

# Vietnam

## Decentralization Amidst Fragmentation

Vu Thanh Tu Anh

*Since Doi Moi (1986), decentralization in Vietnam has been expanded, but still limited to fiscal and administrative rather than political decentralization. From the central perspective, decentralization has undermined the uniformity of national policies and encouraged unhealthy competition among local governments. For local governments, decentralization has not always been accompanied by institutional autonomy and sufficient financial resources. Moreover, there has been a lack of synchronization between central ministries as well as consistency between the different dimensions of decentralization. Finally, the people and businesses have neither been adequately involved nor had sufficient voice in the most important decentralization policies. This article analyses common and cross-cutting issues shared by different dimensions of decentralization in Vietnam since Doi Moi. It shows that serious institutional fragmentations has rendered decentralization ineffective. Given Vietnam's political economy, the first priority in designing decentralization policy is to overcome these fragmentations and prepare the prerequisites for effective and efficient decentralization.*

**Keywords:** Decentralization, institutional fragmentation, political economy, Vietnam.

### 1. Introduction

Formal decentralization in Vietnam started with *Doi Moi* (economic innovation) in 1986 and accelerated in the late 1990s. Since then, the scope of decentralization has continuously been expanded. However, the scope has been mostly limited to fiscal and administrative decentralization rather than political or personnel decentralization. Decentralization was expected to “promote strong dynamism, creativity, autonomy,

self-responsibility at all local government levels in their management and implementation of socio-economic development tasks” (Nghị quyết 08/2004/NQ-CP của Chính phủ về tiếp tục đẩy mạnh phân cấp quản lý nhà nước giữa Chính phủ và chính quyền tỉnh, thành phố trực thuộc Trung ương, hereafter Resolution 08).

To date, the results have fallen short of the government's expectations. From the central government's perspective, decentralization has undermined the uniformity of national policies

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and encouraged unhealthy competition between local governments. On one hand, it has resulted in a decline in the central government's control over local governments; on the other, it has resulted in an increase in localism. For local governments, decentralization has not always been accompanied by institutional autonomy and necessary financial resources. Moreover, there has been a lack of synchronization between central ministries as well as consistency between different dimensions of decentralization. As a result, local governments were confused in many circumstances, and therefore became passive, relying heavily on instructions from the centre. Finally, the people and businesses — those ultimately affected by the decentralization policy — have neither been involved nor had a voice in the most important policies that affect their life and economic activities.

Within the Vietnamese state hierarchy, four fundamental tensions have emerged during the process of decentralization. The first is that decentralization necessarily requires a fundamental shift in the role of the state, from social planner and decision-maker to facilitator and rule-setter. However, in such a hierarchical and unitary system like Vietnam, this shift is never simple as it not only involves changes in the government's internal organization, but also undermines its inherently discretionary power. The second tension results from the fact that, in many cases, more decentralized responsibility is not accompanied by a sufficient increase in capacities and resources, causing serious overload for the local government. The third tension is between accountability and autonomy, as increasing autonomy for the local government does not by itself ensure accountability. Finally, the local government's increasing self-governance may break the consistency and uniformity of national policies.

This article analyses common and cross-cutting issues shared by different dimensions of decentralization in Vietnam since *Doi Moi*, focusing on the relationship between the two most important levels of government, namely the central and the provincial. A major theme running through this article is that despite being a unitary state, there has been serious fragmentation

among different levels of government as seen in the growing number of provinces, districts, and communes in the last three decades.

The remainder of this paper is organized into five sections. Section 2 presents an overview of decentralization in Vietnam since *Doi Moi*. Section 3 describes sub-national–central relations and allocations of powers between central and provincial governments. Section 4 analyses two recent debates about decentralization in Vietnam, namely the removal of the People's Council at the district and commune levels, and the consequences of decentralization on institutional integrity at the provincial level. Section 5 provides a general assessment of the successes and limitations of decentralization in Vietnam. Section 6 concludes and provides some policy recommendations, which emphasize the need for a fundamental change in the concept and design of decentralization in Vietnam.

## 2. An Overview of Decentralization in Vietnam since *Doi Moi*

Despite the fact that many decentralization policies have been implemented, decentralization has not fulfilled its stated objectives. The Government's Resolution 08 (30 June 2004) acknowledged that: decentralization has given rise to the break of uniformity in public management, dispersion and localism; the responsibility of each government levels has not been well defined; decentralization has not been accompanied by the necessary conditions for the local government to carry out their tasks; there has been a lack of synchronization and consistence among different ministries and dimensions of decentralization; and some decentralized tasks stipulated in laws and regulations have been implemented only partially or delayed.

Also according to the Resolution 08, the main causes are that:

the conception and awareness of decentralization policies and solutions are unclear, incoherent, and inconsistent between the central and provincial governments; there has been a concern that radical decentralization may lead to localism and

regionalism; there has been a lack of will and determination in the execution: from design to adoption and implementation of decentralization regulations; the review, assessment, and learning from decentralization experiences are not properly carried out; the legal system has not been synchronized and fallen short of the requirements for social and economic development in the current conditions.

Although the government's assessment of the limitations of decentralization is valid, it has not touched the root causes, which are deeply embedded in the current institutional system. Specifically, the central government has always tried to protect its authority, the most important aspects of which are its political power as well as its control over personnel appointment and budget allocation. This explains why the concept of decentralization in Vietnam is limited mainly to the decentralization of economic management and hardly includes political or personnel decentralization.

The essence of the success of two decades of reforms since *Doi Moi* has been the transformation of the role of the state in the economy or, more specifically, the gradual withdrawal of the government, both central and local, from economic activities and the increasing role of the provincial government. Several examples stand out. The transformation of the rural areas in Vietnam in the late 1980s was the direct result of many achievements in agricultural development, which in turn were a consequence of land reform. It essentially returned the land from the collectives to the households, and the state's decision to renounce its directive role and monopoly position in the production and distribution of rice. After only a few years, the country escaped from chronic hunger to become one of the largest rice exporters in the world.

Another good example is that *de facto* decentralization (or freedom to innovate) in the 1990s and the accelerated decentralization of foreign direct investment (FDI) management in the 2000s helped some provinces get ahead (Malesky 2004). The most successful examples include effective breakthroughs in economic governance

and investment attraction of Ho Chi Minh City, Binh Duong and Dong Nai in the south, and Vinh Phuc, Hung Yen, and Bac Ninh in the north.

Generally speaking, except for fiscal decentralization, the progress of administrative and especially political decentralization has been limited. This can be clearly seen through the assessment of all dimensions of decentralization set out in Resolution 08 and the Vietnam Development Report 2010 (World Bank Vietnam 2009). The next section will present key common weaknesses found across all dimensions of decentralization in Vietnam as well as analyses of the underlying causes behind these limitations.

### 3. Description of Current Status of Sub-national–Central Relations

#### 3.1 Brief Description of Vietnam's Current Administrative Structure

According to the Constitution, the National Assembly is the supreme body of state power in Vietnam. However, in reality, Vietnam's political and state system comes under the absolute power and comprehensive control of the Communist Party of Vietnam (CPV).

In recent years, the National Assembly has become more influential in raising public issues and shaping government policies, largely due to the proactiveness of its committees. However, it is still very far from being able to check or balance the power of the government.

The head and representative of the government is the President of Vietnam, largely a ceremonial post, appointed by the CPV and then formally elected by the National Assembly for a five-year term. The executive branch is led by the Prime Minister (PM). In the current cabinet, under the PM, there are four Deputy Prime Ministers (DPMs) and twenty-six ministers or ministerial equivalence. The PM and DPMs are again decided by the CPV, but formally nominated by the President and voted by the National Assembly for a five-year term. The ministers are also decided by the CPV but formally nominated by the PM and ratified by the President.

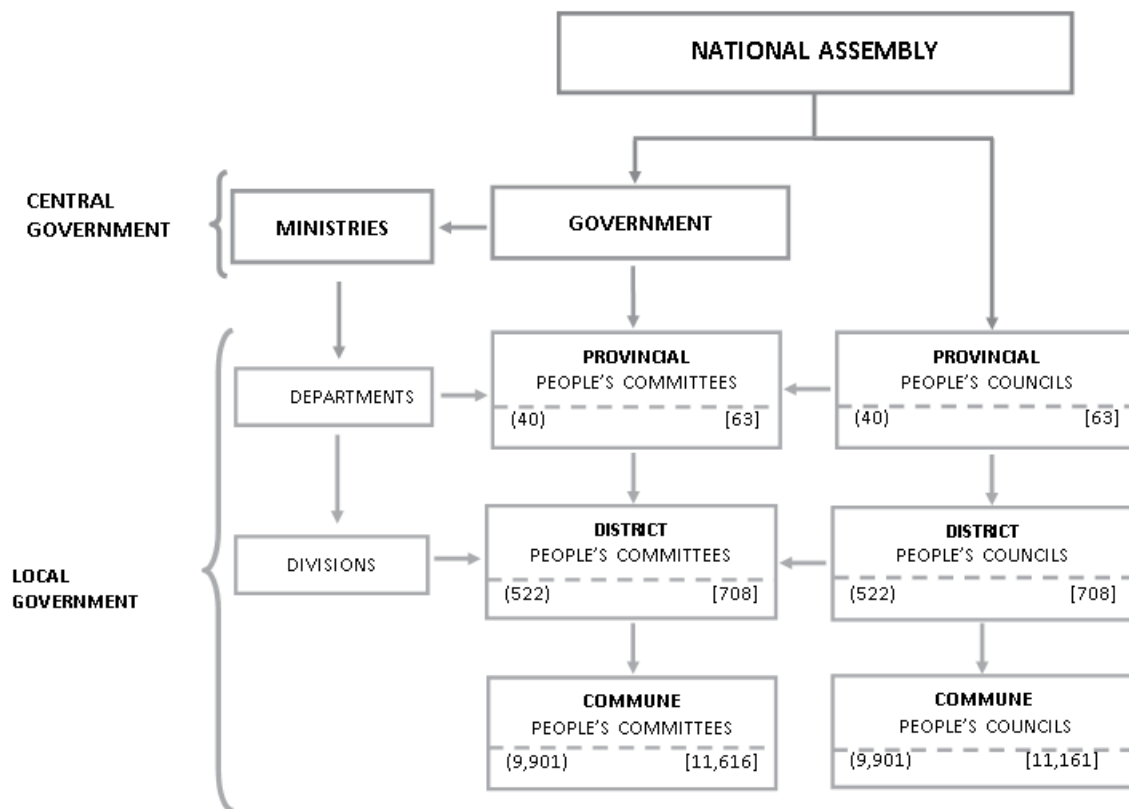
Vietnam has a two-tiered government system, comprised of the central and local governments (Figure 1). The local government has three levels: provincial level (provinces and cities under the central government); district level (cities under provinces, urban districts, towns, and rural districts); and commune level (wards, town districts, and communes). The number of provinces in Vietnam has increased from forty in 1986 to sixty-one in 1997 and sixty-four in 2004. It is worth emphasizing that this massive proliferation of provinces is due to localism and fragmentation<sup>1</sup> rather than decentralization. An important consequence of this expansion is that

the Central Committee was enlarged from 124 at Party Congress VI (1986) to 200 currently with provinces increasing their collective power vis-à-vis the central government.

### 3.2 Allocations of Powers between Central and Provincial Governments

From the beginning of *Doi Moi*, the need to decentralize was recognized by the Party and was enshrined in the Resolution of the Sixth Party Congress in 1986. This resolution emphasized the balance between the decision-making right of the central level, the rights to autonomy of the local

FIGURE 1  
Vietnam's Government Structure



NOTE: The numbers in round brackets are of 1986 and in square brackets are of 2015.

level and production units, and the ownership role of the collective workers (Đảng Cộng sản Việt Nam 2004, p. 747). Thus, decentralization is rendered in Vietnamese as “phân công, phân cấp, phân quyền”, which literally means “hierarchical division of labour, administrative decentralization, power devolution”.

Until early 2000s, however, decentralization was pursued narrowly by the government as a process of relatively simple administrative decentralization and was a reactive and practical response to the serious economic woes threatening the country. In the earlier phase of reform, the state was successful in unleashing the private sector’s energy and latent capacity by stepping back and relinquishing unnecessary control. Later on, the private sector has grown and local governments have increasingly been tasked with more responsibilities. As a result, the lack of a broader and more comprehensive understanding of, and approach to, decentralization is generating confusion and inefficiency.

By the mid-2000s, Vietnam’s decentralization agenda covered seven major areas, including: state budget; investment; administration and personnel; land and natural resources; planning management; state-owned enterprises (SOEs); and public services. It is not surprising that political decentralization is not part of the Party’s overall decentralization agenda. In line with the decentralization literature, the rest of this section will discuss three major dimensions of decentralization, namely: fiscal; administrative; and political decentralization.

### 3.3 Fiscal Decentralization

Fiscal decentralization in Vietnam started in 1989 with Council of Ministers’ Resolution No. 186 and accelerated with the promulgation of the first State Budget Law in 1996. This law marks an important milestone for fiscal decentralization in Vietnam by, for the very first time, clearly specifying the division of rights and responsibilities between central and provincial governments as well as among different levels of local government with respect to revenue and expenditure.

The second State Budget Law, currently in force, was promulgated in 2002 and became effective since 2004. According to this law, tax revenue is shared between provincial and central governments (Table 1) and the sharing rate is kept stable for intervals of five years.

The most recent State Budget Law was passed in 2015 and would become effective from the 2017 fiscal year. With regard to decentralization, despite enormous pressure from many provinces demanding a fair share of import tax collected at the provincial level, the new State Budget Law rejects this demand. It nevertheless adds income tax of the so-called overall-sector including SOEs to the tax-sharing list.

Another noteworthy change is in the effort to strengthen fiscal discipline at the provincial level. The 2015 State Budget Law specifies the maximum level of debt that provincial governments can mobilize. Specifically, the ratio between debt and decentralized revenue of Hanoi and Ho Chi Minh should not exceed 60 per cent. For those provinces whose decentralized revenue is greater than their current expenditure, the maximum ratio is 30 per cent and for all other provinces the maximum ratio is only 20 per cent.

Closely related to fiscal decentralization is investment decentralization. In Vietnam, decentralization of FDI and public investment started in the 1990s. With respect to FDI, since the early 1990s, provinces that received large amounts of FDI had tried to convince the central government to decentralize the licensing of FDI projects. In 1996, the decentralization of FDI was implemented after the State Committee for Cooperation and Investment (SCCI) and the State Planning Commission were merged into the Ministry of Planning and Investment (MPI).

Since the Law on Foreign Direct Investment took effect in 1996 until it was replaced by the Common Investment Law in 2006, the decentralization of evaluation and licensing of FDI projects was limited by the size of capital and area of investment. Specifically, the People’s Committee of Hanoi and Ho Chi Minh were authorized to grant licences for projects with registered capital up to US\$10 million, while the limit for other provinces was

TABLE 1  
Revenue-sharing Arrangements

| <i>Fully Assigned to Central Government</i>                       | <i>Shared between Central and Provincial Government</i> | <i>Fully Assigned to Provincial Government</i> |
|---|---|--|
| Trade taxes   | VAT (except VAT on imports)                             | Land and housing taxes                         |
| Value Added Tax (VAT) and Excise on Imports                       | CIT (except enterprises with uniform accounting)        | Natural resource taxes (except Petroleum)      |
| Taxes and other revenue from petroleum                            | Personal Income Tax                                     | License taxes                                  |
| Corporate Income Tax (CIT) on enterprises with uniform accounting | Excise on domestic goods and services                   | Tax on transfer of land use rights             |
|   | Gasoline and oil fees                                   | Fees on land use                               |
|   |   | Land rent                                      |
|   |   | Lease and sale of state-owned property         |
|   |   | Fees and charges (non-tax)                     |

SOURCE: World Bank (2014).

US\$5 million, except for strategically important areas.<sup>2</sup> Paradoxically, the management boards of provincial industrial zones, export processing zones and high-tech zones could grant licences for FDI projects with registered capital up to US\$30 million, which is six times higher than the limit applied to provinces.

After the Common Investment Law took effect on 1 July 2006, the limits on investment size were removed, but the limits on investment area still apply. Inevitably, FDI projects deemed to be nationally important must still be subject to comments from relevant ministries and the approval of the Prime Minister.

With regard to the decentralization of public investment, in 1999, the government issued a new regulation regarding investment management and construction, under which provincial governments are entitled to decide on public investments projects of Categories B and C, while decisions concerning the most important projects (i.e., Category A) are retained at the central government. In 2005, the government issued a decree on the management of

investment and construction projects which allowed provincial governments to decide on all public investment projects. However, the list of Category A projects is still decided by the Prime Minister, and the capital amount must be jointly decided by the central and local government. Decentralization of public investment was extended in 2007 when provincial governments were entitled to ratify the list of and grant licences for Build-Operate Transfer, Build-Transfer-Operation and Build-Transfer projects.

It is important to note that the recentralization of public investment also occurred in the 2000s. For instance, in 2000, provinces were given “block funding” for all National Targeted Programs (NTPs) and allowed to allocate this funding among different NTPs. However, in 2004, the central government resumed the rights to allocate NTP funding, and provinces can now only allocate funds within each NTP.

Investment decentralization illustrates two principles regarding decentralization policy in Vietnam. The first principle is “decentralization by

scale". The central government generally maintains the ultimate authority in strategically important and bigger investment projects while allowing provincial governments to manage smaller ones. Two main problems arise with this approach. First, the scale of an investment does not always correspond to the nature and impact of the project. Second, the application of "keep the big, release the small" principle has played a role in tempting provincial governments to fence break in order to attract more foreign investment (See Vu Thanh Tu Anh, Le Viet Thai and Vo Tat Thang 2007).

The second principle of decentralization in Vietnam is "top-down decentralization". Thus, rather than taking the bottom up approach to decentralization (i.e., subsidiarity concept), the reverse is more likely. It is the central government who decides which tasks it is willing to delegate to the local level and which tasks should be kept for itself. This approach helps maintain the hierarchical power structure between the centre and the local. As a result, the lower level feels unnecessarily constrained and unable to increase its capacity while the upper level is often overloaded and unable to either coordinate or monitor effectively. This situation increases the problems of moral hazard and ambiguous accountability, and explains why in Vietnam the lower levels of government tend to be passively dependent on the upper levels.

### *3.4 Administrative Decentralization*

Currently, sixty-three provinces and cities in Vietnam are classified into three groups. Group 1 includes Hanoi and Ho Chi Minh City which enjoy special status.<sup>3</sup> Group 2 includes three other cities directly under the central government — Hai Phong, Da Nang, and Can Tho — for which central oversight is stricter than that for Group 1 but more relaxed than Group 3, which includes the remaining fifty-eight provinces. All provinces in Group 3 are subjected to a common decentralization framework, despite their obvious differences in economic size, fiscal space, resources, and capabilities. While it is understandable for the central government to have a common decentralization framework for this group, there is evidence that this one-size-fits-

all policy has rendered decentralization inefficient (see more in Ninh and Vu Thanh Tu Anh 2008).

Administrative decentralization in Vietnam was formally started in 1996 and accelerated with the Public Administrative Reform Master Program for the period 2001–10, which then continued with the Public Administrative Reform Master Program for the period 2011–20 (i.e., Government's Resolution 30). As far as administrative decentralization is concerned, two aspects are of particular importance: the provision of public services; and socio-economic development plans (SEDP).

With regards to provision of public services, there has been a continuous decentralization of education and healthcare services to the provincial level. The 1996 and 2002 State Budget Laws increased the spending and expenditure responsibilities for education and healthcare to the provinces. In principle, provinces currently enjoy complete autonomy in terms of revenue and expenditure. In reality, this is not entirely true. For example, many provinces still follow guiding formulas (in the form of quotas, standardization, or cost norms) applied to budget allocations not only to education and healthcare but also to payroll and pensions. It follows that for poorer provinces, the portion of predetermined expenditure in local budgets can be as high as 80 to 90 per cent (Ninh and Vu Thanh Tu Anh 2008). Even in some provinces with budget surpluses like Khanh Hoa and Vinh Phuc, this predetermined expenditure accounts for more than 50 per cent of the total budget, implying that the degree of autonomy is actually quite limited.

With regards to socio-economic planning, since 2003 local People's Councils were granted the authority to coordinate, and allocate the budget, and finalize SEDPs for their respective levels. Starting from 2004, Provincial Peoples' Councils are allowed to issue legal documents other than passively implement policies imposed by higher level authorities in the areas of: socio-economic development; budget allocation; defence and security; and people's livelihoods. This is significant progress towards decentralization, especially when it is accompanied by fiscal

decentralization, where provincial People's Councils are empowered to approve budget allocations and revenue assignments for all three levels of local government.

### 3.5 Political Decentralization

Personnel decentralization is a limited form of political decentralization. This is the most conservative dimension of the decentralization process in Vietnam and stems from an immutable principle of the CPV. Namely, the Party must retain comprehensive control and management of state personnel. As a result, provincial People's Councils and Committees are popularly referred to as "Party elect, people vote", meaning that the representative bodies just rubber-stamp personnel already decided by the Party.

All key provincial officials fall under direct central management. These officials, however, can be divided into three categories. The first category are those positions decided by the Politburo, including the Party Secretary, Chairman of People's Council, and Chairman of People's Committee of Hanoi and Ho Chi Minh City. The second category are those positions decided by the Central Party Secretariat, including chairman of the provincial People's Council and People's Committee. It is worth emphasizing that the chairman of the People's Committee is usually also the Deputy Secretary. The third category includes those positions that need evaluation by the Central Committee before they can be appointed. Since 2007, there is an important decentralization of responsibility with respect to positions in this group: the Vice Chairman of People's Council and People's Committee (except for Hanoi and Ho Chi Minh) are no longer subjected to pre-evaluation by the Central Committee, but can now be evaluated and decided by the provincial Party's Standing Committee.

The logic of "Party elects, people vote" also applies at the local level. For example, the Chairmanship of the District People's Council and People's Committee is decided by the provincial Party Committee and rubber-stamped by the District People's Council. Similarly at the provincial level,

the chairman of the District People's Committee is usually also the District Deputy Secretary. These personnel management practices help create an absolute and comprehensive control of the state system by leadership of the Party.

## 4. Recent Debates on Decentralization

This section discusses two of the most recent contentious issues regarding decentralization in Vietnam. The first debate, which was drawn to a close last year, involves the removal of the District People's Council (DPCs). The second discussion, which is still ongoing, is about the consequences of decentralization for institutional cohesion at the provincial level.

### 4.1 Piloting the Removal of DPCs

As with any other important decision about the organization of local government, the pilot programme to abolish the DPCs was formally started with a decision by the Central Committee of the VCP (Resolution No. 17, dated 1 August 2007). This undertaking was later legalized by Resolution No. 26 (15 November 2008) of the National Assembly and Resolution No. 724 (16 January 2009) of the National Assembly's Standing Committee. It was then translated into policy by Circular No. 02 (19 March 2009) of the Ministry of Home Affairs, under which the pilot was implemented in 99 districts and 483 communes of ten provinces and metropolises.

This policy can be interpreted in at least two different ways. The first interpretation is that this is a manifestation of the recentralization process in order to streamline policy design and implementation, thereby reducing organizational duplication and improving efficiency. For instance, Malesky, Nguyen and Tran (2014) find that "recentralization significantly improved public service delivery in areas important to central policy-makers, especially in transportation, healthcare, and communications". It is worth noting that this experiment was only applied at the district level, where key personnel are appointed by the Provincial People's Council.



Another interpretation is that this pilot programme is essentially an effort of the government to concentrate power at the district level by eliminating its main “check-and-balance” mechanism, rather than by recentralizing power directly. One evidence is that both District and Commune People’s Committees, which are local governments, were not removed in the experiment. The fact is that among the major stakeholders, only the government — both central and local — is the wholehearted advocate for this policy. As for the Party, despite all the evidence provided by the government about significant efficiency improvement, and despite the fact that the policy was only in the piloting phase without reaching any final conclusion, the CPV actually put an end to this pilot with the promulgation of the new Constitution in 2013. Article 111 of this new Constitution confirms that all local administration levels (i.e., province, district, and commune) are composed of the People’s Council and People’s Committee.

Equally interesting, even when the Constitution of 2013 has decided to retain the DPCs, the government still firmly defended their proposal to unify People’s Councils and People’s Committees for the metropolises. Notification No. 176 (dated 24 April 2014) from the Prime Minister on a draft of the Law on Local Government Organization insisted that:

Districts and wards should not have People’s Councils. Not having People’s Councils at these administrative levels does not mean giving up the role of people’s representation or the supervision of People’s Committees in those localities, but transferring that task to the Metropolis People’s Committee.

For its part, the National Assembly’s view has been consistent with the directives of the Party. In the discussion on the Law on Local Government Organization on 24 November 2014, many deputies were in favour of maintaining the People’s Councils at all levels to ensure the supervisory role of citizens. This opinion was summarized succinctly by Tran Ngoc Vinh, a deputy from Hai

Phong: “If the People’s Councils were abolished, then the local government would no longer be of the people and by the people” (Tu Hoang 2014). Similarly, Tran Minh Dieu, a deputy from Quang Binh said: “To maintain the People’s Councils at all levels is to ensure that where there is power, there must be supervision by the people” (Tu Hoang 2014).

Subsequently, the report on amending the Law on Local Government Organization was discussed at the 37th session of the National Assembly Standing Committee (9 April 2015). In this report, contrary to the government’s proposals, the Legislation Committee of the National Assembly proposed in its First Option that all administrative units defined in Article 110 of the 2013 Constitution must have both People’s Council and People’s Committee. Nguyen Van Giau, the Chairman of the Economic Committee of the National Assembly, supported this proposal and said that the pilot was “laborious and inefficient”. Nguyen Thi Nuong, the Chairwoman of the Committee of Deputy Affairs, agreed (Xuan Hai 2015):

I am the leader of the delegates responsible for overseeing the pilot to abolish People’s Council at district and commune levels. I observed two emerging problems: the people in piloting and non-piloting provinces alike desired to return to the old model, having both People’s Council and People’s Committee. I’m very glad they have such an aspiration. Otherwise, the debate at the central level would be very tiresome.

The end result is that the will of the Party prevailed, despite the evidence on efficiency ground provided by the government. The power structure at the local level was kept intact, meaning that the government has failed to concentrate power in the executive branch.

#### *4.2 Institutional Fragmentation at the Provincial Level*

The effectiveness of decentralization policies depends critically on the policy and institutional environment in which they are designed and

implemented. In Vietnam, the rate (not the quality) of GDP growth is used by the central government as virtually the sole measure of the success of the provincial government's performance. It follows that each province will seek to maximize its rate of GDP growth, even at the cost of other provinces. One of the simplest ways to achieve GDP growth is by trying to get a bigger share of the expenditure budget as reflected in the spending overruns of local governments, which amounted to 54 per cent in the period 2005–2013 (Figure 2).

However, since provinces compete with each other for resources and growth, their investments have often been uncoordinated, resulting in much duplication and inefficiency. Indeed, competition has become so fierce that each province only cares about the economic activities within its territory, and ignores spillover effects or aggregate impacts. As a result, the administrative boundaries between provinces have virtually become their economic borders, and the national economy has been

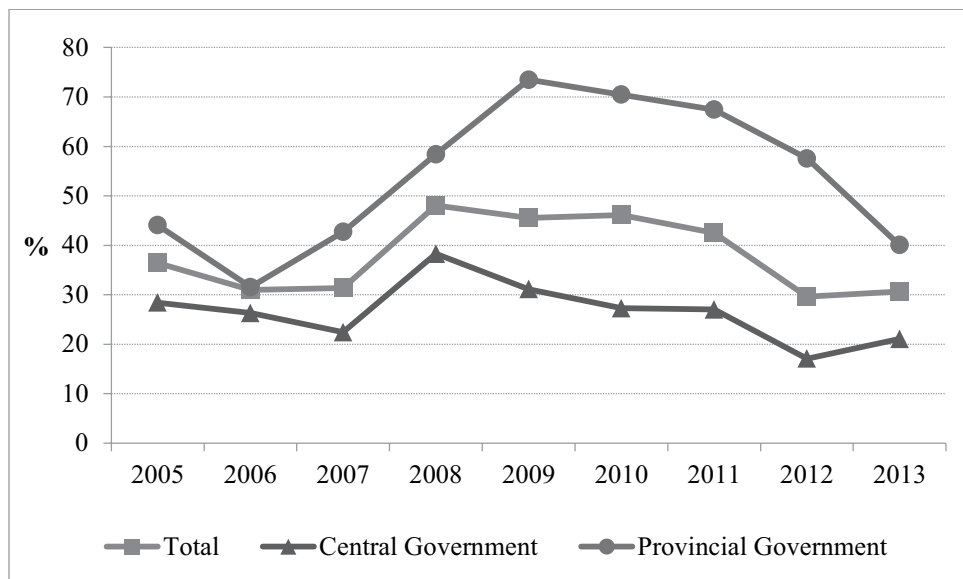
divided into sixty-three smaller and inefficient ones.

As already mentioned, the number of provinces in Vietnam proliferated between 1989 and 1997. Their large number reduces the average size of provinces, meaning that they are not able to take advantage of economies of scale and efficiently solve problems as a result of externalities (Xu 2011). In addition, their small size and large number may indeed lead to unhealthy competition between provinces.

In some respects, such as improving the business environment or promoting the private sector development, competition among provinces is healthy and has led to better performance as seen in various Provincial Competitiveness Index reports. However, in other respects, especially related to contesting for resources or getting favours from the centre, the outcome may be very negative.

In recent years, there have been movements in developing deep seaports, coastal economic zones,

FIGURE 2  
Percentage of Budget Overruns during 2005–2013 (%)



SOURCE: Author's calculation from Ministry of Finance data.

and industrial zones in many provinces because of provincial political decisions. Moreover, the decision is now much easier since according to the current Land Law, only a single decision issued by the chairman of the People's Committee of a province is needed to convert a large area of agricultural land to industrial or commercial land.<sup>4</sup> As a result, public investment at the provincial level is diffused and often redundant. For example, Vietnam currently has twenty-six airports, most of them under capacity.<sup>5</sup> The country also has more than fifty major seaports along its coast, while about 97 per cent of the cargo goes through seaports around Ho Chi Minh City and Hai Phong.

Although it is clear that decentralization plays a role and provincial governments are partly responsible for duplicate, redundant and inefficient investments, the lack of central government supervision and discipline — together with the low quality of planning — are certainly important causes. Arguably, with regards to the inefficiency of the biggest and most important infrastructure investment — airports, deep seaports, coastal economic zones, highways, and electricity — the central government, rather than provincial government, is to be blamed since the key functions have not been decentralized at all (Table 2).

## 5. Assessment of Decentralization Outcomes

The outcomes of Vietnam's decentralization process are mixed. Decentralization, particularly fiscal decentralization and, to a lesser extent, administrative decentralization, has complemented the process of market transition, thereby unleashing the private sector's enormous latent energy. The development of the private sector helps promote reform experiments and improves the business climate at the provincial level (Malesky 2009; Schmitz et al. 2015). Arguably, these are the most successful aspects of decentralization in Vietnam.

An important expectation of decentralization is to help enhance the quality of public service delivery and poverty reduction. So far, however, there has been little analysis on the impact of decentralization on these outcomes. Limited available evidence suggests that there has not been

much improvement in both public service delivery and poverty reduction. With respect to provision of public services, the Provincial Governance and Public Administration Performance Index (PAPI) data show that during the period 2011–15, the provision of public services (primary education, healthcare, basic infrastructure, and law and order) has improved slightly, while administrative procedures (document certification, construction permits, land-use rights, other personal procedures) have not improved at all.

With respect to poverty reduction, there has been evidence that while fiscal decentralization may contribute to poverty reduction outcomes, it is not necessarily pro-poor (Bjornestad 2009). The reason is that, whereas equalizing fiscal transfers do work for the poor, the pro-poor policy itself has not been well targeted. Nguyen (2008) found that an increase in sub-provincial share of provincial expenditures is associated with a considerable decrease in average monthly income of the lowest-quintile population. This implies that greater fiscal decentralization from provincial to sub-provincial levels does not necessarily lead to more efficient pro-poor resource allocations.

As discussed earlier, although the government has long recognized the limitations of decentralization, there has not been much improvement in its effectiveness. The rest of this section will discuss major shortcomings in the design and implementation of Vietnam's decentralization policy.

### *5.1 Decentralization Has Not Been Accompanied by Necessary Preconditions*

The theory and practice of decentralization generally assume that local, rather than central government — thanks to their proximity to the people — has better information on their needs and desires, and understands more about local conditions. Accordingly, local governments are able to respond more quickly and efficiently to the people's needs and make relevant decisions that have direct impact on their welfare. It follows that handing over power and responsibility from the central to local government, and thus, making

TABLE 2  
Functional Authority of Central vs. Local Government in Major Public Investments

|                | <i>Deep<br/>Seaports</i> | <i>Airports</i> | <i>Economic<br/>Zones</i> | <i>Highways</i> | <i>Electricity</i> |
|----------------|--------------------------|-----------------|---------------------------|-----------------|--------------------|
| Planning       | CG                       | CG              | CG                        | CG              | CG                 |
| Appraisal      | CG                       | CG              | CG                        | CG              | CG                 |
| Approval       | CG                       | CG              | CG                        | CG              | CG                 |
| Financing      | CG                       | CG              | CG/PG                     | CG              | CG                 |
| Implementation | CG                       | CG              | CG/PG                     | CG              | CG                 |
| Supervision    | CG/PG                    | CG/PG           | CG/PG                     | CG/PG           | CG/PG              |
| Evaluation     | CG                       | CG              | CG/PG                     | CG              | CG                 |
| Auditing       | CG                       | CG              | CG                        | CG              | CG                 |

NOTE: CG = Central Government, PG = Provincial Government.

the government closer to the people, will enhance the performance and responsiveness of the public sector.

These theories are, however, implicitly based on some preconditions, the most important of which are:<sup>6</sup>

- *Transparency*: The local community has access to full, timely, and accurate information on public decisions. For example, when the local government provides a public good or service, people are informed about the viable policy options, including their costs and benefits. Transparent information helps ensure the meaningful provision of public goods and facilitates the people's effective supervision over local government activities.
- *Voice*: There are effective mechanisms by which the local community can convey their needs and priorities to the government. This, combined with transparency and accountability, will encourage the people to actively engage in the process of making and implementing policies to protect their benefits as well as the benefits of the community.
- *Accountability*: The local government is supposed to have two-way accountability —

upward accountability towards the central government where the responsibility and power are transferred from, and downward accountability with respect to the communities which are directly affected by decentralization. For instance, the local government should comply with policies issued by the central government and be accountable to local communities for its service delivery. If the mechanisms by which the two-way accountability is carried out are lacking, bringing the government closer to the people will not necessarily serve them better while diminishing central government control.

- *Resources*: Even if information is transparent, people have a voice, and the local government is responsive, the people's needs cannot be met without sufficient resources. In other words, if increases in power and responsibility are not followed by money and other resources, decentralization will be severely handicapped.<sup>7</sup>

These preconditions are necessary (but nevertheless not sufficient) for successful decentralization. They are theoretically affected by, and to a certain extent result from, the greater institutional environment. Thus, successful decentralization requires an adjustment in the institutional and governance

environment such that they move in the same direction and facilitate decentralization. However, institutions are usually persistent, and hence, in many cases, not only hardly help decentralization, but actively hinder it.

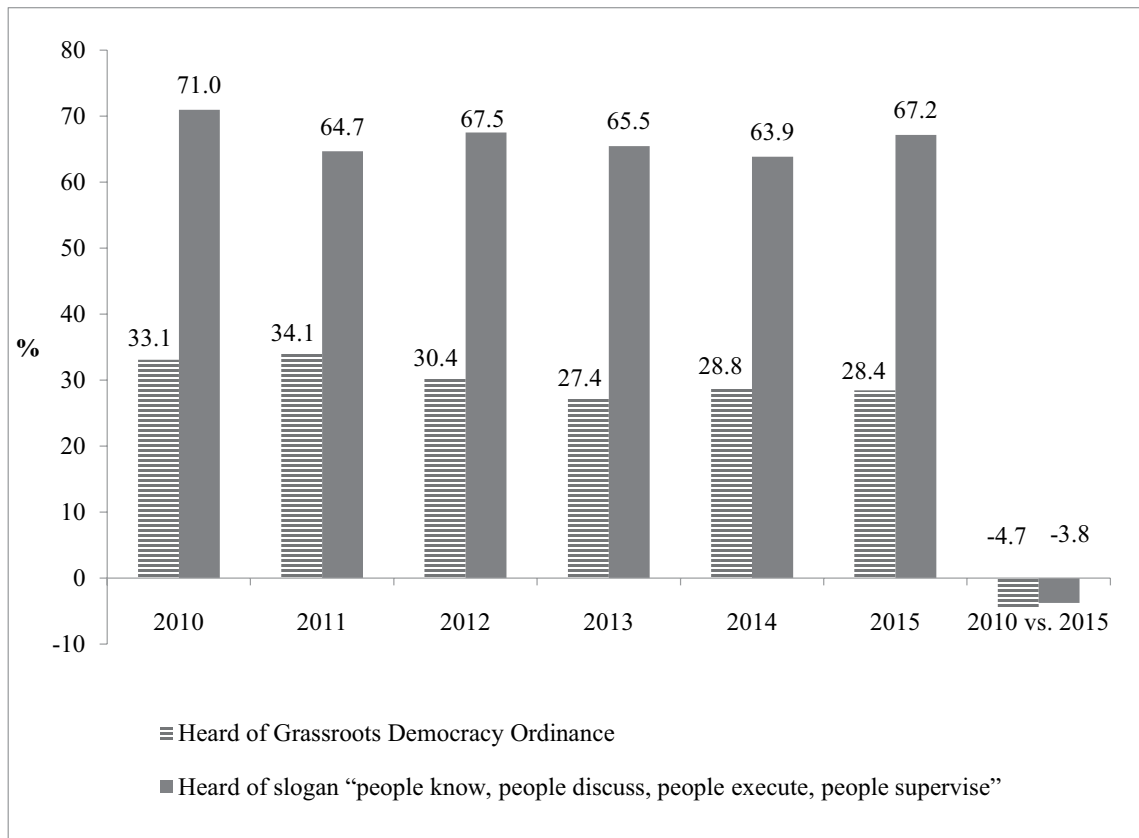
Ideally, to assess these necessary preconditions for efficient and effective decentralization, we need to compare the pre- and post-decentralization data. Historical data, however, is not available and we have to limit ourselves to the use of current data.

- *Non-transparent information.* According to International Budget Partnership, the budget

transparency index of Vietnam increased from 2/100 in 2006 to 18/100 in 2015. Although this is a significant improvement, the government only provides the public with scant budget information. Moreover, the current nested budget system leads to overlaps and confusion (World Bank 2014).

Data from PAPI<sup>8</sup> also reveal a low level of information transparency. For example, from 2010 to 2015, among thousands of interviewees, less than a third had ever heard about the Grassroots Democracy Ordinance at the commune level, although it was issued in early 2007 (Figure 3). Besides, a third of interviewees had not ever heard the Party’s most popular slogan “People

FIGURE 3  
Awareness of Grassroots Democracy



SOURCE: PAPI, 2010 to 2015

know, people discuss, people do, people verify”, although it has been constantly repeated from the Sixth Party Congress up to now. Worse still, the awareness of grassroots democracy has been declining between 2010 and 2015.

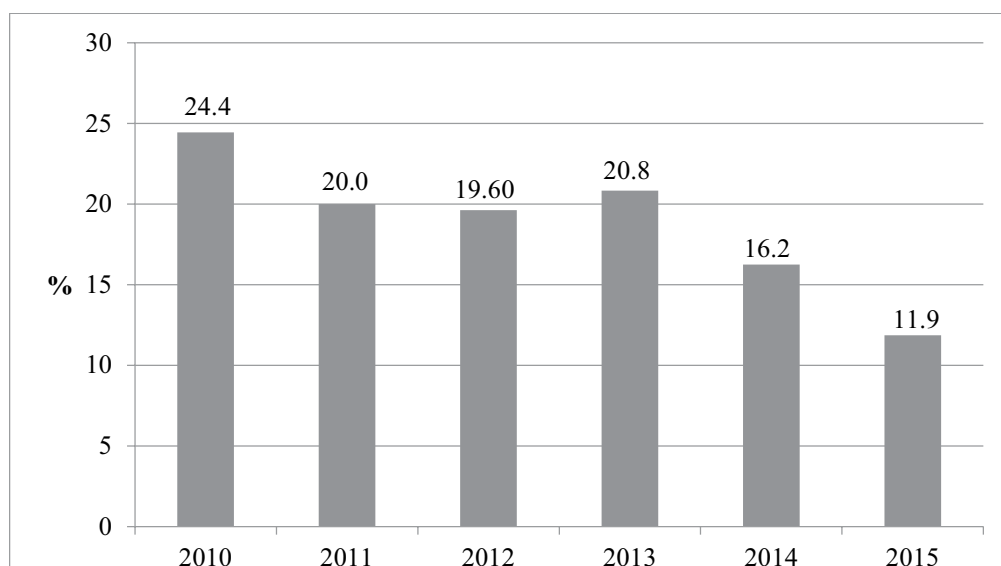
Similarly, PAPI indicates that only about 20 per cent of interviewees have ever known about the land-use plan in their communes, despite the fact that land is such an important asset.<sup>9</sup> Far from improving, this percentage had been significantly decreasing from 24.4 per cent in 2010 to 11.9 per cent in 2015 (Figure 4).

Besides residents, firms face difficulty in getting access to policy information (Table 3). Yet again, the situation has not improved in recent years. According to the Provincial Competitiveness Index (PCI) by the Vietnam Chamber of Commerce and Industry (VCCI) and Vietnam Competitiveness Initiatives (VNCI), most firms contend that it is necessary to have “relationships” to get access to provincial documents. This figure increased from 73.7 per cent in 2005 to 75.7 per cent in 2015

(Table 3). The predictability of law enforcement was also very low and decreased from 17.2 per cent in 2005 to only 7.7 per cent in 2015. Dealing with tax is increasingly burdensome as evidenced by the fact that while in 2010, about 41.1 per cent of businesses interviewed thought that negotiation with tax authorities was an essential part of doing business, in 2015 this ratio was 52.8 per cent.

- *Low accountability.*<sup>10</sup> As will be seen later, although Vietnam has experienced strong expenditure decentralization, provincial governments have very little revenue autonomy. In a fiscal environment that features low level of both transparency and autonomy, one can hardly expect good accountability. As for other dimensions of decentralization, as far as we know, there is no truly systematic and reliable research on the accountability of the decentralized bodies. Hence, this section uses a few case studies to illustrate the perception that both upward and downward accountability in Vietnam is low.

FIGURE 4  
Percentage of Interviewees Who Are Aware of Land-use Plans in Their Communes (%)



SOURCE: PAPI, 2010 to 2015.

TABLE 3  
Policy Transparency of Provincial Governments

|      | <i>“Relationship” is necessary to get provincial documents (%) (important or very important)</i> | <i>Predictability in provincial regulation enforcement (%) (always or frequently)</i> | <i>Negotiations with tax authority are an essential part of doing business (%)</i> |
|------|--|---|--|
| 2005 | 73.7   | 17.2  | 76.6   |
| 2010 | 76.4   | 10.2  | 41.1   |
| 2015 | 75.7   | 7.7   | 52.8   |

SOURCE: VCCI and VNCI

The first case relates to the serious issue of land claims by residents. For many years, complaints about conflicting land claims account for about 70–90 per cent of total complaints received by the Ministry of Natural Resources and Environment (MONRE). The total number of complaints related to land soared from more than 4,000 in 2004 (i.e., right after the revised Land Law came into effect) to about 12,000 in 2007 (World Bank Vietnam 2009).<sup>11</sup> Obviously, the decentralization policy adopted under this law does not ensure the accountability of local governments, resulting in a sharp increase in the number of complaints.

The second case is the “fence-breaking” movement, which provided extra-legal incentives for FDI projects from 2001 to 2005 in the context of the accelerated decentralization of FDI management (see Vu Thanh Tu Anh, Le Viet Thai and Vo Tat Thang 2007). The remarkably widespread nature of the violations — the “investment incentive fence-breaking” — has encouraged competition among provinces in attracting FDI, thereby creating a serious clash between the central and local governments.

In responding to this situation, the Prime Minister signed Decision No. 1387 on 29 December 2005 ordering an immediate suspension of extra-legal regulations on investment incentives issued by thirty-two provincial governments. Many ministries, including the MPI, MOF, MONRE, Ministry of Justice (MOJ), Ministry of Trade (MOT), and the Office of the Government (OOG)

were involved in the issuance of this Decision. The Decision ordered the People’s Committees of all sixty-four provinces to then submit a report detailing all violations of investment incentive regulations. The thirty-two fence-breaking provinces were furthermore ordered to report on measures they have taken to correct violations.

Although the deadline for submitting the reports was 1 March 2006, by 14 March 2006, only fourteen provinces had submitted reports, and only six of these provinces acknowledged violations. The central government then, once again, ordered the remaining fifty provinces to submit the required reports no later than 15 April 2006. By 2 August 2006, twenty-two provinces had yet to file reports. Among the forty-two provinces that have submitted reports, some reported perfunctorily about corrective measures without even including a list of violations as required by the central government. This example shows that the level of compliance of local governments to the central government’s decision — upward accountability — is very limited.

- *Resources of most provinces are very limited.* Having more resources is a prerequisite to carry out additional decentralized tasks. At first glance, provincial governments seem to have larger budget share over the last ten years. In particular, the share of the provinces in total revenue increased from 25 per cent in 2000 to 38 per cent in 2013, while their share in total expenditure increased

from 45 per cent to 54 per cent during the same period (Figure 5).

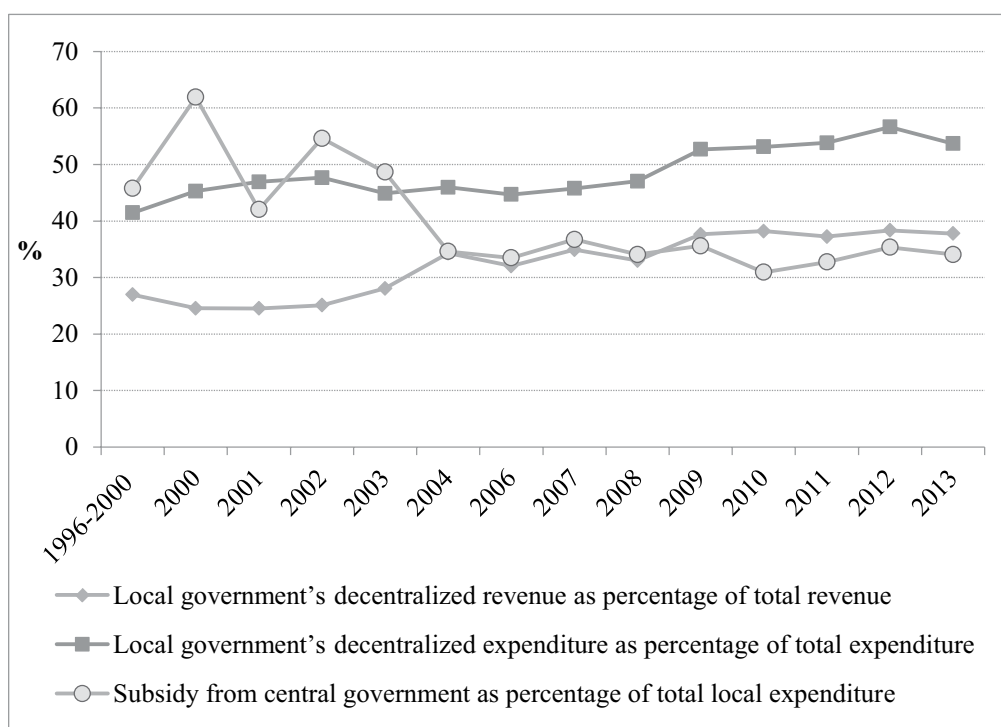
However, a closer look at the picture of revenue and spending reveals some important problems. Firstly, the ratio of local revenue that recently increased was not a result of fundamental changes in the fiscal structure towards a larger revenue share for local governments. Rather, it came from an increase in one-off revenue sources, particularly revenue from land, or more precisely, from the tax on the transfers of land-use rights.

Secondly, the share of local revenue in the total national budget is still far lower than the ratio of local spending. This means that a large part of local spending is subjected to transfers from the centre and, hence, increases the dependence of local governments on the centre. This is especially

true for the more than fifty provinces which currently receive transfers.

Thirdly, while the share of local spending has increased, a large part of this increase is regulated by common cost norms, which restrict the flexibility and autonomy of the local government. Once again, this is particularly true for the poorer provinces that already have little or no fiscal autonomy. For example, the ratios of current expenditure relative to the total revenue are quite different across provinces: In 2012, when the most recent data is available, the lowest ratio is 10.5 per cent for Ho Chi Minh City and the highest is 258 per cent for Ha Giang. Obviously, with such a high ratio of current expenditure, the total revenue of Ha Giang province can finance less than 40 per cent of its current expenditure,

FIGURE 5  
Local Revenue, Expenditure, and Transfers from the Central Government



SOURCE: Author's calculation from Ministry of Finance data.



leading to chronic and large budget deficits, and consequently, the province has neither fiscal space nor autonomy.

### 5.2 Weak Supervision and Coordination Mechanisms

The implementation of decentralization measures requires the participation and collaboration of many different government organizations at both the central and local levels. However, the lack of communication and coordination among these organizations has given rise to many difficulties for provincial governments in implementing these reforms.

The phrase “the law awaits the decree, the decree awaits the circular, and the circular awaits the ministries ...” is commonly cited in Vietnam to refer to the situation in which the implementation of a law is postponed until guidelines have been issued by various ministries.<sup>12</sup> Typically, many government agencies are involved in drafting laws and preparing the guiding sub-law documents. Moreover, the related parties may understand and interpret the law differently, making it very difficult and time-consuming to reach a consensus or, at least, a consistency among different sub-law documents prepared by those parties. One example of the inconsistency between different regulations is the land assignment procedure that investors have to follow to obtain a piece of land. The procedure is circular: (i) in order to be assigned a piece of land for their project, the investment project first needs to be approved; (ii) to be approved, the 1/500 surface plan of the project needs to be ratified by an authoritative agency; but (iii) land assignment is the prerequisite for this plan to be ratified.

All these limitations have been acknowledged in the government’s resolution for decentralization (Resolution 08), but have remained unresolved. As discussed, the relationship between provinces has been competitive rather than cooperative. There exist some regional coordination mechanisms, e.g., via Regional Steering Committees, but these committees operate on a part-time or secondment basis and meet only once or twice

a year. Furthermore, the human, financial, and organizational resources of the Regional Steering Committees are very limited. All of these factors lead to a loose coordination among provinces in the same region.

In terms of supervision, a mechanism that is increasingly playing an important role is via the People’s Councils, which are the elected representative agencies at the local levels. Up to now, however, the effectiveness and efficiency of the People’s Councils at all levels are still limited. There are both technical and institutional reasons. Technically, the time, budget, and other resources available for supervision are very limited, while information and data are insufficient; thus, elected representatives are unlikely to closely supervise the People’s Committee activities. Institutionally, the People’s Council members who are specialized in and fully devoted to supervision tasks account for a small percentage (20–30 per cent depending on each locality). The majority of representatives are working on a part-time basis, principally in addition to their positions as public servants. Besides, over 90 per cent of representatives are Communist Party members. This raises a question: for whom do they represent — residents, the government, the Party, or all of them?

## 6. Concluding Remarks and Prospects for Continued Decentralization in Vietnam

After a quarter of century of decentralization, Vietnam finds itself at a crossroad. The essence of the successful reforms since *Doi Moi* is the withdrawal of the state and the emergence of the market. Within the state hierarchy, decentralization has provided provincial governments with more policy space and autonomy in pursuing their development goals. In particular, fiscal decentralization has allowed the richer provincial governments to enjoy more flexibility in mobilizing and allocating their resources. In addition, decentralization in FDI management gives provincial governments almost full autonomy in granting FDI licences.

However, after more than a decade of accelerated decentralization, the results are far

below the government's own stated expectations. For the central government, decentralization has undermined the uniformity of national policies and encouraged unhealthy competition between local governments. For the local government, decentralization has not always been accompanied by necessary institutional and financial resources for the effective implementation of decentralization. Moreover, there has been a lack of synchronization between central ministries and a lack of consistency between different dimensions of decentralization. As a result, provincial governments, particularly the poorer ones, are still dependent on the central government for both policy instructions and financial subsidies. Finally, for the people and businesses — those ultimately affected by the decentralization policy — participation in major policy-making processes is generally still out of reach.

The limitations of the decentralization process stem from several causes. The reality is that Vietnam still lacks even the most basic prerequisites for successful decentralization. First, there is a lack of political will. A main objective of the CPV is to preserve the centralized and unitary nature of the political structure and state management as revealed through the principle of “top-down decentralization” and the emphasis on the leading role of the state sector, despite its evident weaknesses.

Second, the institutional and governance environment of Vietnam is rather weak. Information is not transparent, the voices of the people, businesses, and civil society are choked, and government accountability is limited. As a result, the expectation that making the government closer to the people by means of decentralization will enhance the efficiency and of the public sector has not been met.

Third, decentralization in Vietnam has been unevenly deployed. While fiscal and administrative decentralization have advanced more rapidly, political decentralization has stalled. Another concern is that the capacity of the government is weak and that, the lower the level of government, the weaker its capacity. Moreover, decentralization has not always been

accompanied by a sufficient increase in capacities and resources, causing serious overload for the local government. In terms of financial resources, under the current budget-sharing formula, local governments neither have incentives to nurture their own sources of revenue nor improve the efficiency of expenditure. The one-size-fits-all decentralization policy only exacerbates the problem further since it puts additional constraints on provincial governments in terms of their flexibility in mobilizing resources and developing creative policies, which in turn have rendered decentralization inefficient.

Fourth, from the perspective of state management, the implementation of decentralization requires the participation and collaboration of various ministries and provinces. However, due to the lack of communication, coordination, and collaboration at all levels, decentralization has in reality resulted in a fragmentation in the state management system (i.e., among ministries) as well as a race to the bottom among provinces. With regards to the supervision of decentralization policy, although the role of provincial People's Councils has been improved, their effectiveness and efficiency are still limited by both technical and institutional factors.

Finally, the average size of provinces in Vietnam is too small to take advantage of economies of scale and to internalize inter-provincial externalities (Vu Thanh Tu Anh 2015). Moreover, the large number of provinces has led to unhealthy competition rather than cooperation among them, which has increased the costs and undermined the benefits of decentralization.

Interestingly, although decentralization outcomes have fallen short of expectations, the process has accelerated in the last decade. Politically, this is due to the decline in power of the CPV relative to the executive branch. The Prime Minister has been very skilful in using decentralization as a means to rally provincial support. When the representation and voice of provinces in the Central Committee is getting stronger as is currently the case, provinces become an even more meaningful source of political support for the Prime Minister when it comes to the Party's most important decisions.

Equally interesting, despite the deep macroeconomic turbulence lasting from 2007 to 2012, and contrary to theoretical predictions of Dickovick (2011), recentralization has not yet happened. Institutionally, this can be explained by the decline of institutional cohesion or even fragmentation in Vietnam (Vaskavul 2002; Pincus 2015). This fragmentation, reinforced by decentralization, has constrained the position of the centre in the power balance vis-à-vis the local. Only a strong party leadership can reverse this trend. But this, as already discussed, does not exist in Vietnam at present.

In the current context of Vietnam's political economy, the first priority in designing decentralization policy is to overcome institutional fragmentations and prepare the prerequisites for effective and efficient decentralization. This mission is only possible if the government adopts a more comprehensive concept of decentralization (rather than focusing only on decentralization of economic management functions), and accepts a fundamental change in the role of the state. The future of Vietnam's decentralization process depends critically on the political will to make these difficult decisions.

## NOTES

I am grateful to Le Dang Doanh and Truong Dinh Tuyen for their insightful comments. All errors are mine.

1. Fragmentation refers to institutional fragmentation, i.e., there have been forces both at the central and provincial levels that break provinces apart.
2. These areas include oil and gas exploration, production electricity, construction of seaports, airports, highways, railways, cement, metallurgy, production lines and production of wine, beer and cigarettes.
3. Regarding the fiscal decentralization, for example, see Decrees 123/2004/ND-CP and 124/2004/ND-CP on some special schemes of budget finance for Hanoi and Ho Chi Minh City.
4. According to the statistics of the Department of Agricultural and Rural Development, during 2000–10, on average, there were 73,300 hectares of agricultural land taken back and transferred to industrial land, urban, and infrastructure.
5. Although Vietnam has eight international airports, only airports in Hanoi, Da Nang, and Ho Chi Minh City really receive international flights.
6. This list is by no means exhaustive, but most relevant to Vietnam.
7. It also implies that, at least in theory, localities with different resources and capabilities should not be decentralized with uniform powers and responsibilities.
8. PAPI comprises six component indices: (i) residents' participation at local levels; (ii) transparency; (iii) vertical accountability; (iv) control of corruption; (v) public administrative procedures; and (vi) public services delivery. PAPI was rolled out in thirty provinces for the first time in 2010, and then expanded to all sixty-three provinces in 2011.
9. Data from Vietnam Development Report also reflect this. Among those who are concerned, more than a half have no information on the commune budgets and plans. Furthermore, even if they were informed, that information would not be sufficient to meet their demand.
10. We can see the low accountability in authorized issues related to SOEs (such as Vinashin) and management of public investment (particularly for PMU-18, a corruption case that beleaguered the transport ministry project bureau). See more in *Báo cáo tóm tắt của Diễn đàn Kinh tế mùa Thu* [Summary Report of the Committee of Economic Affairs' Spring Forum] (2012).
11. Report by the National Assembly's Standing Committee in 2012 revealed that during the period 2003–10, the government's administrative bodies had received 1,219,624 complaints, in which 851,176 (or 70 per cent) were related to land.
12. For instance, the Land Law and Construction Law were both passed on 26 November 2003 but it took quite a long time for the implementation decrees to be issued (eleven months for the Land Law and fifteen months for the Construction Law).

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