Changes in the political economy of Vietnam and their impacts on the built environment of Hanoi

Nguyen Quang
Asian Institute of Technology, Bangkok, Thailand

Hans Detlef Kammeier*
648/1 Senanikom, Bangkok 10900, Thailand

The most important changes in the political economy of Vietnam began with the Doi Moi (Renovation) reforms of 1986. The changes in the national economic system have been reflected almost immediately in urban development patterns, where the diversification of capital investment (especially the influx of foreign direct investment), the creation of a property market (dealing with land use rights), and the commercialization of the housing sector have created significant changes, while the planning system has not been sufficiently adapted to the new political reality. This article shows how the changes in the national policy framework have transformed the urban development patterns of Hanoi. Industrial development in the rural fringe areas, the new dynamics of the private housing sector, and the commercial redevelopment of the inner city are described and quantified. While the formerly rigid command-and-control system of urban management has already been simplified to some extent, inappropriate bureaucratic attitudes persist. This has resulted in a lack of authority, communication, and competency, while a thriving informal sector of urban development has emerged. In conclusion, there is an urgent need for building new forms of public involvement to ensure social equity goals and to avoid market distortions. The policy reforms at the national level need to be mirrored by a more capable urban management system.

Keywords: economic reform, urban development, housing, land market, urban management

Conceptual background
Changes in the socioeconomic and political environment in the former socialist countries have produced significant impacts on the built environment. The introduction of market mechanisms, which are replacing central planning in the allocation of economic resources, has especially led to considerable spatial transformation in the cities. One among many examples of such rapid changes in eastern Europe is the city of Lodz (Poland) where manufacturing has almost disappeared from the central city while the ensuing redundant space has been filled by wholesaling, retailing, and offices to meet the rising consumer demand (Riley, 1997); similar patterns of transformation have been experienced in Budapest (Kovacs, 1994). In China, the changing political economy led to the emergence of new urban elements such as new business districts, gentrified residential communities, urban sprawl, large peripheral residential communities and sub-centers in the metropolitan area of Guangzhou (Wu, 1998). In the case of Beijing, the transition toward a market system for the allocation of urban space has resulted in spatial polarization of social groups within the city and the conversion of agricultural land at the fringe (Leaf, 1995). Very recently, Leaf (2002) has also discussed the links between globalization and peri-urban changes in both China and Vietnam, contributing to a better understanding of the urbanization processes in Vietnam that
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have been less frequently covered than those in China.

Describing the results of market-driven economic competition for urban space, market-based economic theory, as well as human ecological theory, maintain that each type of land user ends up with the location that maximizes efficiency and satisfaction. Both approaches have been fundamentally challenged by the political economy theory, which explains the urban process through the “deep structure” governed by laws of inner transformation and production (Harvey, 1982). The political economy approach has added two missing variables to urban change analysis: the influence of powerful political interests (such as developers versus organized interest groups) and the importance of land use conflicts shaped by differences between places (such as urban versus rural areas).

It is difficult to capture a clear understanding on how specific socioeconomic processes produce the correspondent spatial structure. Based on the narrow focus of Harvey’s theory on capital circuits, Ball (1986a, 1986b) put forward the concept of “structure of building provision”, a political economy concept explaining the process in which different social agents are interacting in the provision of the built environment. Applying this concept, Chinese researchers have empirically analyzed the rapid transformation of the urban spatial structure in Chinese cities (Wu, 1998; Wu and Yeh, 1999).

The political economy approach has relevant significance within the Vietnamese context. Since the introduction of Doi Moi (Renovation) in Vietnam, the socioeconomic and the physical systems, particularly in large cities, have experienced tremendous changes during a very short period. Several international and national researchers have investigated the urban effects caused by the national socioeconomic reform. However, most of these research studies concentrate on the investigation of one specific sector, such as housing, urban land system, townscape and heritage conservation (Luan et al, 2000; Gillespie, 1998; Logan, 1994; 1995; Thong, 1997), but only few have referred to general urban structure as well as city management (Forbes and Le, 1996). Thus, the understanding of the local spatial manifestation of national economic restructuring is still limited. More specifically, while there are several analyses of the political structure and its changes, and also many descriptions of the most visible urban changes, the focus of this paper is on the cause–effect linkages between changes in the political economy and their manifestations in the city.

The paper attempts to summarize the changes in the political economy resulting from Doi Moi and their impacts on the built environment of Hanoi City. The underlying research study3 aims to examine empirically how mixed market and central planning forces have been shaping the built environment of Hanoi, as a pertinent example of a city in a transitional economy. This is difficult, especially because even experienced researchers of urbanization and urban planning in Vietnam face great problems in collecting the relevant data, although they do exist, because data tend to be kept under lock and key. For this reason, even an “insider” like Que (2000) was not able to go very far in explaining how the changing ideological basis of urban planning has been reflected by the development of the city. While the city had been governed by a socialist regime for four decades, during the past fifteen years (since the beginning of Doi Moi) market forces have begun to overshadow the influence of central planning as a city-shaping force, resulting in many clearly visible manifestations of the underlying structural changes.

Changes in the political economy of Vietnam

During the 1954–1985 period, (North) Vietnam had adopted and consolidated its own specific version of a centrally planned economy following the Soviet model. The economic essence of the centrally controlled planning model is to use a large central bureaucracy mechanism to allocate resources directly into what are seen as priority tasks of national development, i.e., rapid industrialization, with a commitment to eradicate capitalist economic forms and to set up a system based on state-owned enterprises and collectives. The central planning model applied in the North and extended later to the whole country after reunification in 1975 led to considerable waste. Since resources were allocated in accordance to plan directives and instructions instead of market demand, the state production was run inefficiently; the situation has been described as an extreme market failure or a classic characteristic of shortage economy (Fforde and Wylder, 1988, p. 29).

Since 1986, in response to macro-economic instability and stagnation, Vietnam has undertaken the Doi Moi policy, gradually joining the world of market economics. The country is moving rapidly from a command economy with centralized planning to a more decentralized transitional economy, where the allocation of resources is determined by a mix of market mechanisms and central state control. The individual household economy is recognized as the basic unit of production in the free market, including the return of land to family farmers and the provision of secure land use rights (rather than outright land title deeds) to the users of urban land. Both marketization and decentralization have boosted the foreign and private development in the national economy. Over the ten years from 1986 to 1995, private enterprises in industry rose by a factor of eleven, from 567 (1986) to 959 (1991) and 6311 (1995). Regarding foreign investment, the total registered capital amounts to over

3This article is largely based on Nguyen Quang’s Ph. D. dissertation analyzing the urban changes in Hanoi (complete draft, July, 2002). Owing to the limited space available, this journal paper is highly selective of the much broader scope of the underlying research.
US$31 billion. According to state statistics, the foreign investment flows have increased from virtually zero to about seven percent of GDP in 1997 (GSO, 2000), and further up since then.

At present, the country stands at an important strategic crossroads, moving from state-controlled to market economy. The present planning culture still shows the characteristics of a state-controlled economy in which (i) public investments are still the driving and facilitating force behind development; (ii) government intervention has not always occurred in the most appropriate manner to support market efficiency and social equity; and (iii) community or private-sector interests are supposed to be represented through the formal political system. It is true that in several respects there have been significant policy changes that have shaped the city, but the reform of the planning system has not kept pace. It is therefore in need of real reform.

Four significant factors are considered in this review of change processes, i.e., the growing diversification of capital investment; land use rights as commodity; commercialization of the housing sector; and, in contrast, the slow changes in the planning system. Other factors are being referred to more implicitly – for example, deconcentration of power to local authorities and concomitant fiscal arrangements in the wake of the 1997 Budget Reform Law (Rao, 1999).

Diversification of capital investment
Under the centrally controlled economy, the state played the dominant role in urban development investments. As all types of investment were controlled and allocated through the state administrative mechanism, the economic efficiency and effectiveness of investment and construction were low. According to official estimation, about thirty percent of investment value was wasted in state construction projects, making any returns on such investment projects impossible (MOC, 1992, p. 12).

The comprehensive economic reform has weakened the pre-1986 mechanism of state investment allocation. The availability of the free market and the proliferation of individual enterprises outside the state system have been eroding the state’s dominance, as different sources of investment were mobilized for urban development. The Government has issued different documents (i.e., Decree No. 385 HDBT, Decrees 42 CP, 43 CP and 52 CP) to regulate the investment procedures from multiple sources. These documents (that have been updated continuously) set out the principles for capital investment planning, clarified responsibilities among relevant agencies and investors, different levels of managing capital investments, and removed the discretion of investment decision making and licensing. The state also adopted a more decentralized policy to diversify expenditure to localities and giving them a degree of autonomy (although there is no separate local government proper). In 1996, the Budget Law of Vietnam was promulgated as the enabling framework for localities to increase their own revenue base, replacing their previous heavy reliance on grant-in-aid and transfer payments from the central government. For example, provincial governments are now allowed to set the rates and collect fees (or user charges) for public services that they provide.

As a result of the decentralization policy, the non-state investment sources increased rapidly. In 1985, the year before the economic reform started, the non-state domestic funds accounted only for 2 percent of GDP or 15.5 percent of the total investment whereas state investment dominated the total investment with 10.9 percent of GDP or 84.5 percent of total investment (World Bank, 1990, p. 16). By 1997, the non-state sector (including local and foreign sources) accounted for 64 percent while the state-owned sector was reduced to only 36 percent of total investment. The economic reform also stimulated the growth of total investment, growing from 12.9 percent (in 1985) to 15.22 percent (in 1991) and 27.5 percent of GDP in 1997 (GSO, 2000).

Land use rights as a commodity
Before the August 1945 Revolution, private ownership of land was normal practice in Vietnam. Since the socialist reform of private production and trade in 1958–1960, private properties and land were gradually converted to state ownership. During the 1960–1971 period, almost all the land privately owned by peasants was progressively brought under collective ownership and allocated to cooperative farming units and state enterprises despite the theoretical recognition of individual property ownership by the 1960 Constitution.

After the reunification, the 1980 Constitution stipulated that the state had the land ownership for the whole country. Thus, no private rights in land were allowed, not even in theory. As all land belonged to the state, any private land transaction was considered unconstitutional and unlawful. Land allocation was done through the central administrative mechanism rather than the market. Land users, mostly the state organizations, did not have to pay for the land allocated (except for small formal amounts as land-use fees). Urban land practically served as a free good. All premises were developed by the state-owned companies under the direction of the authorities, so no property market was officially permitted. The selection of development sites was determined between

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3Dennis A. Rondinelli in his comment on Govinda M. Rao’s article points out that his reference to “intergovernmental” fiscal arrangements is misleading as Vietnam continues to be a unitary state. So even the capital city does not have a “local government” although its local authority clearly has considerable powers.

4Decentralization is defined here as both deconcentration of central government powers to lower levels and market liberalization.
state land users and planners based on master plans, which in turn were formulated under central economic decisions. This system of free and administrative allocation of urban land was economically irrational and tended to be inefficient since state organizations received more land than was actually needed, and they had no incentives to use the land efficiently. However, it was an integral part of the overall economic strategy. According to Marxist theory, land was not a commodity and thus should be owned by the state and allocated freely in order to speed up the industrialization process.

Since the introduction of Doi Moi policies, the land and housing system has been reformed with an orientation to market principles. By 1988, the State enacted a land law affirming that all land is owned by the people and the State functioned as an administrator, but permitting the grant of land use rights to organizations and individuals. Under the 1988 Land Law, nevertheless, all kinds of land transaction, encroachment, or land lease were prohibited. Since 1992, the newly adopted constitution recognized that the rights to use land can be transferred to households and individuals even though it was restated that all land is owned by the State as representative of the people. Based on such principles, a new version of the Land Law was promulgated in 1993 making a significant advance toward the formulation of a legal framework for land administration, which is similar to those in the market economies but with continued state ownership of land. The new Land Law established a legal basis for land allocation and lease, securing land use rights of landholders including the rights for long-term use, transfer, inheritance, lease, mortgage, and compensation for expropriation.

The land and housing reform policy introduced since 1988 has stimulated the formation of a nascent real estate market in Vietnamese cities in which properties with attached land use rights can be transferred freely among state and private owners. Unfortunately, this market is biased heavily by the direct state intervention and remains partly informal since the necessary legal system and procedures have not been adopted to fully carry state policy through to fruition. For example, the system of land valuation and price has been fixed by the Government rather than based on market principles. Land price in the real property market is often three to four times higher than the prices provided by the Government (GDLA, 1996). Without a proper mechanism for land valuation and price, compensations for relocated settlers become complex and difficult to resolve.

The majority of land users have no legal documents yet as the administration is ill-prepared for the complex procedures involved. So by 1999, about 89 percent of urban households had not received land use certificates (Van, 1999). The land management is also constrained in many respects, and this has resulted in a spate of unauthorized land transfers and illegal construction.

Commercialization of the housing sector

Under the central planning system, the state was the sole producer and distributor of housing for most urban residents. Government staff received housing subsidies, and another part of the population enjoyed preferential treatment as the government budget was used for housing construction. Many state bureaus and enterprises used their own resources to provide housing for their employees. Although the government housing policy did not encourage the private production of housing, part of the population who were not provided apartments under the subsidized programme built their own housing. Production of housing was dominated by technical and economic considerations, so most residential construction was in the form of four- to five-storey apartment blocks in close proximity to workplaces and service facilities. The residential quarters followed the Soviet style with little comfort and monotonous appearance. Rental rates were set below the level of real cost so the state could not collect sufficient funds for repair and maintenance. Despite large state investment in housing programmes, housing supply failed to meet the demand, leading to extensive housing shortage in the city. As overcrowding grew between 1954 and 1990, the average living area per person in Hanoi declined from 6.7 sq m to 4 sq m per capita (HPC, 1997).

Since the implementation of Doi Moi, there have been many changes in housing production and distribution. The state abandoned its subsidized housing policy and created conditions to encourage people to build their own houses. The measures included private housing construction; commercialization of the building materials industry; and dramatic increases in rental prices (in some cases up to 54 times). The new policy has stimulated a self-built housing boom in the urban areas. Between 1985 and 1995, about 70 percent of new accommodation in Hanoi was constructed by the private sector. In Ho Chi Minh City, 86 percent of the houses and 93 percent of the floor space of all the housing constructed since liberation in 1975 were added in the eight years from 1986 to 1993 (Luan et al, 2000).

Many problems resulted from such a rapid and uncontrolled residential construction. The spontaneous housing boom has led to illegal occupation of land and chaos in urban development. As a result, the majority of new private houses were constructed illegally (without any type of development control) destroying the urban landscape of Vietnamese cities. In spite of this, the subsidized housing system still influences the public sector’s attitude to management, distribution, and control of housing production. The lack of regulations, the overlap of functions and responsibilities, and the existence of irregular practices beyond state control have created many institutional constraints hampering the development of a real housing market.
Limited changes in the planning system

In the old political system, which is still practiced today, urban planning was characterized by a principally top-down nature with distribution of resources for the targets defined by Party resolutions. The institutional framework for planning was part of the centrally controlled economy, with the following main planning instruments: socioeconomic planning (policy and strategy), sectoral planning, and physical planning (giving spatial orientation to the investment decisions). Investment planning (in the form of socioeconomic plans) takes a dominant position as the public sector represents the main investment sources. Within this context, urban planning is not seen as a means of addressing urban social or physical issues or problems but is rather a process of allocation of state resources to meet specified targets. The backbone of national economic development is an emphasis on rapid industrialization, particularly the development of heavy industries. Hence, it is taken for granted that urban planning should serve the purposes of socialist industrialization, production, and the welfare of the working population.

Before 1992, the planning procedures followed the Soviet model with five types of plans: economic-technical feasibility study, general plan, development plan for a first stage, detailed plan, and execution plan. Given the cost and the time for the preparation of general plans, there was practically no detailed plan in urban areas. Urban planning often focused on new residential areas, neglecting the old city core and leading to dilapidation of old settlements. As private development was not recognized in the investment planning, neither land nor detailed plans were foreseen for privately built activities. During that period, city planners played an active role in the selection of factory sites, the functional division of urban land use, and the design of residential areas. In reality, urban planning often resulted in abstract plans without implementation (MOC, 1995, p. 13).

In 1992, the government enacted Decree 91 to improve the plan implementation under the conditions of a multi-sector market economy. The previous five-stage planning style was replaced by a shorter process comprising only two types of plans (master and detailed plans). Master plans are prepared for a period of 15–20 years, with updates every five years. Detailed plans are drawn up according to the master plan and prepared at a scale of 1:500 to 1:2000 for specific areas. In the new urban planning process, market-led factors are recognized such as private land use rights, individual commercial activities along the streets, and zones for foreign capital investment. In addition, a regulatory document is attached to the land use plans to guide the construction management.

However, despite the innovations, planning and management still resemble the past model. All “planning” is viewed as a process of implementing the planned investment of state resources, and not as a means of guiding and controlling private development/investment in the public interest. There is no process or mechanism to evaluate the consequences or impact of any form of urban redevelopment. Priority setting (in the socioeconomic plans) and implementation of physical planning are separated, and, therefore, are difficult to coordinate.

There is no institution with the mandate and capacity to elaborate and enforce planning and development control frameworks for all stakeholders in the development process. As a consequence, there is little or no strategic planning orientation in the preparation of urban plans. Moreover, the “master plans” as vision statements for a distant future tend to be both unrealistic and unavailable for public inspection. Data and plans continue to be treated as secret documents while “informal” private-sector action has filled in the gaps left by the ill-equipped public-sector planning, with the local inspectors’ “informal” blessing at an informally paid price. Forbes and Le (1996) described the inadequate planning and management situation several years ago, and at present it still is less than satisfactory.

Fig. 1 summarizes the fundamental changes in the urban development processes that have occurred in the wake of the Doi Moi reforms, while the planning system has not been able to become responsive to the much more liberal economic setting.

Urban economic and physical patterns prior to Doi Moi

Historical sketch

Established as a city in AD 210, Hanoi grew from a harbor on the banks of the Red River. In 1010, the city, then named Thang Long, became the Vietnamese capital under the Emperor Ly Thai To, the founder of the Ly dynasty. At that time, the city consisted of two parts: the Royal City (Hoang Thanh) and the Commoners’ City (Kinh Thanh).

Beginning in 1873, French colonial forces invaded Hanoi because of its strategic importance for overland trade with the Chinese market and developed the city as the capital of the Indochina Union. The colonial regime added the French Quarter as an important element of townscape in Hanoi, an area with a chessboard network of wide avenues and boulevards and with Western technical infrastructure. Under French domination, Hanoi was a “consumer city” with trade as a main economic activity and industry limited to a few backward manufacturing plants.

Currently, Hanoi has a population of 2.67 million inhabitants and an annual average growth of 2.9 percent. The city is divided into seven urban districts (covering an area of only 84.1 sq km) and five suburban districts covering 834.4 sq km. Around 52 percent of the population lives in the seven urban districts (HSO, 2001), but much of the present urban expansion takes place in the suburban districts.
Hanoi under the centrally planned economy

After the end of the colonial regime, the communist government planned to transform Hanoi into the capital of socialist Vietnam that served not only as a political and cultural center but also a great industrial city. One of the primary tasks was to eradicate privately owned commerce and industry, and collective ownership in the metropolitan economic structure was rapidly achieved during the 1958–1960 period. By 1960, the agricultural output by the collective cooperation made up 67.5 percent of the total production while the state industrial sector produced about 70 percent of industrial output (HSO, 1984).

In line with the communist development theory the state allocated large national resources and foreign aid (from the socialist block) to boost the industrial sector in Hanoi. The share of the industrial sector to total social output increased rapidly from 52.8 percent in 1960 to 78 percent in 1978 but reduced to 53.8 percent in 1985 owing to the economic crisis. Despite serious damages to the city infrastructure and economy, the bombing of 1965–1972 could not stop the economic development of Hanoi. The value of fixed assets of the material production sector in the 1966–1972 period increased six times over the 1961–1965 period (HSO, 1984; 1989).
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By 1960, the private sector virtually ceased to exist, but, given the social needs arising from the wartime, the state faced difficulties in retaining its monopoly over the economy. So it had to accept the operation of a number of small individual businesses to meet the people’s demand. As a result, private sector contribution to national income increased from 6.04 percent in 1970 to 18.6 percent in 1985, i.e., just before Doi Moi (Table 1).

Considered as non-productive activities, commercial functions were not highly appreciated in a society which offered full employment, housing, health care, and education. The contribution of commercial activities to national income declined from 32.4 percent in 1960 to 20.9 percent in 1978. Since the liberation of Hanoi, the authorities reorganized the private small-scale traders and shop owners in cooperative groups and developed a network of state commercial stores for retail and food service. So the proportion of state retailing to total trade increased from 16.2 to 65.6 percent from 1956 to 1985 (HSO, 1984; 1989).

Socialist patterns of urban structure
As a result of the centrally planned economy during the more than thirty years till 1985, the urban spatial structure of Hanoi developed features similar to those of Soviet or Chinese cities. Such spatial patterns reflected the common ideology and political economy adopted by Vietnam and the other socialist countries. The socialist cities relied on models of production and social organization in which major emphasis was placed on industrial development and self-reliant forms of urban social life. Places of employment and living were encouraged to be closely connected in the form of self-contained communities within the city, providing not only employment and housing but also food, health care, education, and other basic services.

Industrial zones: The socialist patterns of Hanoi were reflected first by the linked development of a number of Soviet-type industrial zones and residential neighborhoods. Since the 1960s, industrial development has been concentrated on the fringe areas to realize the economic goal of rapid industrialization. By 1985, there were nine industrial zones constructed, with about 150 central and local state factories (JICA, 1995). Each of those zones was specialized in a particular sector of manufacturing. Unlike the Chinese industrial areas, which contained large self-sufficient residential communities, the industrial zones in Hanoi are of smaller size (the largest being 80 ha), developed independently, but with close connection to residential communities. Economic difficulties faced by Vietnam at its early stage of economic restoration as well as the American attack on Hanoi constrained the construction of large-scale industrial towns that could become bombing targets.

The industrial zones are located in the urban fringe of the old city along the main axial road and the crossing between these and the ring road (Map 1). Location criteria were, among others, good accessibility to transportation (responding to the need of resource mobilization), availability of land (minimizing the cost of resettlements when land allocation was free of charge) and pollution prevention (avoiding wind directions that would bring industrial contamination to residential areas). The strategy of industrial location at the fringe also allowed restriction of the size of Hanoi, preventing its further expansion, which was considered as too large for good management.

Residential quarters: Another dominant pattern was the development of Soviet-type residential neighborhoods or “living quarters” in the surroundings of the inner city and industrial zones to accommodate workers from the manufacturing plants and offices. Organized according to Soviet urban principles, a single living quarter contained a number of four- to five-storey collective walk-up flats that were connected in walking distance to small shops for the basic needs, kindergartens, primary schools and recreation areas.

The homogenous appearance of industrial and residential patterns in Hanoi’s urban structure was possible owing to the command-type planning in the centrally controlled economy. Main sources of investment (state budget, foreign aid, as well as state enterprises’ sources) were allocated by top-down development initiatives and canalized through state controlled investment procedures for development. By 1981, the state sector owned about 4,200,000 sq m, representing 60 percent of the total housing area of Hanoi (HPC, 1997). Urban plans were prepared under Party and state guidance (in the form of directives and resolutions) and subjected to development strategies relying on rapid industrialization and social reorganization. Land was allocated to industrial and housing development without charging land rent and according to central planning rather than market demand.

Inner city developments: Excessive land supply

| Table 1 Economic contribution to national income of Hanoi City in 1960–1985 |
|-------------------|---------|---------|---------|---------|---------|
| State sector      | 83.8    | 74.55   | 75.26   | 64.5    | 66.2    |
| Collective sector | 10.20   | 18.91   | 15.68   | 15.5    | 15.2    |
| Private sector    |         | 6.54    | 9.06    | 20.0    | 18.6    |
| Total             | 100     | 100     | 100     | 100     | 100     |

led to rapid expansion of industrial zones outside the city center, which was in sharp contrast to the limited development in the inner city. Government policy favored the development of industrial zones while it neglected commercial services. Because of the discrimination toward the “consumer city”, the tertiary sector was relatively small and there was little demand for shopping centers, offices, and hotels that might need the central sites. Commercial service was limited to a network of about 300 state and collective retailing stores located throughout the city (HSO, 1984).

There was little land redevelopment in the city center because the government could not afford the cost of relocating the residents in this densely populated area. The built up fabric of the city as a whole, which was characterized by low-rise buildings and relatively low construction density, grew slowly because the state limited migration and urban development. Within the city, there was much vacant land.
as well as water bodies because development was concentrated on industrial and residential zones. Old residential areas were neglected due to financial constraints. Land use change was difficult due to the lack of a land market and the the land user had to continue with the status quo use or what was determined by the command planning system. The absence of a formal land market led to inefficient structure of land use and inequality among land users. Subjected to insufficient development of housing and urban facilities, the old center suffered from high population density and decaying built environment.

Economic reform policies and city development patterns, 1986–2000

Multi-sector economy
The economic reform opened a completely new era for developing the non-state economic sector. Despite still being discriminated, the local private sector (including the household economy) achieved a rapid expansion. In 2000, the registered number of Hanoi’s non-state enterprises accounted for 5869 units, included among them 961 private enterprises, 4643 limited liability companies and 265 joint-stock companies. More than 90 percent of these enterprises are newly established while the rest resulted from the change of the state and collective ownership in response to the demand of the market mechanism. In the ten years up to 1995, the number of individuals involved in private commercial activities increased rapidly from about 36,000 to 81,300.

In Hanoi’s reformed economy, foreign direct investment (FDI) has been playing an increasingly important role. By December 2000, about 430 foreign funded projects have been licensed with a total investment of US $ 8515 million. FDI enterprises account for 32 percent of the total industrial production value and 33.7 percent of export value. During the period 1988–1994, FDI projects have been concentrated in the real estate development and telecommunication, but after 1994 they shifted to industrial and other sectors. FDI in hotel, office, and urban development represents nearly 60 percent of total capital investment (HSO, 1999; 2001). Douglass (2002) pointed out that 90 percent of all non-energy FDI in Vietnam is concentrated in Hanoi and Ho Chi Minh City.

There are considerable changes with regard to the city’s economic structure and development (Fig. 2). The state-owned sector still plays a dominant role in the city economy but has been reduced from 72.9 percent of GDP in 1990 to 63.1 percent in 2000. The local non-state sector has a relatively minor role, contributing 27.1 percent of the municipal GDP in 1990 and reducing to 21.5 percent in 2000. The foreign direct investment increased from zero in 1987 to 13.3 percent of the city’s GDP in 2000 (HSO, 1995; 2001).

The state capital lost its absolute dominance. Between 1990 and 1997, total mobilization of investment in Hanoi was about US $ 4.76 billion with 14.6 percent from non-state sources and 56.3 percent from foreign sources. The state sources represented only 29.1 percent of the total investment. Industrialization still continues to be a focus state strategy for development with a high level of 27.3 percent of the state budget allocated for industrial investment (Chau, 1998, p. 3).

The renovation process has liberalized the economy by recognizing the importance of trade and service and opening the tertiary sector to investment of non-state enterprises. As Table 2 shows, the city economy shifted towards an increasing role of services. The contribution of commerce, service, and tourism to the city’s GDP increased to 62 percent in 1990 but fell again slightly to 58.2 percent in 2000. Industrial share to GDP fell initially up to 1990 due to the economic decline at the beginning of the reform but rose again to 38 percent in 2000 with the active contribution of foreign capital. Meanwhile, the agricultural portion of GDP sharply declined to 3.8 percent in 2000 because of low investment priority. Hanoi has increased its GDP 11.2 times between 1985 and 2000 and current real income per capita has reached about US $ 990 (HSO, 1999; 2001).

Commercial activities in Hanoi expanded rapidly with different types of commodities and service to satisfy increasing demand of the population. The capital city has become a huge commercial retailing center with more than 75,000 sales points, mainly in the private sector. Private retailing increased from 38.7 percent of total sales in 1985 to 63.8 in 2000 (HSO, 1984; 2001).

Urban transformation processes
The city spatial structure has experienced considerable transformation as central planning influences are being replaced by market mechanisms. Urban patterns divorced the self-reliant but often monotonous form of industrial–residential linkages of the pre-renovation period. What was new after 1986 was the appearance of foreign-invested industrial zones located in rural outskirts and the rampant irregular residential expansion into the suburban villages. There have also been considerable spatial changes due to accelerating commercial redevelopment in the city center. Such new patterns are described in the next few paragraphs before commenting on the new challenges to urban planning and management that have arisen. The point here is not so much to provide a description of the more significant changes in the city, but to look for the causes of “what we see”, i.e., the manifestations of the underlying changes in the political economy.

New industrial zones in isolated rural areas Because industrialization is still a priority policy under the economic reform, the city started to construct seven new industrial zones apart from rehabilitating some of the old industrial zones established in the 1960s. Six of these have been developed with foreign capital.
Figure 2  Distribution of Hanoi Economic Structure in 1990–2000 (HSO, 1995–2001).

Table 2  Sectoral distribution of Hanoi economic structure in 1985–2000

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Source: Hanoi Statistical Office (HSO, 1999 and 2001)

Almost all new industrial zones are located on the other side of the Red River in isolated areas of the rural districts of Gia Lam (see Map 1) and Dong Anh (further north of Gia Lam, not covered by Map 1). Although they have modern infrastructure and standardized waste treatment facilities to minimize environmental pollution, they have attracted only 22 plants, all of which are foreign owned or joint venture enterprises (Quang, 1999).

Two contradictory forces—state policies and market demand—have been playing mixed roles on driving the industrial location process: On the one hand, there is the market-driven choice of industrial zones, but on the other hand, there is the influence of state-determined land prices.

1. The choice of industrial zones is responsive to market demand because it is made by foreign investors based on an analysis of the whole cost. Such market-driven decisions are also matched by city planning since the local authorities plan to relocate polluting factories that affect the community’s environment. A master plan for industrial development in Hanoi prepared with JICA assistance in 1995 proposes to move all polluting industries to the outer ring road or the city boundary. Accordingly, new industrial zones have been shifted toward isolated rural districts where land values are lower.

2. Nevertheless, decisions for manufacturing locations are also influenced by the state policies on land pricing. Industrial zones are not attractive for the local enterprises given their relative high cost of rent compared with land prices decided by the government. For example, the market cost for renting land in the foreign-funded industrial zone “Sai Dong A” varies between US $ 2 and 2.7 per sq m per year while the land rent determined by the state in the old industrial of Thuong Dinh is lower, oscillating between US $ 1 and 1.4 per sq m per year. State intervention in the land market by fixing land values is distorting the land and property market. Given the state subsidy in land cost and the lack of pollution charges, the majority of local factories apparently have not decided to move out of the city center. Hanoi inner still retains a high number of factories (i.e., 40 percent of all industries). These concentrations of industry explain the unfavorable living conditions, which badly affect the health of workers and other people living in the surrounding areas (Quang, 1999).

Diversification of housing models and patterns. Soon after launching the new policy, there was a boom in housing construction by both private and state sectors. The state introduced an open-to-market housing policy with a favorable enabling framework. Fueled by multiple sources of capital investment (state, collective, and private), housing has now diversified in design and spatial patterns.

In the public and collective sectors, four successive housing models have been adopted for residential development in Hanoi, i.e., (a) state and people partnership, (b) self-built housing by state organization, (c) self-built housing on subdivided land, and (d) comprehensive housing projects.

Under the first model, the household contributes funding while the state provides the basic infrastruc-
 Broken industrial and residential linkages Under the influence of market forces, the previously close linkage between industries and residential development was broken. Current decisions for a new residential location are not subjected to a public assessment of its connection with work places as in the past but to private checks of land availability and cost. Opportunities for business and service development in the city center have led to a rapid increase in land prices.

Housing and land prices in Hanoi have increased so much that many low-income families sell housing in the central city locations and move to the outskirts.

Because of lack of space for development in the central area, residential development is shifting toward vacant land inside old villages and the outskirts where rural land use is relatively inexpensive. According to statistics covering 837 housing projects undertaken during the 1986–1997 period, 60 percent of these, representing half of the total developed land, was located in the zone 2–5 km from the city center where many old villages are situated (Table 3).

The urban fringe has also become attractive for state projects and household-initiated construction. (The term urban fringe is used here to define a transitional rural–urban area lying immediately outside the boundary of an urban area and characterized by a diversity of land uses). Rural to urban land conversion is taking place largely in the urban fringe zone 5–8 km from the center, with 26.5 percent of the projects number and 30.4 percent of the total land area. The rural area is rapidly being transformed into residential use, replacing agricultural cultivation. From 1988 to 2000, Hanoi has lost an average of 268 ha of rural land annually, which constitutes an increase of 35 ha per year compared with the rate experienced in 1978–1988.5

Commercial redevelopment in the central area During the central planning period, Hanoi had not seen a concentration of business activities in its center. Socialistic cities are often characterized by features such as inefficient use of land (from the point of view of a market economy) and the absence of a central business district (CBD). With the advent of economic reform, service and trade activities have been intensified in the capital city. Indicators are the increasing numbers of tourists, local and international companies, as well as the establishment of joint ventures. Between 1990 and 2000, the number of foreign visitors to Hanoi has grown from 47,000 to 320,000 per year, while domestic tourism increased from 22,000 to 530,000 annual visitors. Foreign representative offices increased from 72 to 717 units during the 1988–2000 period (HSO, 1995; 2001). Accordingly, there is an increasing demand for the construction of hotels and other commercial and residential facilities.

The return to commercial enterprises led to a reinforcement of a nearly monocentric model for the city’s spatial structure. Hanoi’s central area is fast becoming a dynamic scene of business activity, reducing its previous planned residential and adminis-

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5 Detailed data (that are not normally available) collected from Hanoi Cadastral Department.

4 Database on residential projects, private and state-owned hotels, and foreign funded property projects collected by Nguyen Quang from the Hanoi Chief Architect’s Office and verified by fieldwork, and then processed using MapInfo Software. It is the first time that such data are available in the form of thematic maps.
trative profile. The term central area is used here to refer the historic core of Hanoi which was built up under the imperial and colonial domination. This area comprises three components: Ancient Quarter, Citadel, and French Colonial Quarter (included in this area is a southern colonial extension belonging to Hai Ba Trung district). Their boundaries have been delimited tentatively by several local and foreign researchers (Logan, 1995; AusAID, 1996; Thong, 1997).

The Ancient Quarter (36 Old Streets) is the historic commercial core of Hanoi that had grown outside the walls of the ancient citadel since the imperial period. This traditional trading quarter covers an irregular network of relatively narrow specialized business streets flanked by traditional narrow shophouses (the so-called “tube-houses”), temples and pagodas. The original commercial function of this area that had been discouraged under the central planning period, has become dominant again, with a rampant expansion of small-scale private businesses and new structures most of which do not have construction permits although they have been “tolerated” by the inspectors in charge. The most visible change consists of four- to six-storey privately owned mini hotels that are being erected on the small plots previously occupied by the shophouses. These changes have already altered the charming historical fabric of the area. According to a recent survey, about 40 percent of the total of 202 private hotels that have been constructed in Hanoi since 1986 have been built within the limited area of the Ancient Quarter (Map 2).

The French Colonial Quarter now plays the role of an incipient Central Business District (CBD) in Hanoi. The French urban fabric with its broad tree-lined streets previously flanked by luxury villas and public buildings makes this area the most attractive place to live and do business. Since the reform, the centrally located and highly accessible land in the French Colonial Quarter (FCQ) has become the most expensive property in the city. The great majority of headquarters of representative offices, embassies, joint ventures and newly established private enterprises is concentrated here, creating high demand for office and hotel space. In response to such demand and facilitated by the introduction of the land law, privatization and foreign investment policy, both private local and international investors have redeveloped parts of the FCQ for commercial activities. The transformation in the built environment is reflected by the accelerating construction of large hotels, office and apartment buildings (typically with foreign finance) and the development of low-rise mini hotels, small office and business buildings (funded mainly by Vietnamese private investment). Half of all property investment projects with foreign capital in Hanoi are concentrated in the FCQ. Between 1988 and 1997, 88 buildings with more than eight storeys have been constructed in the city of Hanoi, and 36 percent of these are located in the FCQ.\textsuperscript{7}

More than 55 percent of the foreign investment projects related to property in the whole city and nearly 30 percent of the total capital investment are concentrated in the innermost zone (with a radius of 2 km) of Hanoi (Table 4). Many of these projects have been completed recently or are still under construction. High-rise structures with foreign capital were primarily erected on land previously occupied by factories, public buildings, or open space, to avoid resettlement costs. The high-rise buildings have construction permits, but their locations have not been coordinated between the agencies that are in charge of city planning and development control.

Local-investment projects were financed by two sources: state enterprises and the private sector. Along with the new market economy, the state is gradually ceasing or reducing the subsidy to public enterprises so these have to shift to profit activities. Many state companies have made use of their land assets by restoring and reconstructing their headquarters for commercial, tourist, or other economic activities. Similarly, private companies and households have reconstructed old residences to accommodate their businesses in the form of mini hotels, shops, offices, shophouses, and others. Compared with the foreign investment proposals, local businesses are smaller in project scale and size of capital investment. A few years ago, it was estimated that there were about 16,000 private businesses in the Hoan Kiem district, of which at least 50 percent were located in the

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\textsuperscript{6}The survey was carried out by Nguyen Quang in 2000–2001

\textsuperscript{7}Data from Nguyen Quang’s survey.
Map 2  Distribution of private and state-owned hotels and foreign funded property projects in Hanoi after Doi Moi (compiled data from Hanoi Chief Architect Office)

Table 4  Spatial distribution of FDI property projects in Hanoi, 1988–1997

<table>
<thead>
<tr>
<th>Distance from center</th>
<th>FDI Property Projects No.</th>
<th>Capital Investment (million US $)</th>
<th>Land Area (sq. m)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2 km</td>
<td>27</td>
<td>750</td>
<td>80,354</td>
<td>29.63</td>
</tr>
<tr>
<td>2-5 km</td>
<td>20</td>
<td>536</td>
<td>144,630</td>
<td>53.33</td>
</tr>
<tr>
<td>5-8 km</td>
<td>2</td>
<td>79</td>
<td>46,200</td>
<td>17.04</td>
</tr>
<tr>
<td>&gt;8 km</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>1,365</td>
<td>27,1184</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Data Compiled from Hanoi Chief Architect’s Office (HCAO)
Ancient Quarter and another 30 percent in the FCQ (AusAID, 1996). This trend has since continued.

Large and attractive villas built from the late 1880s to the 1930s are the prevalent urban form of the old central area. Foreign firms and embassies that prefer establishing their residences and offices in those villas represent a new demand for renovation and restoration work (Parenteau et al, 1995). Koperdraat (1998) found that the number of residential villas was reduced from 435 in 1986 to 358 in 1997, and in the meantime, more conversion to commercial or administrative use has taken place. It may be argued that this form of “commercial gentrification” is far better than redevelopment (which is usually insensitive to the character of the area), as it maintains, and even improves, the historical setting, albeit at the price of social change.

The inner city changes have produced positive and negative aspects. On the one hand, there is the economic growth of the area and the newly created local employment. On the other hand, however, the unorganized changes without proper planning and regulations have already led to overcrowding and traffic problems, loss of open space, and damage to the architectural and environmental values of Hanoi’s heritage that has been deplored by many critics (Logan, 1995; Austin, 1996; Thong, 1997).

A comparison of the change in the two parts of the city core reveals the differences in the driving forces: The area of the “36 Streets” with its fragmented patterns of land parcels and ownership lends itself to small-enterprise investments in mini hotels and small retail stores. The French Colonial Quarter, however, with its larger parcels that are often in public ownership, provides ideal locations for company offices and larger-scale commercial land use, apart from institutional uses including foreign missions. What is missing in the underlying “perfect logic” of a newly liberated urban land market is the guidance by an informed and capable city planning system which would have to balance the interests of the residents, new land users, urban design, and historical identity in shaping the city.

The need for adjusting and strengthening urban management functions. The changing urban patterns reflect the mixed influences of the new market forces and the old government interventions. Private enterprises, foreign investors, and individual households have emerged as new development actors. The commercialization of land and housing has introduced a new mechanism for urban development with broad pluralist participation. In spite of still being heavily controlled by state intervention, land (or more precisely, land use rights) and housing have become commodities and their transfers respond to price signals. Urban development has accommodated private-sector participation and the state has reduced its direct control, but urban planning as a whole has not been adjusted to the new economic system.

Land prices and land allocation continue to be determined by established government control rather than in response to market demand. Without strategic focus, the current master urban planning methods are non-participatory, rigid and thus generally discourage formal non-state contributions in urban planning. Therefore, from the deficiencies of the formal planning sector, a large “informal sector” of urban development has emerged that is very visible, wasteful in using land resources at the periphery, and incompatible with the historic fabric of the inner city, but tolerated (even supported) by the inadequately functioning public sector. This is neither satisfactory in terms of efficiency criteria nor is it acceptable on the grounds of social equity.

Two main mechanisms of urban development have co-existed in the transitional period since 1986. (i) the return to market forces determining the choice of profitable locations for private property development, and (ii) the continuance of a largely inflexible and inefficient system of state interventions that are not attuned to the new market-based framework. As a result, urban development is moving ahead in a less than satisfactory way, where many “bad” private projects have slipped through the controls while some of the “good” projects are held up by the cumbersome approval system. The rampant “informal” redevelopment of the inner city, especially in the area of the “36 Streets” has already changed the character of the historical core beyond recognition. The same can be said about most of the large commercial redevelopment projects in the French Quarter where some of the significant elements of Hanoi’s townscape have been lost. On the other hand, factories located in the city center have not moved away to provide space for more suitable development because the state continues to subsidize their operations.

Findings and conclusions

The reforms introduced since 1986 in response to the macroeconomic crisis have produced radical changes in the political economy of Vietnam. The centrally controlled planning model has been replaced by the transitional model, where the free market has increasingly influenced resource allocation. The economic reform has brought radical changes toward privatization and decentralization.

Since the promulgation of laws and regulations on foreign investment, increasing amounts of foreign capital have impacted on urban development. With the introduction of the 1988 and 1993 Land Laws and related regulations, land has largely become a commodity in practice. A property market has emerged, even though the price framework is determined by the state and land transfers are constrained by the regulatory system. However, the urban planning system is only beginning to play a more flexible role with respect to major market determinants and it has not yet adopted a strategic planning framework.
The relationships between the changes in the political economy and their spatial manifestations in the city (with a focus on two typical areas in the city center and in the fringe areas) may be visualized by the diagram in Fig. 3. The diagram indicates the interplay of factors arising from the legal and economic framework (on the left side of the diagram) as they relate to the specific changes observed in different areas of the city (on the right side). While it is difficult to quantify the various types of linkages, the thickness of the arrows in the diagram conceptually reflects the findings of the empirical research that has been summarized in this paper.

For example, the main factors responsible for the transformation of the historical city center (36 Streets and French Colonial Quarter) are the sharp increase in the demand for small and large-scale commercial functions due partly to the influx of foreign direct investment as well as growing domestic capital investment. Furthermore, the new private property developers have logically concentrated on the centrally located urban land with the best accessibility, but the weak city planning administration has failed to guide the process by appropriate incentives, design guidelines and infrastructure investments in alternative CBD areas nearby.

Similarly, the transformation of the formerly agricultural fringe area has been spurred by the demand for affordable residential land that had been generated by private housing investments and home ownership. Meanwhile, the government planning machinery has not been able to keep pace with the rapid increase in peripheral urban development by issuing land use certificates and by coordinating construction permits and infrastructure provision and financing.

In both cases, the gaps between the dynamic market-driven demand for urban development and the slow and unresponsive bureaucratic functions have been bridged by a thriving “informal” (or “illegal”) management sector that is known to, and used by, all parties concerned. It delivers the required services somehow, with delays and in less than optimal locations, with social costs involved that are not covered by the informal payments that change hands in the process.

When urban development was under absolute state control, land and capital resources were not used efficiently. The opening to market forces has led to a somewhat better use of resources given the competition among multiple development actors, but it has also led to unwanted effects on the city’s cultural identity, as the public management system did not change fast enough.

There is an urgent need for turning the old command-and-control system into new forms of state involvement to ensure social equity goals and to avoid market distortions. It is now necessary to deepen the institutional reform with regard to the urban planning and management system. Hanoi as the capital city with a relatively well preserved historic fabric and a long period of Socialist governance is more visibly affected by the rapid changes than Ho Chi Minh City (where the strict Socialist period lasted for just about ten years after the unification in 1975). However, the impacts of the new political economy on the built environment apply equally to the growing medium-sized and smaller cities all over the country where major reforms in the institutional and legal frameworks are needed.

The overdue reform of the urban management and
planning system must address the issues that have emerged from the unresolved competition between the old command-and-control system and the new market-based system: Inappropriate regulations and conflicting goals; lack of authority leading to uncertainty about official procedures and corruption; and the lack of constructive communication mechanisms between the private and public sectors involved in urban development.

References


