to 3.5 percent of an increasingly large GDP (MOF, 2006). A closer look at increases in public and private expenditures helps to appreciate the significance of economic growth.

After slow growth in the early 1990s, public spending on education has grown significantly in both absolute terms and as a proportion of Viet Nam's GDP. Today, education represents nearly 20 percent of the state budget and is expected to remain at or above this level for the foreseeable future (MOPI, 2006). A large proportion of public spending goes to teachers' wages, but the government has also sought to expand the geographical coverage of the educational system.

One of the most notable developments in Viet Nam's education system has been the explosion of 'private' (that is, household) education spending. As recently as the late 1980s, all education in Viet Nam was – in principle – state financed. Whereas today, by most estimates, households' education expenditures account for at least 50 percent of

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<sup>9</sup> For more detailed discussion, see London (2003; 2005).

<sup>10</sup> Official poverty rates have declined, from 58 percent in 1993 to less than 11 percent (under a higher poverty ceiling) in 2006. Poverty declines in Viet Nam even steeper than in China (according to *The Five Year Socio-Economic Development Plan*. Ministry of Planning and Investment, March 2006) making what was just recently among Asia's poorest countries into Asia's most recent entrant into 'middle income country's status.

total education spending. Economic growth and increasing household incomes have permitted these increases: per capita GDP has increased from less than US\$200 in the early 1990s to a projected US\$1,050-1,000 by 2010. On the other hand, increased household spending on education is also the product of specific education policies, as discussed below.

Since 1989, Viet Nam has moved from an education system wholly financed by the state budget to a hybrid system combining state and household responsibility for education and finance. By law, primary education is available at no direct charge to all children. In reality, virtually all aspects of education have become increasingly subject to market principles.

The state continues to play a major role in education finance and in some fields state policies signal an intent to expand rather than reduce the state’s role. But state policies have also actively sought to shift increasing financial responsibility for education onto households. In the early 1990s, this policy thrust was viewed as a sheer necessity, as Viet Nam’s state was facing an acute fiscal crisis. Since the early 1990s, the state has promoted the growth of household spending under the guise of ‘socialization’, defined by Party members as a process whereby ‘all of society assumes responsibility’ for education. The analysis of education finance in Viet Nam defies conventional categorizations, such as “public” and “private.” Often, private payment for education takes place within nominally public educational institutions, while “public” schoolteachers frequently derive large proportions of their income from the private provision of education outside of school hours, and with tacit approval from state authorities.

Table 1 shows per capita expenditure on education in Viet Nam since 1992-1993.

In addition to regional inequalities in enrollment are unequal enrollments across different income and expenditure groups. Table # indicates household education expenditure from 1993 to 2006, while Tables #, #, and # indicate enrollment rates across different income/expenditure groups for the same period.

Table 1. Average Expenses on Education Per Capita in the Past 12 Months

	1993	1998	2002	2004	2006
Poorest			236.2	305.6	275.9
Near Poor			345.2	502.7	563.1
Middle			467.0	652.0	903.9
Near Rich			740.9	1024.9	1448.0
Rich			1418.5	1752.5	2566.1

Sources: Year 2002, 2004 - GSO and 2006 calculated by author basing on VLSS (2006)

In Viet Nam, public spending on health has remained low (in international terms) but the government has maintained a commitment to providing preventive health services;

whereas, in China, despite higher spending on health since 1990, there have not been comparable investments in preventive medicine;

The collapse of state socialist institutions in the late 1980s placed the financial viability of the state-run health sector into question. Since the late 1980s, public health expenditure has remained low as a proportion of GDP and low in comparison with other countries. However, Viet Nam's state – first with foreign donor support and later on its own – has effectively preserved and strengthened the state run health network, and state health providers remain the most important providers of health services. Many of the improvements in the country's health status since 1989 may be linked to the state's maintenance of a basic floor of health services – primarily through the continued public finance of commune health stations and public hospitals.

The commune health stations (CHS) were always a core element in Viet Nam's national health system. In the early 1990s, however, the CHS were facing acute shortages owing principally to an absence of local sources of financial support. In 1994, Viet Nam's Prime Minister issues Decision 58, which permitted use of the central budget (though province budgets) to pay and or supplement salaries for three to five CHS staff per commune. Though most of this supplemental funding came into the budget from foreign donors, decision 58 is credited with improving the income and morale of CHS workers and perhaps even rescuing the primary health system of the country. Notably, so such policy support was given to primary care providers in China.<sup>11</sup>

In addition to stabilizing salaries, the state moved to increase the numbers and coverage of the CHS, with some success. In 1993, 800 communes in Viet Nam still lacked a CHS and 88 communes lacked both a CHS and a health worker. By 2004, 98 percent (or all but 149) of communes had a CHS and at least 1 health worker, while 67.8 percent of communes had a doctor (MOH, 2005). By 2002, 93 percent of communes had a trained midwife, and 90 percent of hamlets (under the commune level) had at least one active health worker.

The central government also reasserted its role by specifying funding norms. In 2002, Circular 2002 required all CHSs to maintain a basic operational budget of no less than 10 million VND per year, not including wages or funds for health for the poor. It also established a range of compulsory funding norms for the CHS, with the local People's Committee to be held accountable in the case of any shortfalls (Dang and Bales 2006). By 2006, Viet Nam's counted some 10,672 state run clinics at the commune and precinct levels (GSO, 2007: 559).

But these achievements in education and health should not be exaggerated. In fact, Viet Nam already displays a tiered system of social services and health services in particular. This is reflected in recent data, which indicates that the wealthiest 20 percent of households expenditures on electricity and water is 8.8 times higher than that of the poorest households, while the wealthiest households' average expenditure on health care,

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<sup>11</sup> Formerly, localities were responsible for paying local health workers' wages at the commune level. Decion 58/ QĐ-TTg ngày 3/2/1994 (Dang and Bales, 2006).

education, and leisure is 3.9, 5.2, and 69.8 times larger, respectively (GSO, 2007). Over a third of Viet Nam's children remain malnourished.

The current trend toward decentralization of 'public' services will generate powerful incentives toward the further commodification of services. It is unclear whether presumptive declines in rich localities' dependence on the central budget will translate into increased expenditures in localities with poorer populations. The increasing private provision of education, health, and other social services has not been accompanied by adequate regulatory mechanisms, though regulation of public service provision is also inadequate.

## China

It is fair to say that education and health in China have not been among the greatest 'success stories' the country's economic ascent. The account developed for this draft draws on Min Xin Pei (2006) and ADB (2007).

Developments regarding education evidence chronic underinvestment in the policies and programs needed to get children to school and a preference by local and central government units for spending on investments in physical infrastructure as well as higher education.

The consequences of this are clear at lower levels of education. In 1990, China ranked 114<sup>th</sup> in the world in public education spending, lower than most other developing countries. China's spending on education remained below 2 percent of GDP into the late 1990s, before increasing more recently, compared to the average of 3.4 percent for low income countries (ADB, various years). As recently as the late 1990s, China was spending proportionately less on education India, Mexico, Brazil, and the Philippines. After two decades of economic reform, in 1998, only 85 percent of the school age population had access to primary and middle school, including only 40 percent in the country's poor western regions. Also in the late 1990s, the middle school drop out rate was 42 percent, while in some parts of the south, the dropout rate ranged from 30 to 50 percent (BYTNB, 2001). Nearly one fifth of the Chinese people remain illiterate.

Crucially, responsibility for spending on compulsory education is almost entirely by localities: townships account for 78 percent, counties for 9 percent, and provinces for 11 percent (Su, 2002, cited in Pei, 2006: 171). 94 percent of all central government education spending went to higher education, while its combined contribution to secondary and primary education was 0.5 percent of its total education spending (Wang, 2002). Taken alone, the distribution of education expenditures in China doesn't tell us enough, as it could be the case that local units of government adequately financed education. But this is not the case. On the contrary, government units in poorer and remote areas tend to allocate less than what is mandated by the central government (Rong and Shi, 2001). In 2003, the State Council committed itself to "further strengthening" education rural areas. Still, there remain problems in poorer rural regions, where getting children to school runs into such obstacles as lack of adequate food and clothing, and parents desire to keep children at home for farm work (Shen and Kang, 2003). Campaigns to universalize compulsory education in some provinces had the result of landing localities in severe debt.

The problem of school fees in China has received a great deal of attention. In recent years, the central government has mandated schools to charge only one all inclusive fee. It is too early to gauge the effectiveness of this intervention, but efforts to reign in such fees have been ongoing for at least ten years (Yang, 2005).

In China, perhaps the defining feature of the country's health system's development has been its failure to deliver health services to the poor, particularly in rural areas. Arguably,

curative (ambulatory/hospital) services are beyond the ability of the state to cover. But the state's failures in the areas of preventive health are themselves costly.

As Tony Saich (2004) has noted, reforms, particularly financial decentralization, have generated new inequalities, including a dramatic rise in health care provision between urban and rural areas. A World Bank study revealed that, in 1998, 22 percent of those in localities in high income areas were covered by a cooperative medical facility, compared to just one to three percent in poorer areas (Zhu, 2001).

Overall, public spending on health is inadequate, at 3.5 percent of GDP. Although this figure is considerably higher than in Viet Nam, it is notable that spending has been tilted heavily toward urban areas. Between 1978 and 1991, the share of state health spending committed to rural health services declined from 21.5 percent to 10.5 percent. At the same time, the costs of health care increased, rising from between two to three percent of total income in 1990 to about 11 percent in 1998, and has continued to rise (Liu, Shen, and Wen, 2000, cited in Saich, 2004). Health expenses have emerged as a major cause of poverty. In 2003, in rural China, the ratio of cost per inpatient admission to per capita monthly income was 23 and 42 percent for the second-lowest and lowest income quintile of the population, respectively. It is suggestive that a survey of rural areas found that, between 1993 and 2003, use of outpatient services among those reporting illness *declined* from 67 to 55 percent (Dang and Bales, 2006).

## CONCLUSIONS

Viet Nam and China are not merely poorer-cousins of the so-called 'productivist' regimes of East Asia. The principles, institutions, and bureaucratic politics governing the creation and allocation of welfare in Viet Nam and China differ fundamentally.

The politics of welfare in the two countries is also distinctive. Like the East Asian productivist regimes, social policies and welfare in Viet Nam and China are clearly subordinate to developmentalist economic policies. Both countries are ruled by parties that profess a commitment to universalism. More importantly, both feature politics that have been steeped in market-Leninism and thus draw on repertoires of political discourse fundamentally different from other countries.

The coincidence of commoditized essential services and polarizing class structures is generating social tensions and political pressures that challenge the legitimacy and capacities of ruling elites. But ruling elites in Viet Nam appear more responsive – on the whole – to the welfare needs of their population.

Though both countries have developed as market-Leninist regimes, Viet Nam and China display distinctive differences, not only in their social histories and the circumstances of their extrication from state-socialism, but in their trajectories of social change since. Differences in the countries' bureaucratic politics, class configurations, and social policies have generated different welfare regimes.

Overall, Viet Nam's communist party has displayed greater determination in advancing universalist principles of social citizenship than China, though the progressiveness of Vietnamese market-Leninism should not be overstated. Although Viet Nam spends less than China on health, Viet Nam has been more committed to ensuring access to preventive services. And though China is wealthier than Viet Nam, Viet Nam outperforms China on many health indicators (see Appendix 1).

A recent paper (Abrami *et. al.*, 2008) argue that Viet Nam is less unequal than China due to the structure of elite coalitions, which are broader in Viet Nam than in China. This, in turn, places greater constraints on policy makers and promotes greater redistribution across provinces. Viet Nam's successes in combating inequality may be overstated, but it is also clearly the case that Viet Nam's has not embraced the fiscal federalism one observes in China. Equalizing transfers in Viet Nam over the course of the years 2001 to 2006 were 5.73 percent compared to 1.71 percent in China, while Viet Nam outpaced China by an average of 9 percent to 2 percent of GDP on spending of infrastructure, poverty alleviation, and national targeted programs (Ibid.). Indeed, Viet Nam has a more pluralistic policy, with greater internal debate.

Other Scholars – including the present author (London 2009) – believe Viet Nam's political culture is greatly different than China's and more democratic in the sense that state is by no means exempt from serious critique, if the bound of the critique are still limited. Indeed, the two countries display different moral economies.

Under market-Leninist regimes, unequal forms of citizenship imposed under state-socialism are reproduced and transformed in a manner that preserves the political supremacy of the communist party, while creating new market-based opportunities and inequalities. The state combines Leninist tactics of political organization with market-based strategies of accumulation and social policies that exhibit both redistributive and neo-liberal elements.

Terms such as 'market-socialism' are inadequate: they either refer to hybrid economic institutions or wrongly conflate political and economic institutions. By contrast, the term market-Leninism rejects the widely held but false notion that socialism has any inherent political character. It also recognizes that in Viet Nam (and in China), Leninist political organization is ultimately much more important than socialism *per se*.

**Appendix 1. Viet Nam and China: Key Welfare Indicators 1990 and Latest (2004-2008)**

<b>GENERAL INDICATORS</b>						
	<b>Viet Nam</b>			<b>China</b>		
	<b>1990</b>	<b>Latest</b>	<b>(Year)</b>	<b>1990</b>	<b>Latest</b>	<b>(Year)</b>
GDP (US\$ million)	6,472	71,216	(2007)	354,644.36	3,280,053	(2007)
GDP per capita (US\$)	98.04	836.46	(2007)	310.19	2,485	(2007)
Foreign Direct Investment, net flow (US\$ million)	180	1,954	(2005)	3,478	79,127	(2005)
GDP Growth (annual %)	5	8	(2006)	4	11	(2006)
Percent of Agriculture in GDP	38.7	20.4	(2006)	26.9	11.8	(2006)
Percent of Industry in GDP	22.7	41.6	(2006)	41.3	48.7	(2006)
Percent of Service in GDP	38.6	38.1	(2006)	31.8	39.5	(2006)
Human Development Index	0.61	0.709	(2004)	0.627	0.768	(2004)
Mid-Year Population (million)	66.02	85.1	(2007)	1,143.33	1,319.98	(2007)

Source: ADB Key Indicators and World Bank data & statistics

Notes:

\*refer to 1988

\*\*Refers to 1993.

\*\*\*Age group is 6–59 months.

HEALTH INDICATORS						
	Viet Nam			China		
	1990	Latest	(Year)	1990	Latest	(Year)
Life Expectancy at Birth (years)-Female	67	73	(2005)	70	74	(2005)
Life Expectancy at Birth (years)-Male	63	68	(2005)	67	70	(2005)
Crude Birth Rate (per 1,000 people)	31	18	(2005)	21	12	(2005)
Crude Death Rate (per 1,000 people)	7	6	(2005)	7	6	(2005)
Infant Mortality Rate (per 1,000 live births)	38	16	(2005)	38	23	(2005)
Total Fertility Rate (births per woman)	3.7	2.2	(2005)	2.2	1.8	(2005)
Maternal Mortality Ratio (per 100,000 live births)	160	130	(2000)	95	56	(2000)
Proportion of Births Attended by Skilled Health Personnel (%)	95	90	(2004)	50*	97	(2004)
Prevalence of underweight (% of children under age 5)	41**	28	(2003)	19	8***	(2002)
Under-Five Mortality Rate (per 1,000 live births)	53	19	(2005)	49	27	(2005)
Proportion of 1-Year Old Children Immunized Against Measles (%)	88	95	(2005)	98	86	(2005)
Daily Per Capita Protein Supply (Grams)	50	65	(2003)	65	82	(2003)
Daily Per Capita Calorie Supply (Calories)	2,148.8	2,616.7	(2003)	2,709.0	2,940.2	(2003)
Population with Access to Improved Water Sources (%) – Rural	59	80	(2004)	59	67	(2004)
Population with Access to Improved Water Sources (%) – Urban	90	99	(2004)	99	93	(2004)
Population with Access to Improved Sanitation (%) –Rural	30	50	(2004)	7	28	(2004)
Population with Access to Improved Sanitation (%) –Urban	58	92	(2004)	64	69	(2004)
Government expenditure for health (% of GDP)	.8	.9	(2005)	2	3.5	(2006)

Source: ADB Key Indicators and Worldbank data & statistics

Notes:

\*refer to 1988

\*\*Refers to 1993.

\*\*\*Age group is 6–59 months.

EDUCATION INDICATORS						
	Viet Nam			China		
	1990	Latest	(Year)	1990	Latest	(Year)
Gross Primary School Enrollment Ratio (%) - Female	103	91	(2005)	120	112	(2005)
Gross Primary School Enrollment Ratio (%) - Male	111	98	(2005)	130	113	(2005)
Gross Secondary School Enrollment Ratio (%) - Female	31	75	(2005)	42	75	(2005)
Gross Secondary School Enrollment Ratio (%) - Male	33	77	(2005)	55	74	(2005)
Gross Tertiary Enrollment Ratio (%) - Female	1	13	(2005)	2	20	(2005)
Gross Tertiary Enrollment Ratio (%) - Male	2	19	(2005)	4	21	(2005)
Net Enrollment Ratio in Primary Education (%)	90	88	(2005)	97	99	(2003)
Ratio of Girls to Boys in Education of Primary Level	0.93	0.93	(2004)	0.93	1	(2004)
Ratio of Girls to Boys in Education of Secondary Level	0.91	0.95	(2004)	0.75	1	(2004)
Ratio of Girls to Boys in Education of Tertiary Level	..	0.76	(2002)	0.52	0.84	(2002)
Literacy Rate, 15 Years and Over (%) – Female	87	87	(2000-2004)	69	87	(2000-2004)
Literacy Rate, 15 Years and Over (%) - Male	94	94	(2000-2004)	87	95	(2000-2004)
Proportion of Pupils Starting Grade 1 who Reach Grade 5 (%)	80	87	(2002)	86	99	(2002)
Government expenditure for education (% of GDP)	1.	3.5	(2005)	4	3.5	(2006)

Source: ADB Key Indicators and Worldbank data & statistics

Notes:

\*refer to 1988

\*\*Refers to 1993.

\*\*\*Age group is 6–59 months.

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