

A Leap of Faith

A story of Swedish aid and paper production in Vietnam
- the Bai Bang project, 1969-1996

By Chr. Michelsen Institute

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A Sida EVALUATION REPORT

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A team of four researchers has prepared this report:

- *Alf Morten Jerve*, social anthropologist and Director of Advisory Services at the Christian Michelsen Institute (CMI), has co-ordinated the study and is the main author of chapters 3, 5, and 8. Jerve has extensive experience from different types of aid projects and programmes; with regard to the present project, his main focus has been on organisational aspects and decision-making.
- *Irene Nørlund* is a historian. She wrote her Ph.D. thesis on economic development in Vietnam and is a Research Fellow at the Nordic Institute of Asian Studies (NIAS) in Copenhagen. She is the main author of chapters 4, 6, and 7. With a background spanning more than 20 years of work in Vietnam, her main task has been to relate the story of Bai Bang to broader developments in Vietnam.
- *Nguyen Thanh Ha*, economist and Deputy Head of Technology Department at the National Institute of Science and Technology Policy and Strategic Studies (NISTPASS), Hanoi, has collected data and conducted interviews with the principal actors in Vietnam, and has provided inputs on Vietnamese perspectives for all the chapters.
- *Astri Suhrke*, political scientist with a Ph.D. in international relations, is a Senior Research Fellow at CMI. She is the main author of chapters 1, 2, and 9, and is the main editor of the entire report.

The team bears sole responsibility for the findings presented in this study, as it does for any errors or oversights.

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- Ulf Bjereld (1998). *Striden om Bai Bang – En studie av de inrikespolitiska och utrikespolitiska faktorernas betydelse kring Bai Bang-projektet*.
- Anne Pandolfi (1998). *Bai Bang i svenska medier 1980–1996*.
- Mats J. Svensson (1998). *Projektorganisationen i Bai Bang*.

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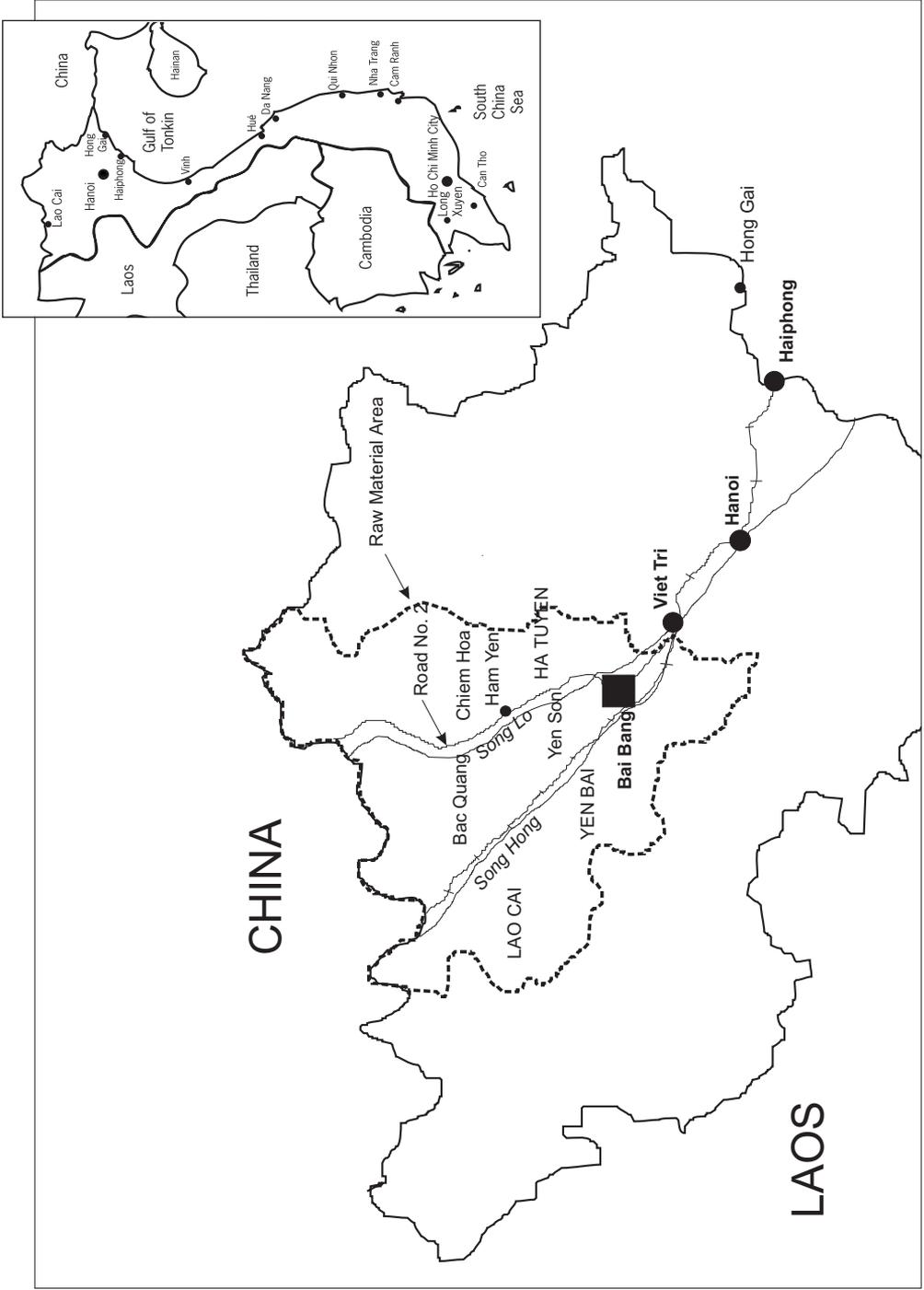
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Alf Morten Jerve
Chr. Michelsen Institute
Bergen
January 1999

Abbreviations and terms

APO	Annual Plan of Operation
ASEAN	Association of South East Asian Nations
Bapaco	Bai Bang Paper Company
BC	Building Company; enterprise under MoC
Board (SIDA)	Committee of politically appointed persons (in Swedish, <i>Styrelsen</i>)
DCO	Development Cooperation Office, term used for SIDA/Hanoi (in Swedish, <i>biståndskontoret – Bk</i>)
DF	Directorate of Forests, later MoF
<i>doi moi</i>	Vietnam's economic reform programme decided in 1986, and effective from 1990 (meaning 'renovation')
<i>dong</i>	Vietnamese currency
DRV	Democratic Republic of Vietnam (until 1975)
EC	Erection Company, enterprise under MoC
FCC	Forest Zone Construction Company
FIPI	Forestry Inventory and Planning Institute, Hanoi
FRC	Forest Research Centre, enterprise under MoF
HBFC	Ham Yen Bac Quang Forest Company
ID	Industry Division, SIDA
IM	Interior Ministry
JP	Jaakko Pöyry & Co
LANT	Agriculture/Natural Resource Division, SIDA
Management Board (SIDA)	Committee of senior managers (in Swedish, <i>Direktionen</i>)
MFA	Ministry for Foreign Affairs, Sweden
MoC	Ministry of Construction, Vietnam
MoF	Ministry of Forestry, Vietnam
MoFT	Ministry of Foreign Trade, Vietnam
MoI	Ministry of Industry, Vietnam
MoLI	Ministry of Light Industries, Vietnam
PAC	Project Advisory Council, formed by SIDA for the project – 1970s

PM1/PM2	Paper machine (the first and the second installed)
RMA	Raw Material Area, the area designated for wood supply to Bai Bang aside
SEK	Swedish currency – <i>krona</i>
SIDA	Swedish International Development Authority (until 1995)
Sida	Swedish International Development Cooperation Agency (formed through the merger of five Swedish development cooperation agencies in 1995)
SM	Scanmanagement
SPC	State Planning Commission, Vietnam
SRV	Socialist Republic of Vietnam (after 1975)
<i>tet</i>	New Year (lunar)
TIP	Transport Implementation Project
ToK	Transfer of Knowledge programme
VPPPP/M	Vinh Phu Pulp and Paper Project/Mill
VPSU	Vinh Phu Service Project Union, the enterprise supplying wood to Bai Bang
VPU	Vinh Phu Pulp and Paper Union, the enterprise operating Bai Bang
WP	WP-System



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Introduction

This study is commissioned by the Department for Evaluation and Internal Audit of the Swedish International Development Cooperation Agency, Sida.¹ It is the first study in a retrospective series the purpose of which is to examine projects where Swedish development assistance has ended. In the present case, the object of study has been the project commonly referred to as “Bai Bang”.

What is Bai Bang?

Bai Bang is one of the most unusual aid projects to be undertaken in the history of development co-operation. At first glance it may seem just like any other project: the Swedish government helped Vietnam build a pulp and paper mill just north of Hanoi, including several auxiliary investments that were necessary for the enterprise to function. But on closer inspection, however, extraordinary features of this remarkable venture come to light.

To most Swedes, “Bai Bang” is remembered because of its cost and the lengthy Swedish involvement. Swedish assistance for this one project lasted for a period of 25 years, starting in 1970 when the idea of an integrated pulp and paper mill was first launched, and did not terminate until 1995. The total Swedish contribution was SEK 2,766 million in current prices (or around SEK 6,500 million in 1996 prices), making it the largest project – and one of the longest lasting – in the history of Swedish aid. The Vietnamese contribution of labour and raw materials was also substantial, not least considering the country’s limited resources at the time, but was not so easily quantified (see Box 0.1 for an overview of project costs).

The project is also famous for overshooting budgets and time schedules. The initial Swedish budget was for SEK 770 million, not 2,7 billion. The initial plan stipulated that paper production would start in 1977 and reach the full design capacity of 55,000 tons annually soon afterwards. In fact, production was delayed by 3 years, and not until 1996 was the factory finally able to produce at full capacity (see Box 0.2 for an illustration of planned and actual

¹ In 1995, the five Swedish development cooperation agencies SIDA, SwedeCorp, BITS, SAREC and Sandö Course Centre were merged into a new agency, named Sida – the Swedish International Development Cooperation Agency. For the historical period covered by this study we use the form SIDA, to refer to the agency that existed prior to 1995.

time for completion of construction, and Box 8.4 for figures on annual production of paper).

But it is the context that most clearly sets Bai Bang apart. When construction started almost 25 years ago, in 1975, it was one of the very few, modern process industries of that scale to be built in Vietnam. It was also the first project to be built with Western assistance, and the first instance of development co-operation between a European capitalist country and a communist-ruled state with an elaborate central planning system.

The Swedish–Vietnamese project originated in the solidarity movement which arose in reaction to the Vietnam War. Planning started in the early 1970s, when the Democratic Republic of Vietnam – as North Vietnam was then called – was still at war with the United States. It was not a matter of simple desk planning either. While Swedish forestry experts were trying to survey Vietnamese forests, American B-52 bombers were flying overhead, discharging their devastating cargo. Construction took place in the second half of the 1970s, at a time when Vietnam was trying to recover from the war with the US, while simultaneously heading into another violent conflict in Cambodia and with China.

The factory went on-stream in the early 1980s, and struggled to meet production targets during the turbulent 1980s. The economic crisis that enveloped Vietnam in the late 1970s continued into the 1980s, prompting the government to gradually introduce the so-called *doi moi* economic reforms (*doi moi* meaning “renovation”), which included relaxing the central planning system. While the reforms initially made the environment more unpredictable for Bai Bang, by the beginning of the 1990s their positive effects were becoming evident. The paper mill was particularly well positioned to take advantage of the opportunities brought by the reforms because it was managed according to market-oriented principles – or what the Vietnamese and their Swedish advisers deftly promoted as “Scandinavian management”. The new economic environment and the gradual disappearance of supply shortages were a main reason why the factory in the mid-1990s succeeded in producing at full capacity. The target was reached five years after the last Swedish advisors had departed.

Strictly speaking, “Bai Bang” is not the name of a factory, nor does it appear on standard Vietnamese maps. It is the name of an industrial area in the now burgeoning township of Phong Chau, about 100 km northwest of Hanoi and close to the major industrial city of Viet Tri in Pho Tho province. During the period covered in this study – from the late 1960s to the early 1990s – the area was part of Vinh Phu province, and the project bore for many years the name of the province. However, the project is known as “Bai Bang” in Sida as well as the Ministry of Industry in Hanoi, and even more so among the Vietnamese and Swedish public. Partly as a result of this, the company’s Vietnamese management decided in the early 1990s to call the factory the Bai Bang Paper Company – Bapaco.

In this study, the term Bai Bang is used to refer to the project in its broadest sense. This includes more than the factory, which was constructed in an undeveloped forest area at the outskirts of a tiny village. Additional investments were necessary to make the mill function, e.g. to secure an adequate wood supply, educate the work force, radically improve the transport network, and create better living conditions for workers in the mill as well as in the forest areas. For shorthand purposes, we will call all of this Bai Bang.

Why study Bai Bang?

When deciding to evaluate Bai Bang retrospectively, Sida specified two objectives: (a) to assess the broader developmental impact in Vietnam, and (b) to analyse the decision-making process that created and shaped the project over a period of two decades. The first study was carried out by the Centre for International Economics in Canberra, while the second was assigned to the Chr. Michelsen Institute (CMI) in Bergen.

The study by CMI is called a process evaluation. It differs from a conventional evaluation, which can be defined as “a careful and systematic ex-post assessment of the design, implementation and results of an activity in relation to its objectives.”² Our task, however, was *not* to assess the outcome in relation to certain criteria of quality and accomplishment. Rather, we were asked to identify and analyse the key decision-making themes and processes in the history of Bai Bang, and to reflect on the possible lessons that can be drawn, and were drawn, from this experience with respect to development assistance more generally. In effect, we were asked to write a history of an important part of Swedish development co-operation.

This study is first and foremost a history of an aid project which obtained a measure of success despite the odds. The decision-making process is analysed with a view to explaining why the project came about, why it took a given form, and how and why it functioned as it did. Most central, perhaps, are some puzzling questions: Why was a paper mill chosen to express Swedish–Vietnamese solidarity against US involvement in the war? And what saved Bai Bang from *not* becoming a white elephant, as many had feared? The paper mill was an enormously ambitious undertaking, yet the two governments succeeded in building it despite post-war shortages and economic crisis, and – as the companion-study of this evaluation has shown – the factory was, in the 1990s, operating in a cost-effective manner to meet production targets.³ To what extent can this be attributed to an effective decision-making process that anticipated the problems and dealt with them accordingly, to staying power and long-term commitment on both the donor and the recipient side, or just plain luck?

² Sida, *Sida Evaluation Policy*, Stockholm, 1995.

³ Centre for International Economics 1998.

What kind of study?

It soon became evident that there is no *one* history of Bai Bang, but several histories. The elements of success and of failure, for instance, depend upon the perspective and criteria of the observer. We have not attempted to make a blanket judgement on the project, but tried to show the logic of the various actors involved – and the logic of the many histories of Bai Bang. In keeping with this approach, we have traced consequences of decisions which, in retrospect, have allowed us to say that some were “wrong”, while others were “right” given the overall objective and the information available at the time. But the primary purpose has been to explain, not to judge or evaluate in the conventional sense.

A company history is always about more than just a factory. The decisions and events that shaped Bai Bang were the product of a particular historical period, and reflected the forces and sentiments of the times. Thus, the progress of the project must be understood in relation to the national and international *context* – changing patterns of national development in Vietnam, Swedish politics and institutions that dealt with Bai Bang for over two decades, and international structures of conflict and co-operation. The project itself was a result of political and foreign policy considerations relating to the Vietnam War. In the late 1960s and early 1970s, the Cold War cast a long shadow over efforts to plan the mill; later, the impacts of new wars in the region were felt as well. Throughout, the enormous distance between a liberal democracy in Northern Europe and state socialism in Southeast Asia made communication and joint decision-making difficult.

Because Bai Bang originated as an expression of international solidarity and retained a special political dimension in later years, the history of the project becomes a window through which a much larger historical landscape can be glimpsed. The main focus of this study, however, is on the project, and this perspective guided the identification of main *issues*.

When writing a development project history it is useful to follow the project cycle. A standard cycle runs through distinct *phases* starting with an idea, moving on to planning and investment, and ends with the operations stage. An industrial project like Bai Bang fits well with this type of cycle. The transition between phases is marked by important negotiations, signing of new contracts, and organisational change. There is a certain overlap between phases and some variation according to national perspectives. From a Vietnamese perspective, the operational phase continues into the present; as an aid project, the operations ended with the gradual termination of Swedish assistance from 1990 to 1995 (see Box 0.3 for a brief overview of main events in relation to contexts and phases).

Phases

The main historical periods in the life of the Bai Bang project are clear:

The formation of the *idea* of Swedish aid to Vietnam – the idea first appears in the second half of the 1960s and culminates in the announcement by the Swedish Foreign Minister in September 1969 of a three-year aid programme to North Vietnam.

The *planning* phase – starts with the identification of a project in 1970, continues with assessment, feasibility studies, and preliminary design for a pulp and paper mill, and ends with the signing of a project agreement in August 1974.

The *construction* phase – construction of the pulp and paper mill and necessary infrastructure takes place during the second half of the 1970s and continues into 1983, with the ribbon-cutting ceremony in November 1982 marking the start of paper production based on own pulp.

The *operations* phase – preparations for operations start during the planning phase in the early 1970s with the training of Vietnamese engineers, and the Vietnamese government appoints a director of the mill in 1978, i.e. well before the construction is completed. A new project agreement is concluded in 1980 committing Sweden to continue support during the operations phase. This is also the period when a number of side-projects get identified – river transport, housing, vocational school, community forestry, and improvement of living conditions of forestry workers. The Swedish support, including all this, is extended in different forms until 1995. The last Swedish consultants leave the project in June 1990, making Bai Bang a fully Vietnamese-run enterprise.

Contexts

The lifetime of the project includes dramatic historical changes – from war to peace in Indochina, and from globalised ideological divisions to the end of the Cold War; from state planning to market-oriented economy in Vietnam, and, in Sweden, from the radical politics of the 1960s and early 1970 to a much tamer politics where the term “Vietnam” arouses few passions, although “Bai Bang” still does. These changes altered the context for policy decisions concerning the project. It is useful to distinguish three types of contexts:

1. *The international context*, i.e. relating to the Vietnam War and Vietnam’s later invasion of Cambodia and border skirmishes with China. As these conflicts shaped the bilateral political relationship between Sweden and Vietnam, their effects filtered down to the project.

The motive force for the project in both countries was clearly political and tied to the Vietnam War. The government of the then Democratic Republic of Vietnam (DRV) valued Swedish aid as a concrete expression of political support during the war with the United States, and as an “opening to the West”. In Sweden, aid was seen as a manifestation of solidarity with Vietnamese war victims and with North Vietnam itself. The idea of aiding

Vietnam also had a humanitarian and moral dimension. Many persons in Sweden – and, indeed, elsewhere – felt that the West had a responsibility to help rebuild the country which the military might of the pre-eminent Western power and its allies were destroying.

What was the effect of this political dimension on the project itself? Did it help the project along and protect it against some of the criticism (e.g. cost and time overruns), though inviting other problems (e.g. allegations of political partisanship)? How did the decision-makers deal with the conflicts between political imperatives to establish a joint project, on the one hand, and technical and economic criteria of feasibility on the other? Did the war and US protests have a more direct impact upon significant project decisions? When Vietnam later invaded Cambodia and the Western world instituted an economic embargo on Hanoi, how did this affect Swedish–Vietnamese co-operation on the project?

Bai Bang’s political origins contributed to confusion over objectives and purposes. Was the project primarily to be understood as a demonstration of political solidarity, or as help to post-war reconstruction, which was the officially declared purpose when the aid programme was first announced, or as conventional development assistance, which it gradually became? Which criteria were to guide project formulation and implementation?

2. *The Vietnamese national context:* The project had to be situated within the Vietnamese system of state planning from the very beginning. How did that influence the planning and implementation phases? Not surprisingly, the combination of a rigid state planning system with the widespread devastation of war in a very poor country created severe production difficulties and constant bottlenecks. Some problems were clearly related to the state planning system and were ameliorated with the introduction of the economic reforms in the 1980s. For instance, it became evident that solutions to critical problems regarding the supply of wood and labour for the mill could not be found at the project level. Managing the forest areas for the mill and building houses for the workers became part of a turf battle between provincial authorities and the central government. How were these issues dealt with?

The wood supply problem, it turned out, could not be solved until labour and land tenure reforms had taken root in the forestry sector. As noted above, this suggests that the effective functioning of the factory in many ways depended upon structural change in the economic environment rather than decisions on the project level. What, more specifically, was the interaction between the national reform policies and decisions on the project level? Transformations at the project level towards a greater Vietnamese role in the operations of the factory, and towards a more liberal management model called “Scandinavian management”, took place parallel with – in fact, just ahead of – the macro-economic policy changes in Vietnam during the 1980s. Did the reform process provide a more positive environment for “Scandinavian management” within the mill, as well as enhancing its autonomy on the enterprise level and ability to overcome the supply shortages and other rigidities of the state planning system? Was the mill management ahead of the national reforms? The latter

question raises the issue of whether Bai Bang itself had an impact on the reform process. This lies beyond the scope of our study, but it is tempting to speculate that, as an aid project with a high political profile, Bai Bang was a visible model of market-oriented management that others could emulate.

3. The Swedish national context: In Sweden, the project was buffeted by controversies from the moment the idea of aid was launched in the late 1960s until the phase-out strategy was implemented twenty years later. In the early period, the conflicts focused on foreign policy, above all the impact of aid on Sweden's relations with the United States, and whether Sweden should aid a communist-ruled state. The issues later shifted to aid policies proper, culminating in the heated "forced labour" debate in the 1970s over recruitment and living conditions of the labourers at the project. These were above all Swedish debates, and created mixed responses in Vietnam. How did this affect policy decisions and Swedish–Vietnamese co-operation on the project? How did the decision-makers deal with the issues that gave rise to the debate, as well as the problems that it caused?

A central principle of Swedish aid policy throughout this period was "recipient orientation" – i.e. that the recipient should have a primary role in determining the use of aid and the methods of implementation. The Vietnamese similarly understood the relationship to be one of equals, and held that development co-operation must strictly respect Vietnamese sovereignty and jurisdiction. How did this apparent consensus operate in practice – particularly given the strong pressure on SIDA to control and account for the aid, and recurrent problems on the part of Hanoi to meet its obligations? How did the decision-makers deal with the consequences?

On the Swedish side, SIDA is the principal actor during much of the time covered in this study. But the relationship between SIDA, as an autonomous civil service agency, and the political actors in Sweden, was also important in shaping the project, particularly the relations with the Ministry for Foreign Affairs which mediated political views expressed in the Parliament, the media and the public at large. The study seeks to trace the impact of internal Swedish policy relations on the project throughout.

One area where SIDA appeared to take the initiative was a series of side-projects for the mill. These side-projects amounted to a regional development agenda of sorts. Why did SIDA get involved in these activities? What were the effects on the factory project as Swedish–Vietnamese co-operation expanded to resemble community development?

Issues

Bearing in mind the distinct time phases and historical contexts that shaped the project, the principal issues addressed in this study relate to decisions and developments on the core project level:

- Why was a modern paper factory chosen as an expression of Swedish–Vietnamese solidarity during the war and as the starting point for aid co-operation between the two states?
- Why was it so difficult to reach agreement on the size (50,000 or 100,000 tons) and the design (based on both pulp and paper, two machines instead of one, etc.)?
- Why did the construction process overshoot successive time and budget plans?
- How did Sweden and Vietnam face up to the imminent danger of the project turning into a “white elephant”, as the time approached to go from construction to actually producing paper?
- How did the decision-makers try to solve the problems of getting raw materials for the mill?
- Why did labour issues become problematic?
- Why and how were additional projects added on?
- How did the Swedes and Vietnamese promote the transfer of know-ledge that for Hanoi had been a principal purpose of the entire venture?
- More broadly, how was the transformation from a Swedish-aided project to a Vietnamese-run company effected?
- Why did the Swedes stay so long – much longer than originally expected, and how did they finally succeed in extracting themselves after 20 years of project involvement?
- To what extent was the project modified when obstacles and criticism mounted?

Organisation and methodology of study

The study had to be organised so as to permit the analysis of a large number of interrelated but criss-crossing issues, pursued over a long period of time and across radically changing historical contexts. How should this be done?

We decided that the study could not be confined within a strict theoretical framework of analysis simply because its aim was not to test a particular theory or a specific set of hypotheses. Rather, the only way to write a project history of this kind, we felt, would be to take a historical approach in which the analysis of the sources and the chronology would play a major role. These were identified in a preliminary study that outlined the principal time periods, issues and actors.⁴ As for the organisation of the material, a balance was struck between a strict historical narrative and a more issue-focused presentation.

Since the main focus would be on the decision-making processes that shaped Bai Bang, particular efforts were made to identify key decisions. Some of

⁴ The outcome was reported to Sida in Chr. Michelsen Institute, *Inception Report*, Bergen, 8 December 1997.

these were driven by external events or social forces, others were more readily understandable as part of a sequence of decisions internal to the project. Hence the need to place the project development in its broader historical context – both national and international. Moreover, we had to allow for a feedback factor. The project itself had an impact on decisions: decisions made at one stage limited the choices further down the road, so did lack of decisions and misunderstood decisions. At times, Bai Bang seemed to take on a life of its own – unwieldy and unyielding to efforts by Vietnamese planners and Swedish aid officials to steer it in desired directions.

Structure of the report

The structure of the report reflects this approach. Though the narrative is developed around the time cycle of the project, some chapters are issue-focused and cut across several time periods. Chapter by chapter, the report looks like this:

Chapter 1. Aiding North Vietnam – an idea takes form analyses the political context in Sweden and Vietnam and the initial contacts between the two that led up to the planning of the project. The chapter explains why the unlikely partnership developed and sets the stage for the selection of an industrial project as a monument to Swedish–Vietnamese solidarity during the war.

Chapter 2. Negotiating a paper factory – tension mounts focuses on the planning stage (1970–74), and covers issues relating to design of the project, as well as broader policy issues that affected the planning. The chapter examines the contradictions between the political imperative of a project originating in a solidarity movement, on the one hand, and, on the other, technical and economic standards required to make a factory work. The challenges associated with joint planning in time of war is documented, as are the misunderstandings and conflicts between the two new and unfamiliar partners.

Chapter 3. Building the mill – stepwise into the unknown covers the construction stage and focuses on the core project. Based on a stepwise design approach, the plant was built with labour and local resources from Vietnam, and experts and machines from Sweden and a few other European countries. Modifications were made on site as unanticipated problems occurred. The original time plans and cost estimates were not kept, leading to strong criticism of the project in Swedish media. The chapter examines the various problems during the construction phase that led to delays and cost overrun.

Chapter 4. The 1980 transition – charting a new course follows the project into the operational stage. The transition from the construction to the operations stage was particularly difficult for the Swedish side. Important decisions had to be made regarding the level and nature of Swedish assistance during operations, as well as the management of the mill where problems with the consultant had developed. At the same time, the case for broadening the project from industrial to regional development was made. These decision-making processes are analysed within the context of concurrent political changes: Vietnam

invades Cambodia and finds itself at war with China. In Sweden, there is a change of government from the Social Democratic Party, which traditionally had supported the idea of aiding Vietnam, to a coalition of liberal and conservative parties that had furnished the main critics of such aid.

Chapter 5. Raw materials for the mill – not getting the fundamentals right is issue-focused. Problems related to the supply of raw materials proved difficult throughout the lifetime of the project. During the planning period, questions regarding an adequate and timely supply of wood had almost threatened to bring the project to a halt. During the construction period, the specification for the mix of species to be used in the pulp mill was changed several times. When the plant was put in operation, the problem of getting enough wood was a constant worry. This was an issue were the Vietnamese and Swedish side faced some of the greatest problems of co-operation. The chapter follows the issue through all the three stages of the project.

Chapter 6. Labour for the project – a Vietnamese responsibility and a Swedish concern takes up the issue of the supply of labour. The Achilles heel of the project, apart from the raw material issue, was getting enough labour for Bai Bang, the right kind of labour, and increasing productivity. By the end of the 1970s there was a growing consensus on the Swedish side that these problems must be addressed proactively. While the Vietnamese fully recognised the problems, the government was unwilling to make exceptions for Bai Bang until Swedish journalists started questioning the working conditions of the forestry workers serving the mill. This generated a political storm in Sweden. The debate that followed and its impact on the project represents an important slice of Bai Bang's history – especially as it is read in Sweden.

Chapter 7. Producing paper – a Vietnamese company takes form focuses on the core issue during the operational stage, namely how to procure sufficient inputs for production, and how to develop an enterprise capable of surviving on the sales of its products. With regard to the latter problem, access to foreign exchange to import vital spare parts was critical. The strategy devised by the mill management and their Swedish advisors was to produce export-quality paper, compete in regional markets, and manage procurement abroad. The study examines these issues in the context of the two-way interaction between Vietnam's economic reforms and the Swedish influence towards "Scandinavian management" of the mill.

Chapter 8. Phasing out – moving towards a 'Sustainable Vietnamese Operation' is the story of the Swedish exit. Bai Bang represents an interesting example of a planned phasing-out of aid. More a response to external pressures and fears of a "white elephant" than a well-defined exit policy, SIDA chose to invest unprecedented funds and time in a phasing-out strategy. The chapter traces the background to this decision and reflects on the experiences. The lessons are of general interest, not least because the transfer to Vietnamese management did not result in the many problems predicted by the Swedish consultants when they left in 1990.

Chapter 9. Conclusions gathers the conclusions to the questions posed at the outset of the narrative, as identified above. The chapter also presents conclusions with respect to learning.

To study learning

Sida's mandate for this study contained a second dimension in addition to the decision-making perspective, namely learning. What did SIDA learn from Bai Bang during the project, and what lessons does Bai Bang hold that are of more general relevance for development co-operation?

It was not possible within the framework of this study to systematically trace the effects of Bai Bang on Swedish development assistance. A project of Bai Bang's magnitude and duration, which represented the first major assignment for many newly recruited SIDA officials, undoubtedly influenced the thinking and practices of the organisation. There is, for instance, ample evidence that SIDA developed a kind of Bai-Bang-phobia – Bai Bang as the exceptional case never to be repeated again. The workings of these forces will have to be the subject of another study.

Within the confines of the project itself, Bai Bang was an intensive learning experience. As the title of our study suggests, it was a grand, new, and quite risky experiment. Hence there was learning to be done at every stage – in fact, learning became an integral part of the continuous decision-making process, and is treated as such in each of the chapters of this study.

The ultimate chapter – Chapter 9 – reflects on learning of a different kind, namely the implications that the Bai Bang experience may have for development co-operation in a more general context. Recognising that the project was unusual and that there will never be “another Bai Bang”, we also view it as a magnifying glass of sorts. Because it is so large and complex, the project has implicit lessons in many areas that figure prominently in the current discourse on aid. We discuss these lessons under the following headings: the nature and objective of aid; relationship between donor and recipient; cross-cultural communication; accountability; use of consultants; planning methodology; and phasing out of aid.

Methods

The research process has been long and laborious for several reasons. The project lasted for about 20 years, it involved a very large number of stakeholders and institutions, and it had to be assessed in its proper political and social context. The project has been highly controversial in Sweden, and decisions taken on the Vietnamese side are difficult to trace in a still rather closed political system.

The complexity of the undertaking prompted the Chr. Michelsen Institute to appoint a team embracing several disciplines – political science, social anthropology, economics and history – and representing substantial experience with development issues, evaluation, as well as knowledge of Vietnam. The

team leader has also worked as an aid official abroad. Three of the team members were Scandinavian and one was Vietnamese. To ensure a certain degree of objectivity in a case that has aroused so much controversy in Sweden, no team member was Swedish. However, three sub-studies by Swedish experts were commissioned.

The study was organised in two phases. The purpose of the *first* phase (June–November 1997) was to identify main research questions and sources and define the methodological approach. The work started with interviews with a number of key persons in the Swedish Ministry for Foreign Affairs and Sida, and the consultants hired by SIDA for the project. In September 1997, a seminar was organised at the Chr. Michelsen Institute in Bergen to discuss issues for sub-studies to be commissioned, as well as methodological and theoretical questions concerning the study of development aid history. The team (minus its Vietnamese member) met with a Norwegian reference group that had been set up (see Acknowledgements).

A set of sub-studies was commissioned to examine a specific field of research in more depth, thus providing necessary background material and more detailed assessment of methodological issues for the main report. Sub-studies were commissioned in the following areas:

- *Bai Bang in the Swedish media.* The study was commissioned at Sida's request in order to fill out the previous studies of the Bai Bang debate in Swedish radio and press.⁵ It was done by Anne Pandolfi, media researcher and independent consultant, hired by Orgut.⁶
- *The impact of domestic policies and partisan politics on the decision-making processes in Sweden related to Bai Bang.* The study was done by Ulf Bjereld, a political scientist at Gothenburg University who previously has written on this topic.⁷ We felt the need for a sub-study on this topic given its complexity and relative impenetrability for non-Swedish analysts working within tight deadlines. For the same reason, and as a supplement to this study, we asked Bjereld to arrange for a research assistant to collect information on the responses in the early period of Swedish industry and labour organisations towards Bai Bang.⁸ This study suggested that in their capacity as corporate actors, these sectors were hardly engaged in the project (as distinct from the earlier policy decision to provide support to Vietnam).
- *The impact of the project organisation on decisions related to the construction and the operations phase.* This study was commissioned by us in order to prepare a general overview over the main organisational and decision-making structures and the relevant documents, and was carried out by Mats Svensson – also hired by Orgut.⁹ The study helped to organise some of the voluminous archival material pertaining to Bai Bang that Sida made available.

⁵ Frühling 1981 and 1984.

⁶ Pandolfi 1998. See Acknowledgements on the role of Orgut in the study.

⁷ Bjereld 1998, and Bjereld and Demker 1995, Chapter 9.

⁸ See Lindvall 1998.

⁹ Svensson 1998.

While the sub-studies were being prepared, the members of the core team concluded the first phase by preparing an inception report.¹⁰ The report was based on secondary sources,¹¹ supplemented with interviews,¹² and was discussed in draft form at a seminar in Stockholm in October 1997 with Sida, some members of the reference group in Sweden selected by CMI,¹³ and some special invitees. A revised version was later discussed with Sida in Hanoi, on the occasion of the 15th anniversary of the first production of paper in Bai Bang in November 1997. A large celebration was organised at the site by the Bai Bang Paper Company to mark that the enterprise was producing at current targets, and even planning to double production to 100,000 tons of paper annually.

The meeting at Bai Bang was also an opportunity for the CMI team (minus one of its Norwegian members) to establish working contacts with the team assembled by the Centre for International Economics in Canberra, which was doing the impact evaluation of the project. Moreover, key Vietnamese officials involved with Bai Bang were informed about the evaluations. A few core officials from the Vietnamese project administration in the 1980s were interviewed, partly to test interview methods. Bai Bang Paper Company also used the occasion to release a company history it had commissioned, adding a valuable source for our study.¹⁴

During the first phase, the main *archival sources* were identified and investigated in an initial manner. The central archive for the study was Sida's archive, which contains an overwhelming collection of documentation on the Bai Bang project. It was agreed that Sida would request permission for the team to use the archives of the Swedish Ministry for Foreign Affairs. A preliminary consultation of the Sida archives at the Embassy in Hanoi was done in September 1997. The Vietnamese team member conducted interviews in Hanoi, and consulted the Vietnamese national archives, where the Ministry of Light Industry had deposited some documents relating to Bai Bang, as well as some private archives to which he had been given access. It was discovered that one of SIDA's main consultants, WP-System, had thrown away most of its Bai Bang files some years back, but surviving files were rescued by Sida.¹⁵ The archive of the other main consultant, Scanmanagement, was almost intact, and is maintained by former Bai Bang workers at Jaakko Pöyry Projektteknik in Stockholm.¹⁶

The *main phase* of the research started in December 1997. The team members worked in the Sida archive individually on a number of occasions. A Swedish research assistant was assigned to work in the Sida archives for a longer period.

¹⁰ Chr. Michelsen Institute, *Inception Report*, Bergen, submitted to Sida on 8 December 1997.

¹¹ Sandgren 1990a and 1990b, Scanmanagement 1990, Frühling 1984, Westring 1983, Berlin 1997, Möller 1992, Öberg 1985.

¹² See Persons interviewed, annexed to the report.

¹³ The reference persons were Jan Cedergren (Ministry for Foreign Affairs), Lars Ekengren (Sida), Sigvard Bahrke (consultant) and Stefan de Vylder (consultant).

¹⁴ Dao Nguyen and Quang Khai (eds.) 1997.

¹⁵ The rescue operation was facilitated by Harry Hermansson, the head of WP-System's procurement to Bai Bang for many years.

¹⁶ Thanks to Christer Ehnemark, first and foremost – the head of Scanmanagement's Stockholm office throughout.

In March 1998, the Scandinavian members of the team visited Vietnam for two weeks to interview key persons who had been involved in various phases of the project from the central administration, as well as officials at the mill site in Bai Bang. Some Swedes who had been involved in the project at earlier periods were also interviewed. Documentation was collected systematically at the Swedish Embassy's Sida archive, which contains documents going ten years back in time, i.e. supplementing the Sida archives in Stockholm. The team also consulted the archives at the mill site, but the older part of this collection was not well organised.

Only in late spring of 1998 was the team given access to the archives of the Ministry for Foreign Affairs. However, for the period 1969 to 1975 this was limited access only. Several documents – particularly from the 1969–70 period – were withdrawn on the basis of security considerations. The team was only given access to files pertaining to Bai Bang, not the Ministry's dossier pertaining to other aspects of Sweden's relationship with Vietnam. The Sida archive does not go as far back in time as that of the Ministry for Foreign Affairs, and certain lacunas had to be filled by means of interviews and secondary sources, when possible.

During the spring and summer of 1998, additional interviews of persons associated with the project were undertaken in Sweden. In June 1998, the team gathered for two weeks in Bergen to discuss the outline of the final report and organise the writing phase. The amount of documentation at this point was voluminous. The Sida archive alone has close to 100 shelf metres of material on Bai Bang; and the other archives consulted were also substantial. Over 60 persons had been interviewed, some more than once, and interviews had been carried out in Sweden, Vietnam, Oslo, and Washington where key project persons were tracked down. The persons interviewed (see list appended to the report) were selected among the key decision-makers and advisers. Time and resources did not permit identifying and interviewing people who worked at the floor level in the project, so to speak. Their stories, both from the Vietnamese and Swedish side, no doubt would have added insight and context to the history, but hardly altered the main conclusion of this study.

A final round of interviews and archival study was carried out in Stockholm in August 1998 to fill in gaps. The draft report was circulated to a number of persons in October 1998. Several responded with written comments that have been incorporated in the final version. At the same time, a meeting was held in Bergen with Sida officials and a member of the Australian team to assess the joint findings.

As in all historical research, written documentation provided more solid data than personal recollections. The project events investigated here lay far behind in time – between eight and thirty years – which would tend to fade or distort memories. Yet the recollection of Bai Bang among many of those interviewed was exceptionally clear. The interviews provided important additional information, and was crucial in helping to interpret events and documents.

The size of Bai Bang and the controversies it provoked in Swedish national politics has made it better documented than most development projects. While our report may not be the definitive study of Bai Bang, it is to date the most exhaustive and detailed one. Much of the story in the chapters that follow has not been told before, partly because no one has bothered to look, partly because new archival material has been made available and numerous officials could be interviewed. The major limitation is that the Vietnamese side of the story could not be presented as thoroughly as the Swedish side.

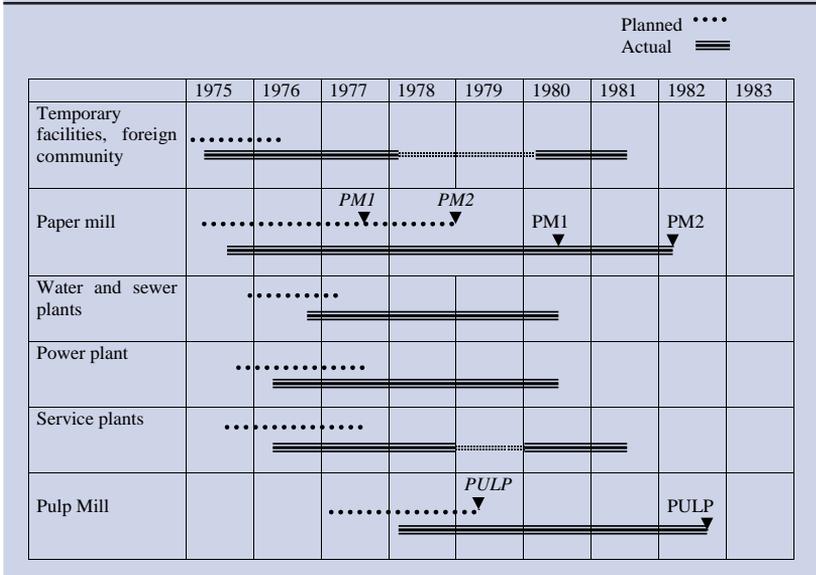
There are several reasons for the evident shortcomings in the analysis of Vietnam's role in the project. The Terms of Reference from Sida and the initial selection of a Scandinavian team gave the report a bias towards Sweden. The team later included a Vietnamese researcher who worked as a full member of the team. Nonetheless, limitations on access and sources within Vietnam's still relatively closed system made it impossible to make a detailed analysis of the Vietnamese side within the time and resource limits of this study. To supplement the interviews and archival work done in Vietnam, the team has examined Vietnamese decision-making as it appears in documentation of the co-operation process in Swedish archives.

Box 0.1: Project costs (million SEK, current prices)						
Component	1974– June 1983	July 1983– June 1985	July 1985– June 1990	Total	July 1990– June 1995	Total
Sweden's contribution						2766
MAIN PROJECT	1674	272	552	2498	7.6	2526
Mill	1551	184	332	2066		
Forestry	123	69	162	354		
Mill and forestry jointly	0	19	59	78		
SIDE PROJECTS						240
Vocational Training		5.2	44.6		14.9	80
Housing		0.5	30.8		0.8	51
Transport		0.3	62.1		9.6	72
Plantation and Soil Conservation		0	29.6		36.5	66
Living Conditions		0	0		5.2	5
Vietnam's contribution						1300
Estimated at 40–50% of Swedish contributions – approximately						1300
TOTAL PROJECT COSTS – approximately						4000

Sources: Scanmanagement 1990; Anders Berlin 1997; and Claes Sandgren 1990b.

Note: There have been few attempts to calculate the value of the Vietnamese contribution. The estimates range from about 10 per cent to half of the Swedish contribution, depending on the exchange rate used between SEK and *dong*, and, more importantly, which components are included. If the estimate is only for the construction of the mill itself, the figure is towards the lower end, while if one includes operational costs, community infrastructure, forestry development and transport the figure will be much higher. The latter is the basis of the 40–50 per cent indicated by Sandgren (Sandgren 1990b).

Box 0.2: Planned and actual time to complete construction



Sources: Scanmanagement 1990; and WP-System 1983.

Note: PM1 and PM2 are the two paper machines, and PULP refers to the pulp mill.

Chapter 1

Aiding North Vietnam – an idea takes form

The idea of development co-operation between Sweden and North Vietnam gradually took form during the second half of the 1960s. The period opens with Olof Palme, then a junior minister in the Social Democratic government, speaking at Gävle in 1965, soon after the US started bombing North Vietnam. After dramatically describing the agony of war and destructive foreign intervention, Palme concluded: “I am, of course, referring to Vietnam.” Four years later, Foreign Minister Torsten Nilsson announces a three-year programme of humanitarian assistance and reconstruction aid to North Vietnam. How had this come about? What were the forces and who were the people behind the idea of Swedish assistance to Vietnam during the war? What was the impact of the negative reactions emanating from Washington?

In both Sweden and North Vietnam, political considerations provided the motive force. In Sweden, there was a popular groundswell of sympathy for the Vietnamese people; what is more, the Social Democrats were being pushed and prodded by a radical leftist movement. Seen from Hanoi, Swedish aid represented a powerful expression of Western support in the war against the United States. The economic rationale for aid was elaborated only later as the idea took root and assumed tangible form.

Despite a common political interest in development co-operation, the decision actually to go ahead in 1969 proved controversial in both countries. The issues were entirely political. The relationship was “a first” for both governments. Sweden had never before given government-to-government aid to a communist regime. Choosing Vietnam meant, moreover, aiding a country with which the US was at war, thus raising fundamental issues of Swedish foreign policy. For Hanoi, it was a first step towards a broader opening to the West in economic policy; as such it touched on basic principles of party doctrine and challenged orthodox thinking.

Once the Swedish government had decided in principle to provide aid, the North Vietnamese government seized the initiative to define its use. At the first official aid meeting in September 1969, the Vietnamese delegation came prepared with a long and detailed shopping list of possible projects.

The Swedish government had originally thought of aid in the form of credit transfers or programme aid that would place the main management responsibility in the hands of the Vietnamese. North Vietnam, however, wanted project aid, preferably in the form of large industrial ventures. When other political considerations on the Swedish side appeared to favour project aid as well, government officials shifted accordingly, even though project aid meant a more direct donor involvement.

The announcement of the three-year aid programme in Stockholm on 30 September 1969 had unforeseen consequences that left a legacy of misunderstanding and mistrust. When the plans were finalised, the key Swedish decision-makers and their Vietnamese counterparts had equally assumed that the programme would start immediately. The actual announcement of aid, however, provoked protests from Washington and the political opposition in Sweden. In the face of this, the new Palme government moved quickly to state that disbursement of reconstruction aid would not take place “until after the war”. Only humanitarian assistance would be given without delay. By distancing aid activities from the war, the government helped pacify the United States and the domestic opposition. But it also put a question mark on the entire aid programme. In the autumn of 1969 the Paris peace talks had got under way, but it was anybody’s guess when, or if, they would bring the war to an end. The Vietnamese, it seemed, had not been consulted on the Swedish policy change and never fully understood the point. When the aid programme was announced, they had confidently expected the bulldozers to start rolling almost immediately – not five years into the future, which, in fact, turned out to be the case.

By the autumn of 1969, the end of the period covered by this chapter, the future contours of the Bai Bang paper mill were only dimly visible as one of several possible projects. But the central project criteria had been identified. The Vietnamese wanted a large industrial venture involving modern technology. Both sides agreed that it should be in a sector in which Swedish industry had a comparative advantage, and it was tacitly understood that the sector choice must be compatible with the principles of neutrality underlying Swedish foreign policy.

The roots

The idea of a major Swedish aid programme to North Vietnam reflected converging interests of the two states. In Sweden, aid gave concrete expression to a widespread political engagement in the Vietnam War. The force of the solidarity movement made Sweden the first Western country to recognise communist North Vietnam (the Democratic Republic of Vietnam – DRV) in January 1969, and in the autumn a three-year aid programme was announced. For North Vietnam, the relationship with Sweden was a uniquely valuable demonstration of Western support to the Vietnamese people during what was for them the American War. It was also a window to the West at a time when Hanoi was seeking to reduce its dependence on China and the Soviet Union, and was exploring relations with non-socialist states to support economic reconstruction and modernisation after the war.

Most Western countries had anti-war movements in the 1960s, but Sweden was the first to establish official relations with North Vietnam. One result was Bai Bang – the biggest, most costly, and, arguably, the most controversial aid project in the history of Swedish development co-operation. For Hanoi, the relationship was likewise highly unusual and a pilot scheme of sorts with a Western state. The principal aid project to emerge – an integrated paper and pulp mill in the Vinh Phu province of North Vietnam – consequently acquired a political dimension that remained visible throughout its entire duration. That does not make it unique; other aid projects have been conceived in the spirit of solidarity with liberation struggles, e.g. in southern Africa. But to understand the tortuous progress of the paper mill, the intense controversies it evoked, and also the substantial hurdles that it cleared, it is necessary to place it in the category of aid projects that are moved forward by political concerns, including those of foreign policy.

The Swedish government played a predominant role in shaping the early aid relationship. The government declared its solidarity with the Vietnamese people during the war and decided to offer an aid programme, using the occasion of the annual congress of the Social Democratic Party to make the announcement, rather than the Stockholm visit two weeks earlier of a high-ranking Vietnamese delegation. Yet to conclude that Bai Bang – as the paper factory is popularly known in Vietnam and Sweden – sprang from a distinctly Swedish soil, would be to oversimplify. The Vietnamese turned up at strategic junctures to actively promote a relationship with Sweden, as well as specific forms of aid.

The Swedish side

The Bai Bang project, then, developed during a period of unprecedented political engagement and strife in Sweden, and, in a real sense, resulted *from* it. In most other Western societies, as well, the Vietnam War became the dominant political issue of the decade. To critics it was a symbol of injustice, exploitation, and evil, but also of international solidarity and the hope that “right” would triumph over “might”.

The strong reactions provoked by the Vietnam War reflect the characteristics of a historical period. In Sweden, the ground had been prepared intellectually by growing interest in “the third world”, poverty, and development issues, together with a parallel concern with nuclear disarmament. The brutalising war between the world’s most powerful state and a small, poverty-stricken, underdeveloped country brought together these disparate strands in a radicalised political consciousness.¹⁷ Unlike in other Western European countries, protest and solidarity demands were incorporated in a policy of support for North Vietnam. Sweden was not restrained by any NATO membership, and the leadership of the Social Democratic Party had already started to redefine traditional concepts of Swedish neutrality. Perhaps most importantly, the party leaders recognized the political force of Sweden’s rapidly growing Vietnam movement during the second half of the 1960s, and concluded that the party would lose the votes of the younger generation unless it embraced their principal cause.

A gradual reorientation in foreign policy had started earlier, reflecting structural changes in international politics. Traditionally, during the 1940s and the 1950s, Swedish policy had been shaped by the principles of equidistance between the rival superpowers and by neutrality concepts as conventionally interpreted under international law. Guided by long-time Foreign Minister Östen Undén, whose name became attached to the policy doctrine of caution, Sweden had “curled up like a porcupine” with its quills directed against the rest of the world.¹⁸ The Swedish government had been nearly as reluctant as its Scandinavian NATO neighbours to openly criticise the United States. As the Cold War in Europe stabilised, the focus of world politics gradually shifted towards “the third world”. Issues of decolonisation and liberation struggles, development, and poverty increasingly came to the fore, and did not seem to involve traditional principles of neutrality that had constrained Sweden’s positioning in the East–West conflict. The Swedish government censored the US for its war in Vietnam and the Soviet Union for its intervention in Czechoslovakia, formulated an active policy in support of liberation struggles in southern Africa, and protested against dictatorship and human rights violations in Europe as well as in the developing world. It became possible for a prime minister – even venerable old Tage Erlander – to openly criticise the United States.¹⁹

Although the political spectrum as a whole shifted towards the left during the 1960s, the radical trend did not reflect a national consensus. This was especially evident with respect to Vietnam and the United States.²⁰ The most radicalising issue of the decade also produced intense disagreement. As the most concrete expression of Swedish–Vietnamese relations, the aid issue was at the centre of these controversies, generating contradictory pressures on the government.

¹⁷ Salomon 1996.

¹⁸ Bjereld 1998.

¹⁹ See Erlander endorsing Palme’s Gävle speech of 30 July 1965, cited in Nilsson 1981, pp. 52–3.

²⁰ Möller 1992. This is a comprehensive and detailed account of Sweden’s Vietnam policy during the 1964–74 war years.

The conflicting pressures from the left and the right of the political spectrum – on the one hand to demonstrate solidarity with North Vietnam, on the other, to refuse support to the communists and protect the relationship with the United States – created difficulties for the Social Democratic leadership. Their situation was complicated by shifts in the party's political fortunes. Having controlled the levers of government for most of the post-World War II period, the party seemed less secure during the second half of the 1960s. The Social Democrats did badly in the municipal elections of 1966 and feared defeat in the general election held two years later. As it turned out, they not only won by a comfortable margin, but for the first time since 1940, even obtained an absolute majority. This lead, however, was lost in the 1970 election, the first with Olof Palme as Prime Minister. The party retained government power but ruled from a minority position in the parliament until 1976, when it lost decisively and went into opposition. In this political setting, Vietnam issues could mean a loss or a gain, but never indifference.

On the left, a substantial and articulate wing of the Social Democratic Party demanded with increased fervour in the second half of the 1960s that Sweden move to recognize North Vietnam and provide non-military aid. Outside the party, the radical solidarity groups, the Swedish FNL-movement, set the political marker even further to the left. The development of the radical left deeply worried the Social Democrats because behind the FNL was a broader groundswell of protest, particularly among Swedish youth. As a whole, the radical movement was politically diffuse, but deeply committed, demonstrative, and rebellious.²¹ The rapid emergence of Vietnam as an issue that engaged the younger generation and energized the left made it necessary for the Social Democrats to adjust policy or risk alienating a large segment of voters. There are accounts, for instance, of Erlander and Palme pacing the floor in 1968 saying, “we must not lose the younger generation.”²²

On the other side of the spectrum, powerful elements feared that any deviation from the traditional neutrality line – particularly in the form of a strong pro-Vietnam stance – would court disaster in Sweden's relationship with the United States and have a negative impact on Swedish industry, and, ultimately, on Swedish security as well. These forces were represented in the political opposition parties, particularly the Right (*Högern*), and in the private economic sector. Both circles effectively exploited Washington's protests against the government's growing support for Hanoi. American objections predictably triggered outcries from domestic conservatives who claimed the Social Democrats were jeopardizing Sweden's foreign policy interests. The political divisions also spilled over into the Ministry for Foreign Affairs and the aid bureaucracy.

Dissatisfaction in the United States affected the government and Sweden's foreign relations more directly as well. In 1968, the US temporarily withdrew its ambassador from Stockholm. The reason was that Olof Palme, then a

²¹ Salomon 1996.

²² Elmbrant 1989, p. 73, and interview with Ekéus, Washington, May 1998.



*Popular support in Sweden for North Vietnam ran high. Demonstration organised by Swedish FNL groups on US National Day – 4 July 1970.
Photo: Freddy Lindström/Pressens Bild*

junior cabinet minister, had marched side-by-side with the North Vietnamese ambassador to Moscow in a torch parade in Stockholm to denounce the US bombing of Vietnam. The torch parade event became a semi-official demonstration of Swedish–Vietnamese solidarity and caused a momentary crisis in Swedish–US relations. (At home, domestic opposition leaders called for Palme’s resignation.) Relations deteriorated further when the government in 1969 announced a three-year aid programme for North Vietnam. There was widespread fear in Swedish industry, partially shared by the government, that Washington would impose economic sanctions against Sweden. While sanctions did not materialise, relations went from bad to worse when the Palme government subsequently decided to grant asylum to Americans who refused to serve in Vietnam. The bottom was reached in December 1972. Palme’s vitriolic criticism of US bombing of Hanoi and Haiphong – the so-called Christmas bombing – led to the absence of the US ambassador from Stockholm for 14 months.

Swedish public opinion generally showed a widespread abhorrence of the war, a response that cut across party lines and focused on the image of a poor nation being ravaged by an imperious United States. The extent of the sympathy was demonstrated in particular during the 1972 “Christmas bombing”, at which time some 2.7 million Swedes signed a manifesto demanding that the US cease the assault. According to public opinion polls, almost half of the Swedish people (46 percent) felt that Palme had *not* gone

too far in his criticism of the United States, even when he compared Washington's Vietnam policy to the worst atrocities in modern history, including the Nazi campaign to exterminate the Jews. But there was no blanket support for North Vietnam. Opinion polls in 1973 showed considerable uncertainty: when asked who was "most right" in the war – North Vietnam, or South Vietnam in alliance with the United States – only 34 percent of the respondents answered the North. Another third assigned moral equivalency between the two sides, while 22 percent said that they did not know.²³

The Social Democratic Party had moved quickly and decisively from a position of protest against the war to partisan support for North Vietnam. The change is clearly visible in the 1965–69 period. In mid-decade, government officials protested against the war, especially the US bombing, launched a secret mission to mediate in the conflict ("the Aspen-channel"), and called for international reconstruction aid to benefit the people of *all* of Vietnam *after* the war. In early 1968, a reorientation towards increasing solidarity with the Democratic Republic of Vietnam (DRV) became evident, leading in late 1969 to offers of aid to North Vietnam only, with aid to the people of South Vietnam mentioned merely as a possibility later on.

The principal markers in this reorientation are clear. In the spring of 1968 the Swedish mediation effort through "the Aspen-channel" was abandoned due to lack of success and leaks to the press. With mediation no longer at issue, the formal insistence on neutrality in relation to the warring parties could be replaced by alignment with one side. The spring of 1968, it will be recalled, was also the most political spring of the decade – indeed of the entire post-World War II era. A radical consciousness surged throughout Europe and reinforced the protest movement in the United States. In Washington, the government admitted to the failure of its Vietnam policy when President Johnson announced after the communist Tet offensive in February that he would not run for re-election, and ordered a partial bombing halt over North Vietnam. In May the Paris peace talks opened. "It was time to show our solidarity through practical action", the personal secretary of Foreign Minister Torsten Nilsson, Jean-Christophe Öberg, later wrote in his memoirs.²⁴

In the traditional May Day speech that year, Nilsson hinted that Sweden would give reconstruction aid to North Vietnam. He also instructed officials at the Ministry, who since 1967 had been working on a joint Nordic initiative for reconstruction aid to all of Vietnam after the war, to prepare plans for bilateral Swedish aid to the North only. Publicly, the government held open the possibility of aid to both South and North Vietnam, but it was clear that the North would be the primary and, at any rate, the first, recipient. Sweden had in early 1967 discontinued its diplomatic accreditation to Saigon and, in January 1969, recognised the Democratic Republic of Vietnam. Unlike humanitarian assistance, which Sweden had sent through the Red Cross since

²³ Public opinion polls in 1973, cited in Bjereld 1998, pp. 11–14.

²⁴ Öberg 1985, p. 191.



The famous torch parade. Olof Palme together with DRV's Ambassador in Moscow, Nguyen Tho Chan. Photo: Sven-Erik Sjöberg/Pressens Bild

the mid-1960s, aid for reconstruction required government-to-government relations. Diplomatic recognition of the North now opened the road for such aid.

During the spring of 1969, the pace quickened. Torsten Nilsson repeatedly told the Parliament that the government might give aid to North Vietnam even before the war was over, pointing out that with the bombing halt, fighting in that part of Vietnam had ceased. In a concrete further step, Nilsson invited an economic delegation from Hanoi to discuss foreign aid and explore what Swedish industry could offer.²⁵ The Vietnamese delegation arrived in Stockholm in mid-September 1969, and at the end of the month the Swedish government formally announced a three-year aid programme for North Vietnam.

The rationale for aid varied according to the analysis of the war. In radical circles it was a matter of fighting imperialism where it was most exposed. Mainstream Social Democrats like Palme and Nilsson emphasised the need for solidarity with the oppressed to combat poverty and war, deliberately or otherwise using the language and symbolism of the social democratic movement.²⁶ More generally, aid expressed solidarity and a sense of atonement.

²⁵ Virtually no documentation from the 1967–1970 period was made available for this study from the archive of the Swedish Ministry for Foreign Affairs (hereafter referred to as the MFA archive). The Sida archive contained little relevant material because the agency only became involved in late 1969.

²⁶ Nilsson sometimes instructed his political secretary to prepare Vietnam speeches using social democratic terms. Öberg 1985. In his 1965 Gävle speech, Palme had described the war as one between the oppressor (the United States) and the oppressed (the Vietnamese people).

As a then young Social Democrat who worked with both Nilsson and Palme later recalled, “A Western power was bombing the poor country to smithereens, the least we could do was to help them rebuild.”²⁷ On the political level, then, it is evident that aid for North Vietnam originated as an idea to help post-war reconstruction rather than “development” more generally.

There has been much discussion – partisan and otherwise – of whether the Social Democratic leadership was opportunistic in the way it embraced the Vietnam issue. The party leaders, of course, had to balance multiple pressures and interests. It seems clear that the existence of an articulate left, both within and outside the party, had the effect of pulling policy in that direction. Yet with respect to Vietnam, this was neither a foreign nor an unwelcome path. The party leaders who were most responsible for incorporating Vietnam in the party’s agenda were in some ways actually ahead of the growing anti-war movement in Sweden and, to that extent, helped create it. That applies above all to Palme, whose speech in Gävle in 1965 – just after the US had started bombing North Vietnam – turned the war into a national issue in Sweden. The party mainstream later established a solidarity committee for Vietnam, the Swedish Committee for Vietnam (*Svenska Kommittén för Vietnam*). Designed as an alternative to its fierce rival, the radical Swedish–FNL-movement, the Committee drew support from broad circles in the party, the trade union movement, and liberal circles, with Gunnar Myrdal as its first leader. The Committee consistently pressed for closer relations with North Vietnam and the Southern Liberation Front, the FNL. As a solidarity movement, it was also a vehicle for the government to develop contacts with North Vietnamese leaders. It was the Committee that invited Ambassador Chan to march in the famous torch parade in 1968.

With his deep moral engagement and acute political sense, Palme contributed to the protest against the war that developed into a policy of support for North Vietnam and the National Liberation Front in the South (FNL). Palme’s key contributions appeared at two critical junctures while he was still a junior minister: the already mentioned 1965 Gävle-speech and the 1968 torch parade. Later, as Prime Minister, he consistently criticised the US involvement in the war and, as the war was winding down in the spring of 1974, was the first European head of government to receive North Vietnam’s Premier Pham Van Dong (April 1974). As Prime Minister, Palme rarely spoke out on aid issues directly, but since aid was widely seen as a concretisation of the solidarity that he had helped articulate, perhaps that was unnecessary. Moreover, a task force established by Foreign Minister Torsten Nilsson in 1967 had enthusiastically been moving the aid dossier forward. Only on two occasions, as we shall see, does Palme appear to have intervened directly in the aid discussion – once to slow the process down (1969) and once to help move it forward (1974).

The other key person who shaped Sweden’s relations with Vietnam in the formative 1965–1969 period was Foreign Minister Torsten Nilsson. As chairman of the most radical branch of the Social Democratic Party, the Stockholm *arbetarkommun*, Nilsson reflected some of the radical sentiments

²⁷ Interview with Ekéus, Washington, May 1998.

that were expressed in the long and intense political discussions that unfolded in the party branch during the 1960s. Demands for de-recognition of South Vietnam and recognition of the DRV were raised early on, as was aid to Hanoi. But Nilsson was deeply engaged in issues of war and peace on a personal level as well.²⁸ The Swedish effort to mediate in the Vietnam War was entirely his initiative.²⁹ Nilsson stubbornly kept up the effort even when it became manifestly clear that it was futile. Not until the secret diplomacy was leaked to Swedish newspapers in early 1968, did he finally give up.

Having failed to bring peace to Vietnam, Torsten Nilsson spent much of his remaining time as Foreign Minister promoting aid to the war-devastated country. The ground had been prepared during the mediation phase when Swedish diplomats made contact with North Vietnamese officials in Hanoi and through DRV missions elsewhere. A de facto diplomacy had developed before formal diplomatic relations were established. The Stockholm visit by North Vietnam's Moscow ambassador, Nguyen Tho Chan in February 1968 – which included the famous torch parade – was initially conceived as reciprocation of a visit by ambassador Lennart Petri. The Swedish ambassador to Beijing had earlier been to Hanoi to meet Foreign Minister Nguyen Duy Trinh as part of the mediation process. The de facto diplomacy permitted initial discussions of aid as well, plans for which were starting to take form in Stockholm in 1967–68.

As we shall see, a political storm erupted when Torsten Nilsson announced the aid programme at the Social Democratic Party Congress in 1969. This was hardly surprising; the battle lines had been drawn up in the Parliament during 1967–68 and positions taken. It was not only a question of Sweden having diplomatic relations and officially expressing solidarity with a country that was at war (if undeclared) with the United States. The aid issue was equally controversial on its own terms. It was the first time Sweden proposed giving development aid to a communist-ruled country. Was this in line with Swedish aid priorities? A similar question was at the heart of a heated debate over the fundamentals of Swedish aid policy, the so-called “choice-of-country” (*länderval*) discussion which started in the late 1960s and lasted into the 1970s. Both in foreign policy and aid terms, Vietnam was a prickly matter.

The importance and sensitivity of relations with Vietnam during the war made officials try to conduct the process in great secrecy. During the sensitive “Aspen channel” mediation effort in 1965–68, this was understandable. But humanitarian assistance and reconstruction aid were treated as state secrets as well. Seemingly innocuous memoranda written during the war years in the Swedish development agency, SIDA, or in the aid section of the Ministry for Foreign Affairs were stamped “confidential” or “strictly confidential”. There was a constant preoccupation with information leaks. In September 1969, for

²⁸ Nilsson's memoirs (*Åter Vietnam*) open by recounting how as a youth he became aware of the horrors of war that unfolded around him – the Finnish–Russian War, the Spanish Civil War and World War II.

²⁹ When the US started bombing North Vietnam in early 1965, Nilsson worked with a small group of officials in the Ministry to create a tacit agreement between Washington and Hanoi that would end the bombing. See Möller 1992.

instance, officials in the Ministry for Foreign Affairs met to discuss the forthcoming aid delegation from Vietnam, but were mostly worried about “problematic” leaks of information about the scope of aid. In retrospect, this hardly seems a matter of great secrecy since the government had been saying for over a year that it was planning to offer North Vietnam reconstruction aid, and the press had been informed that a Vietnamese delegation was en route to Stockholm for that very purpose.³⁰ The Ministry sometimes accused SIDA of handling information carelessly; the suspicion led to restricted communication between the newly opened embassy in Hanoi and SIDA in the early 1970s.³¹ Preoccupation with secrecy was partly in deference to the security-conscious Vietnamese, but mostly reflected fear that information leaks would be used in domestic politics. The extreme sensitivity of the Vietnam aid program at that time was still evident in the reactions of officials interviewed for this report almost three decades later.

The Vietnamese side

There is comparatively less material available to document Vietnamese perspectives on the relationship with Sweden during the war. Yet the main outlines are clear. North Vietnam did not respond to Sweden’s secret mediation diplomacy, but worked strategically to promote bilateral relations involving diplomatic support and economic and technical assistance.

North Vietnam’s lack of interest in the “Aspen channel” can readily be explained by the logic of the war. Hanoi did not need Sweden to facilitate communication with Washington and was suspicious of intermediaries.³² As a friend of the DRV during “the American war”, however, Sweden had very considerable value. It will be recalled that a principal North Vietnamese strategy was to defeat the US on the home front by encouraging opposition to the war within the US and other Western countries. The unique importance of the Swedish solidarity movement was that it was incorporated in official policy. Diplomatic support from the Swedish government thus legitimised and enhanced popular protest in the West against the US involvement in the war. Hanoi evidently saw this possibility at an early stage, and grasped it. It was a Vietnamese initiative that led to the visit by Moscow ambassador Chan to Stockholm. In late 1967, Hanoi had asked to send officials to Sweden to explain the war. The result was Chan’s visit. Once in Stockholm, Chan carefully exploited the political value

³⁰ SIDA memo, *Sammanträde den 3.9. kl. 15 på UD ang. den nordvietnamesiska delegationens besök*, 18 September 1969. Sida archive.

³¹ A book published in 1970 by Swedish journalists Björn Elmbrant and Erik Eriksson, *Det bidde en tumme* (Elmbrant and Eriksson 1970), accused the government of back-peddalling on its aid promises to Vietnam. The book gave ammunition to radical groups inside and outside the party and became a major headache for the government. When writing the book, the authors had used internal Ministry for Foreign Affairs documents that the ministry had shared with SIDA, and officials on both sides accused each other of leaking the material. The Ministry’s concern with SIDA’s handling of sensitive information is reflected in internal correspondence in the early 1970s, and in dispatches from the embassy in Hanoi to the Ministry. The culprit in the Elmbrant case turned out to be a temporary SIDA employee.

³² The Vietnamese recall the intermediary role of China and the Soviet Union at the 1954 Geneva conference that ended the first Indochina war and forced Hanoi to make a series of concessions.

of his stay. The ambassador had been asked to participate in the torch parade rally, and was anxious to make sure that Palme also would attend. By a combination of coincidence and design, the two ended up marching side by side in what instantly became world news.³³ More than any other single event, this incident demonstrated that North Vietnam had a friend in Western Europe.

Thirty years later, the former secretary-general of the Vietnamese Communist Party, Do Muoi, acknowledged in moving words the importance of Swedish solidarity during the war. Sweden, he said, was a source of support during “the years of black tears”.³⁴ Palme’s catalytic acts of solidarity, particularly his appearance with Chan at the torch parade, had made an impression that is still remembered with gratitude by the post-war generation in Hanoi. Other, less obvious, political benefits of the relationship were not so openly recognized. In the early 1970s, Sweden became a window to the West at a time when the DRV was isolated from the rest of the official Western world. It functioned equally as a two-way window through which the rest of the world could observe the destruction wrought by the war. Swedish solidarity groups and journalists and high-ranking government officials visited North Vietnam and bore witness to the destruction wrought by the US bombing.

Much of the interaction that created the window effect arose from co-operation over aid. For instance, high-level Swedish officials who visited North Vietnam in 1972 to prepare a general aid agreement were shown various sites where the extent of US bombing was disputed, particularly near the dikes, and informed the press when returning home. The view towards the outside world was often mediated in the early period by the Kha–Öberg link. Nguyen Van Kha, Vice-chairman of the State Planning Commission – a man with considerable political and diplomatic skills – who negotiated the early aid relationship. Jean-Christophe Öberg, a career diplomat, was a persistent advocate of Swedish–North Vietnamese relations and played a key role in the early aid-planning stages and became Sweden’s first ambassador to Hanoi. The two developed close personal connections and held wide-ranging, informal discussions on topics that included policy developments in Western institutions such as World Bank deliberations on post-war aid to Vietnam.³⁵ The aid projects generated visible and high-level political visits as well. Even a Swedish Foreign Minister came to Hanoi in mid-1973, at a time when the Paris Peace Agreement was still being challenged on the ground, as a Vietnamese official later emphasised.³⁶ In this sense aid had a political multiplier effect.

³³ Events at this point remain controversial in Sweden. Chan had been separately invited to address the rally by its organizers, the Swedish Vietnam Committee. Palme, then an outspoken minister of church and education, was also scheduled to speak at the rally, a fact that Chan carefully verified the same morning. Chan then politely but firmly declined requests by the radical solidarity group, the Swedish FNL movement, to boycott the parade on the grounds that the Swedish Vietnam Committee was in the pockets of the government and not Hanoi’s true friend. The end result was that Palme and Chan appeared together at the head of the parade. Palme later claimed that this was a coincidence, possibly to milden the reactions from Washington and the domestic opposition. See Möller 1992, pp.114–120; Elmbrant 1970, pp. 74–77; Wachtmeister 1996, pp. 193–194; Salomon 1996, pp. 177–78.

³⁴ Interview with Do Muoi in Hanoi, March 1998.

³⁵ The discussions were reported in cables by Öberg to the Ministry in Stockholm (MFA archive, file U 11 Xv).

³⁶ Interview with Nguyen Van Kha in Hanoi, March 1998.

As a concrete manifestation of Western solidarity during the war, the Swedish aid projects acquired considerable political lustre. It is striking that Vietnamese officials interviewed for this study hardly made a critical comment on the largest of the aid projects – the Bai Bang paper mill – even though the project was controversial also in Vietnam. Harsh words were exchanged during technical negotiations in the early 1970s, for instance, as we shall see in the next chapter. The signals from the Party leadership were uniformly positive, however, particularly in the early years, and underlined the political importance of the aid relationship. The first Swedish aid delegation to visit Hanoi in 1970 was personally and warmly received by Prime Minister Pham Van Dong. Three and a half years later, when the project agreement for Bai Bang was almost ready to be signed, Pham Van Dong went to Stockholm. It was the first time he had visited a European country, and his itinerary had provoked a heated discussion in the Party. Some argued he should first visit Paris in view of the support given by the French communists to Vietnam throughout the war and the presence of a large Vietnamese community in France. Others, who in the end prevailed, claimed that Sweden's exceptional demonstration of solidarity must be recognized ahead of France.

The political glow of Swedish–Vietnamese solidarity that rubbed off on Bai Bang helped to move the project forward during a critical and difficult phase. To build a complex industrial enterprise in a war-torn, Soviet-style economy that had no previous encounters with Western aid was an extraordinary challenge. Success clearly required sustained, high-level political support. This seemed indeed to be forthcoming; the political momentum that had given rise to the project was particularly evident during the construction period. The Vietnamese government instituted special bureaucratic routines and organisational mechanisms to speed construction and facilitate operations. Project officials were allowed to go into the congested Haiphong harbour area and extract critical supplies, going ahead of the queue and bypassing paralysing bureaucratic routines. The then Vice-Premier, Do Muoi, kept a close eye on the project file. Special allowances were made for foreign advisors on the project. Later, as we shall see, some of the glow faded. At the 1982 Party Congress, relations with Sweden were hardly mentioned in the analysis of international affairs.

In other respects, the aid relationship had all along been less significant. During the war, Hanoi recognised that Sweden could not provide the aid it needed most, i.e. military assistance.³⁷ The Soviet Union and China supplied this. As for humanitarian assistance, which Sweden *could* provide during the war, Hanoi showed little interest.³⁸ At the first high-level Swedish–Vietnamese meeting in Stockholm in February 1968, Foreign Minister Torsten Nilsson suggested to

³⁷ When the first Vietnamese aid delegation visited Stockholm in 1969, Torsten Nilsson asked Nguyen Van Kha what Vietnam most needed. Kha replied, "Weapons. But I know you cannot give us that." Interview in Hanoi, March 1998.

³⁸ The relative lack of interest in humanitarian assistance was communicated in many ways in the late 1960s, see Öberg 1985, and Elmbrant and Eriksson 1970. Öberg speculates that it reflected a suspicion of foreigners that was not mitigated by the benefits of humanitarian aid.

ambassador Chan that Sweden might build a children's hospital in Hanoi. Chan answered bluntly that Vietnam had more need for development aid such as paper, fertiliser, and money to build small schools.³⁹ In follow-up discussions in 1968–69, Hanoi remained unenthusiastic about humanitarian assistance. The government did request a shipment of chemical fertiliser, but, as we shall see, the matter was technically complicated and politically controversial. The US objected that chemical fertiliser was a strategic material since the ingredients could be used to manufacture explosives. In the end, Stockholm and Hanoi tacitly agreed to shelve the fertiliser issue.

Swedish aid for reconstruction and development was in a different category. In a macro-economic perspective, it was minor compared to the aid from China and the Soviet Union – North Vietnam's main allies and donors. It is indicative that the head of the State Planning Commission during much of the 1960s and the 1970s, Le Thanh Nghi, rarely concerned himself directly with Swedish aid relations. The Swedish file was given to Nguyen Van Kha, who was Nghi's deputy, while Nghi travelled to Moscow and Beijing to negotiate the really vital economic agreements. These were increasingly concluded in Moscow. In 1958, the USSR for the first time replaced China as North Vietnam's major source of economic assistance. During the war, both allies reoriented their economic aid to meet wartime demands. When South Vietnam was defeated and the country was unified in 1975, both pledged to support North Vietnam's next Five-Year Plan as well to give "non-reimbursable emergency aid" and commodity assistance. Worsening relations and a short Sino-Vietnamese war made China cut off all its aid in 1978, but Soviet assistance increased. In 1978 Vietnam also joined the Council of Mutual Economic Assistance (Comecon), thus emphasising the economic importance of the Soviet bloc.⁴⁰

In this scheme of things, Swedish aid was important to Hanoi for three main reasons. It was (i) a source of modern technology, (ii) a model of, and doorway to, development co-operation with other Western states, and, (iii) as such a means to reduce dependence on China and the Soviet Union. These views were frankly conveyed to Swedish officials at the time. Thus, when the ubiquitous ambassador Chan returned to Stockholm in mid-1969 – this time to an official welcome that marked the establishment of diplomatic relations between the two states – he again discussed aid, now with Prime Minister Tage Erlander. At the meeting was also Jean-Christophe Öberg, who was shortly to become Sweden's first resident diplomat in Hanoi.

Ambassador Chan commended Swedish policy towards the war as being consistent and brave. As the bombing of the North had caused major damage, reconstruction was a primary concern, and co-operation with Sweden in this area would be a guarantee of Vietnamese independence in the future. It would also make an impression on other Western countries that might be

³⁹ Möller 1992, p. 115.

⁴⁰ See Ross 1988, Fforde 1985 and Pike 1987.

*willing to follow the Swedish example – that is, have a demonstration effect – and Sweden had a high technological level from which Vietnam could benefit.*⁴¹

Two years later, in 1971, when Torsten Nilsson visited Hanoi, Pham Van Dong spoke enthusiastically of the Swedish aid programme. As Nilsson recalls in his memoirs,

*[Pham Van Dong] wanted to confirm one thing. There was agreement to start certain projects that would constitute the beginning of aid, for instance a paper mill. The Prime Minister had personally instructed the ministries which handled this question and told them to ensure that the plans were realised. It was to be the foundation stone for future development aid co-operation. On this foundation we would build further if we could come to an agreement. If possible, it would be a model for other countries that wanted to have the same sort of economic relations with the DRV, for instance the other Nordic countries.*⁴²

The possibility of a joint Nordic aid programme was evidently attractive to the Vietnamese. The first economic delegation that came to Stockholm in September 1969 had planned to travel to all the Nordic countries, as well as France and the socialist countries, in what was to be a comprehensive assessment of aid options. Nordic co-operation had also been considered by the task force in the Swedish Ministry for Foreign Affairs which, in 1967–69, was working on reconstruction aid to Vietnam. As it turned out, the Nordic idea collapsed in mid-1969 due to Finnish reservations and political disagreement between Sweden and the two Nordic NATO members about which Vietnam to aid – South or North, or both. Plans for the Vietnamese economic delegation to visit the other Nordic countries in 1969 were called off, but Hanoi remained interested in joint efforts or separate aid ties.⁴³

In the meantime, Sweden became the bridgehead for state-to-state economic co-operation with the capitalist world, and the Vietnamese viewed it with considerable ambition. The 1969 aid delegation arrived in Stockholm in September with proposals for economic and technical co-operation on “a vast scale”, as the delegation leader, Nguyen Van Kha, put it.⁴⁴ The proposals centred on infrastructure and industry, as well as co-operation for export production. Advanced Western industrial technology was presumed in all areas, and technical education of Vietnamese personnel in Sweden was specified as a separate item.

The emphasis on technological gain from aid reflected the prevailing doctrines of socialist economic development. From the 1960s and into the late 1980s, Hanoi’s policies of reconstruction and development rested on the “three

⁴¹ Öberg 1985, p.158. (Our translation)

⁴² Nilsson 1981, p.202. (Our translation)

⁴³ For instance, in talks with the Norwegian ambassador in Beijing in September 1973, Pham Van Dong raised the question of Nordic assistance to rebuild homes damaged by the bombing. (Report from ambassador Ravne, 29 September 1973, Stockholm, MFA archive).

⁴⁴ SIDA memo, *Nord-Vietnam möte UD 5.9.1969*, 8 September 1969. Sida archive.

revolutions”: (i) the revolution in relations of production (ownership by the state); (ii) the scientific and the technical revolution; and (iii) the ideological and cultural revolution. Of these, the technical revolution was considered central, even more so than in some other socialist countries at the time. Under the aid agreements with Moscow, thousands of Vietnamese were sent for studies and technical training to the Soviet Union. Aid was a means of transferring technology in general, and this aspect was particularly important in relation to Sweden because it involved modern Western technology. Hanoi officials emphasized in later negotiations over Bai Bang that the factory had to incorporate state-of-the-art technology, and that the Vietnamese should participate in its construction and operation at the earliest stage possible.

Nevertheless, there was evidence of some reserve in the aid relationship. Although never expressed openly, it was inherent in the situation and subtly conveyed.⁴⁵ Swedish aid represented the first instance of economic co-operation with a capitalist state. What would Western aid entail for a system based on Marxist-Leninist principles of planning and state control, or what a leading analyst once called “received neo-Stalinist theory”?⁴⁶ What were the implications at a time when the country was at war with the world’s leading capitalist power?

The difficulties of establishing aid co-operation across the ideological divide in times of war were indicated by a revealing incident already in 1968–69. As noted earlier, North Vietnam urgently needed chemical fertiliser for its agricultural production (which, before the war, had constituted some two-thirds of its GDP). During his 1968 visit to Stockholm, Ambassador Chan had suggested that Sweden send fertiliser as commodity assistance, and the following summer the government requested an immediate shipment of 50,000 tons. The Swedes were prepared. The task force on reconstruction aid at the Ministry for Foreign Affairs had identified fertiliser as a likely aid item, and in March 1969 Nilsson had offered a grant of SEK 10 million for this purpose. A major shipment raised some practical questions, however. How would Sweden safely get several thousand tons of fertiliser into a severely congested harbour in the middle of a war? It fell to SIDA to ask the operational questions regarding the size and facilities of Haiphong harbour. The request for information was passed on to Vietnam, which responded with silence.⁴⁷ Haiphong was, after all, a major potential target in the war and the principal entry point for Soviet shipment of war material.⁴⁸ The fertiliser issue thus ran into problems even before being permanently shelved later in the year in deference to US objections. The incident gave a foretaste of the severe data collection problems that would come to mar the planning of the Bai Bang project in the early 1970s and slow its progress. What to the donor was a

⁴⁵ On the Swedish side in this early phase, Jean-Christophe Öberg had the best access to Vietnamese circles and was a close and long-time participant-observer. He notes numerous signs of reserve on the Vietnamese side. Öberg 1985.

⁴⁶ Fföörde and Paine 1987, p. 90.

⁴⁷ Öberg 1985, p. 152–3. SIDA’s Director-General, Ernst Michanek, was aware of the sensitivity of the information requested but wanted to test the water. Memo written by Michanek 18 March 1969, from the private collection of Öberg’s papers.

⁴⁸ Two years later, in May 1972, the US started bombing the harbour and laying mines.

reasonable request for technical data, was to the Vietnamese a demand for sensitive information that affected national security.

Other implications surfaced during the 1974 negotiations on the paper mill project, and during its implementation. Sweden demanded freedom of movement and other rights for its experts to work in Vietnam. As the Vietnamese pointed out, these were “rights” which the Vietnamese themselves did not enjoy, nor did other foreign experts working in North Vietnam. While the Swedes only secured limited gains on this particular point, the history of the Bai Bang project soon revealed a pattern of special privileges and exemptions that ordinary state and local enterprises did not enjoy, including Soviet-supported projects. By the early 1980s, as we shall see in Chapter 7, Bai Bang appeared as a somewhat privileged enclave which practised a liberal management just ahead of the national reforms, and whose officials drove to meetings in Hanoi in such fancy cars that they were told to park around the corner so as not to arouse envy.

The Party leadership had hardly anticipated these precise developments when entering into aid relations with Sweden. But the broader implications were probably sensed and could account for some of the underlying reservation. Swedish aid was to be a model of development co-operation with Western countries; as such it would in some measure challenge the prevailing orthodoxy and established model of co-operation with socialist allies, both of which had supporters in the Party and the administration. The Swedish embassy in Hanoi reported in the early 1970s that Moscow was displeased with Sweden’s inroads in the aid sector in North Vietnam, and ambassador Öberg noted in his own papers that ideological “hard-liners” in the Vietnamese Communist Party were apprehensive.⁴⁹

The Vietnamese assessed more explicitly what the aid relationship was worth to them in economic terms. The early negotiations centred on loans on very soft terms, with Hanoi hoping for a fifty-year repayment scheme at a maximum of one per cent interest after an initial grace period.⁵⁰ These terms virtually meant a grant. When a project agreement for the paper mill actually was concluded in 1974 – five years after the aid talks started – soft-loan credits no longer figured as part of Swedish aid policy to low-income countries, and the Swedish contribution was financed as a grant. Whether this was clearly communicated to the Vietnamese is another question. Some confusion about the terms remained on the Vietnamese side well after the change in Swedish policy. Vice-Minister of Foreign Affairs, Nguyen Co Thach, noted in an internal meeting June 1974 that it was not clear if the Swedish contribution to the project was a loan or a grant.⁵¹ Yet, if a loan, it was clearly on very soft terms.

⁴⁹ Jean-Christophe Öberg, unpublished manuscript intended as vol II of *Varför Vietnam*, hereafter referred to as *Manuscript*.

⁵⁰ As communicated to ambassador Björnberg (side-accredited to Hanoi) in May 1970, and reiterated in August. Cable from the embassy in Hanoi 18 August.1970, Sida archive. The grace period was proposed at the September 1969 meeting.

⁵¹ Ministry of Light Industry (MoLI) document, Report from inter-departmental meeting, Hanoi, 8 June 1974. National archive, Hanoi. (Our translation)

Speaking in retrospect, a central Vietnamese official involved in the negotiations, the Vice-Chairman of the State Planning Commission Nguyen Van Kha, summed up the situation succinctly. If Swedish aid had been offered as a regular loan, “I would not have continued the negotiations. It would have meant too many obligations to repay after the war.”⁵²

Most of Vietnam’s other economic assistance was in the form of long-term loans. While some of the Soviet loans apparently were written off at various times, only an estimated one third of economic aid from China and the Soviet bloc were in grant form (“non-reimbursable”), and some commodity assistance was paid for on a barter basis.⁵³ The demands of renewed war during the second half of the 1960s added substantially to North Vietnam’s foreign debt for military as well as economic assistance. Unlike the Swedish paper mill, however, this aid was crucial to the war effort and economic survival. Hanoi had little choice but to accept the terms offered by its allies. The emerging aid relationship with Sweden was in a different category: politically and economically desirable, clearly yes – but not at a stiff economic price.

There was also concern in the Party about what the Swedes were really up to. Vietnam had a long history of troubled relations with foreign states, from neighbouring China to France and the United States, and the accepted historical wisdom was that all at various times had initiated military attacks and/or double-crossed Hanoi in negotiations. In the late 1960s, the Party leadership was trying to assess what interests the Swedes had in Vietnam. Foreign Minister Nguyen Duy Trinh had repeatedly asked of Sweden’s Beijing ambassador Lennart Petri during the “Aspen-channel” talks, “Why are you so interested in us? What do you really want?”⁵⁴ A Swedish diplomat who accompanied Foreign Minister Krister Wickman to Hanoi in June 1973 picked up similar signals.⁵⁵ When aid negotiations progressed towards a formal agreement to build a large paper mill, reports in the leading English-language regional weekly, the Hong Kong-based *Far Eastern Economic Review*, interpreted it as efforts by Swedish industry to establish a new niche in Southeast Asia. Since Vietnamese officials tried quite actively to discern what actually lay behind Swedish offers of aid and declarations of solidarity, it may be assumed that the views in the Party were equally influenced by *realpolitik*.

Complex and partly contradictory concerns of this kind were reflected in the Vietnamese approach to the aid relationship. The resulting ambiguity is well expressed in an internal report from the first technical meeting with Swedish experts in early 1971:

⁵² Interview in Hanoi, March 1998.

⁵³ SIDA memo, *Nordvietnam – ekonomi, plan- och biståndsläge*, 3 September 1969, p. 7, Sida archive. Using US government sources, Douglas Pike came to a similar assessment: at least one-third of all Soviet economic assistance in the 1955–85 period was “non-reimbursable”, i.e. grant. Pike 1987, p. 110.

⁵⁴ Petri 1996, p. 414.

⁵⁵ “There was no fulsome praise for our generosity. They evidently figured that we had our own interests in providing aid.” Interview, May 1998.

*We have not sufficiently prepared our specialists mentally to work with them. Since they were a capitalist delegation we had to be cautious, but, at the same time, very active in absorbing and taking advantage of their technical and scientific knowledge. . . Our specialists were very timid and sometimes nervous because they were always afraid of accidentally disclosing national secrets.*⁵⁶

Aid preparations on the Swedish side 1967–69

In the Ministry for Foreign Affairs a young diplomat who also served as Nilsson's personal secretary, Jean-Christophe Öberg, had since late 1967 co-ordinated a task force set up to assess Vietnam's need for to reconstruction aid. Apart from Öberg, the core group consisted of officials in the Ministry's small unit for development co-operation (*U-avdelningen*).⁵⁷ As long as aid was conceived as a joint Nordic effort to assist the reconstruction of all of Vietnam – North and South – the task force could utilize the vast body of statistical and micro-level information on South Vietnam that had been collected under US sponsorship. There was no equivalent database on the North, and when Torsten Nilsson in mid-1968 downgraded the Nordic effort in favour of bilateral Swedish aid to North Vietnam only, the information problem became pressing. Öberg travelled to Hanoi that year partly to identify Vietnamese priorities, but obtained only the most general statements from the State Planning Commission. As a result, the report released by the Ministry's task force in late 1968 analysed North Vietnam's economic needs and aid priorities in very general terms. In the subsequent planning process up to September 1969 – when Nilsson announced the three-year aid programme – there was likewise little input from the Vietnamese on either data or policy priorities.

One reason was lack of communication channels. For most of the time during this early planning period, the two countries had no diplomatic relations. Öberg nevertheless travelled once to Hanoi to discuss aid (1968), and ambassador Chan came twice to Stockholm from Moscow, once before and once after diplomatic relations had been established in January 1969. But communication improved only slightly when Vietnam later in 1969 opened an embassy in Stockholm. One Swedish diplomat recalled that “we would run our ideas by them, and they would listen politely and nod.”⁵⁸ The restraints on the Vietnamese side were partly material – the statistical base was poor – but mainly political: releasing even rudimentary statistics to foreigners during the war, and particularly to a Western state, constituted a security risk. Before aid negotiations proper started in September 1969, the Vietnamese gave only the

⁵⁶ Ministry of Light Industry (MoLI) document, *General Report of Working with Swedish Specialists*, Institute of Paper and Cellulose Industry, no. 78/CNN. TCHC. Hanoi, 15 April 1971. National archives, Hanoi. (Our translation)

⁵⁷ The group included Svensson, Ringborg, and Ekéus. At the time this was the entire unit under ambassador Anger.

⁵⁸ Interview with Svensson, Stockholm, August 1998.

most general indications of what they needed and might want from Sweden. They pointed to certain sectors (medium and light industry, and social developments such as schools), and immediate needs for particular commodities (paper and fertiliser). In the summer of 1969 they requested a credit line of SEK 500 million for commodity imports over five years.⁵⁹

Limited communication produced some disparities during this early planning period. For about a year prior to the public announcement of aid in September 1969, Swedish thinking had focused on transfer of credits or programme aid. Swedish officials were not aware that the Vietnamese generally preferred project aid, in particular large industrial ventures with modern technology. This did not become clear until the first Swedish–Vietnamese aid meeting in September 1969.

The initial Swedish focus on programme, rather than project, assistance might seem reasonable on pragmatic grounds alone. Sweden had few ties with Vietnam and little institutional knowledge of the country. In 1972, when plans for the joint construction of a large, integrated pulp and paper mill were taking shape, SIDA officials wrote in a tone of desperation to the Scandinavian Institute of Asian Studies (as the Copenhagen institute was then called) asking for information about North Vietnam. The language barrier was formidable. The political and economic systems of Sweden and North Vietnam differed radically. It was a first instance of major development co-operation across the East–West divide with all the incompatibilities this implied. In this situation, transfers of credits to be used by the Vietnamese as they wanted, or in a jointly identified programme sector, seemed much more feasible than project co-operation, particularly if this meant following in the footsteps of the Soviets in constructing industrial enterprises. These pragmatic considerations did not, however, determine the initial Swedish preference for programme rather than project assistance. Rather, the choice reflected emerging principles in Swedish aid policy at the time.

New directions were appearing in Swedish aid policy in 1968–69.⁶⁰ Presented by the political left as a correction to earlier policies, the ideas sparked a major debate over aid that lasted well into the 1970s. It became known as the “choice-of-country debate” (*länderval*) and made its mark on policies as well. The new thinking rested on three major and related principles. In simplified form these were: (i) the recipient country should determine aid priorities and policies (“recipient orientation”); (ii) choice of “right” recipient meant that aid necessarily would contribute to “development”; and (iii) since definition of “right” obviously reflected a political judgement, Swedish foreign aid should explicitly and consciously be used as an instrument of foreign policy. By emphasizing the recipient’s responsibility, credit transfers or programme aid were more compatible with these principles than project aid. The critical issue for the donor, of course, was to identify “right” recipients that would use aid responsibly to pursue “development”. To Sweden’s political left, this meant

⁵⁹ Öberg 1985, p.155. The request was conveyed through the Swedish Embassy in Beijing.

⁶⁰ *Prop.* 1968:101, and *statsverksprop.* 1970. SOU 1977a, p. 207.

that aid should be given to Vietnam and Cuba, but not to “reactionary” or “anachronistic” regimes like Ethiopia under the emperor. Programme aid had the added advantage of permitting large and rapid disbursement of funds, thus helping the government to reach its recently stated goal of increasing foreign aid to the equivalent of one per cent of Sweden’s GNP.

The officials involved in the early planning of aid to Vietnam in the Ministry’s *U-avdelning* were all outspoken advocates of the radical line in aid policy and saw Vietnam as a first major application. So did their principal counterpart in the Ministry of Finance in 1969, Lennart Klackenberg, who, the following year, moved across to the Ministry for Foreign Affairs to become a State Secretary for Foreign Affairs, head of *U-avdelningen*, and a principal decision-maker on aid to Vietnam. While civil servants, all were active in the heated public debate on aid.⁶¹ When preparing a framework for Swedish aid to North Vietnam in 1968–69, they were thinking in terms of credit transfers that Hanoi could use freely as it wished, or for identifiable sectors. The degree of freedom was an issue. The government clearly favoured some donor direction in choice of sector. It was “not in line with accepted aid policy to offer substantial credits without specifying their use”, Foreign Minister Nilsson reminded the Parliament.⁶² While the more cautious officials feared that Hanoi might use Swedish credits to purchase weapons – or give rise to such accusations – those closest to the planning process dismissed this possibility. “Unthinkable,” Öberg later wrote, Hanoi was too smart for that. A memo from Klackenberg in June 1969 weighed tying credits to Swedish imports on the one side and full freedom of use on the other, and leaned towards the latter.⁶³ Project aid was dismissed in an aside as a non-starter (see Box 1.1).

Box 1.1: Memo on aid to Vietnam, June 1969, written by Lennart Klackenberg, Ministry of Finance

Credits for North Vietnam could be in the form of either straight foreign exchange credits, or as a credit, for commodities to be specified in advance; aid to a concrete project does not appear as a possibility. . . The advantage of straight foreign exchange credits from a political perspective is that the recipient is entirely free to determine what goods to buy and in which countries. The responsibility for the use of the aid then rests entirely with the recipient. Criticism to the effect that “Swedish machines are left rusting” would not arise.

On the other hand, it might be argued that Swedish aid in this case might be used for purchases that are contrary to Swedish aid policy (e.g. weapons). As against this, one can argue that any aid to an area that is given high priority by the recipient will release foreign exchange that can be used for any other purposes uncontrolled by us.

Source: Cited in Öberg 1985, p. 156.

⁶¹ The principal planners contributed to the aid debate in the popular journal *Tiden*. See Klackenberg 1969, and Ekéus, Ringborg and Svensson 1970. Öberg, who co-ordinated the task force, strongly favoured aid to North Vietnam on political and humanitarian grounds but seemed less concerned with its form.

⁶² Decision by the party leadership, cited by Nilsson in Parliament 21 May 1969. In compilation of government statements, SIDA memo, *Uttalanden i fråga om bistånd till Vietnam*, 25 August 1969. Sida archive.

⁶³ Klackenberg later recalled the matter differently, believing that free credits had not been seriously discussed because they might be used to purchase weapons. Interview, Stockholm, August 1998.

Elsewhere in the Ministry for Foreign Affairs, the thinking seemed to be that credits should be used for import of Swedish industrial goods. To this end, representatives of Swedish industry were called in for a briefing at the Ministry just before the first Vietnamese delegation arrived in September 1969.⁶⁴ But there was no discussion of project aid as a possibility.

In the course of only a few weeks, however, the idea of programme aid disappeared and was replaced by project aid. The change was not the outcome of a single decision, but the result of coincidental events. The transformation started with the arrival of the Vietnamese aid delegation in Stockholm in early September 1969 – which set project aid squarely on the agenda – and became definitive in October after Nilsson's announcement of the three-year aid programme created a political uproar. In order to escape from the political dilemmas which this created, the Palme government found project rather than programme aid to be most useful.

The first meeting: September 1969

While the Vietnamese had been passive in the 1967–68 aid preparations, they came to the September meeting armed with a long and detailed list of proposals which included technical specifications of desired factories, vessels, and power stations. Their Swedish hosts – who had planned to keep the meeting at a general, exploratory level that entailed neither promises nor decisions – were taken aback.

The Vietnamese wanted aid, trade, commodity credits, and technical assistance in what amounted to economic and technical co-operation in several sectors on “a vast scale”, as the vice-chairman of the State Planning Commission, Nguyen Van Kha, told the assembled officials from the Ministry for Foreign Affairs and SIDA.⁶⁵ The Vietnamese priorities reflected in a general sense the plans for post-war reconstruction. While the development plan for the period 1966–70 had not been implemented due to US bombing, it was to be reactivated when peace returned. The plan assigned priority to agriculture and medium-heavy industry, and specified several areas of industrial development: agricultural machines, electricity generation, coal mining, the machine industry, forest industry, and production of cement, textiles, and paper.⁶⁶ Some of these had been included in the aid agenda prepared for the Stockholm meeting, which listed industrial exploitation of natural resources – forestry, fisheries, and minerals – and development of infrastructure. For each sector, the delegation had a detailed list of proposed projects (see Box 1.2).

⁶⁴ SIDA memo, *Sammanträde på UD den 4 sept. 1969, 15.00 med industrirepresentanter ang. Vietnam-delegationens besök i Sverige*, 17 September 1969, Sida archive. The meeting was headed by the most senior civil servant in the ministry (*kabinettsekreterare*), Göran Ryding, who also led the Swedish delegation in the September talks with the Vietnamese.

⁶⁵ SIDA memo, *Nord-Vietnam möte UD 5.9.1969*, 8 September 1969. Sida archive.

⁶⁶ In addition, rebuilding heavily damaged infrastructure, industry and housing was necessary. SIDA memo, *Nordvietnam – ekonomi, plan- och biståndsläge*, 3 September 1969. Sida archive.

Box 1.2: Vietnamese proposal for economic and technical co-operation presented at the September 1969 meeting

Forestry:

- Techniques for reforestation in hilly terrain (10–15 years)

Forestry industry:

- Cardboard factory 10–20,000 ton,
- Pulp factory (bamboo) 50–20,000 ton
- Plywood or fibre factory (20–30,000 ton)
- Furniture factory
- Gift of paper (10,000 ton for printing books and newspapers on the anniversary of Lenin's birth in 1970, also schoolbooks)

Harbours and fisheries:

- Fishing vessels and cargo ships (5–10,000 ton)
- Shipbuilding industry: diesel engines, technical co-operation in construction, navigational equipment
- Technical education for the merchant marine
- Harbour development

Metallurgy:

- Steel mills
- Ball bearing factory (1,000 million ball bearings @ 10–20 mm)

Other:

- Consumer goods industry: canning, office machines, transistor radios
- Aid to promotion of export
- Hydroelectric power station (350,000 kW)

Source: SIDA memo, Direktionssammanträde 8.9.1969, 17 September 1969. Sida archive.

The list – remarkable for its length and specificity – was probably not intended for development co-operation with Sweden only, but represented aggregate needs to be matched with offers from various countries.

As for what Sweden could offer, the Vietnamese came well prepared. They had studied the Swedish economy and “know more about us than we think”, as the ambassador side-accredited to Hanoi, Arne Björnberg, said beforehand. A primary purpose of the visit was to observe the state of capitalist industrial technology, and the delegation had requested a tour of several factories. For most of the members, it was a first encounter with contemporary Western technology. They came away favourably impressed with Sweden's modern and efficient industry, Kha later recalled.⁶⁷

The delegation visited a selection of Swedish factories which were representative of the sectors identified on the shopping list. Among them was also a medium-sized paper factory (Fiskeby AB).⁶⁸ One delegation member,

⁶⁷ Interview in Hanoi, March 1998.

⁶⁸ The factories visited were: SWECO, Halmstads Järnverk AB, Arendalsvarvet, Götaverken, Facit-Odhner (office machines), Fiskeby AB (co-operative paper factory), Skandia-Konsult, Karlshamns Oljefabriker (co-operative margarine factory), and Sölvesborgs Varv. From Elmbrant and Eriksson 1970, p.33, which cites newspapers, SIDA documents and other sources.

Nguyen Dang Ngay, a French-trained engineer, who was in charge of the DRV's paper industry and reappears in the history of the Bai Bang project, made separate visits to several factories that produced machines for paper mills. There is no indication, however, that the Vietnamese at this time considered a paper factory as more than one possible project among several, and the proposed cardboard factory on their list was at any rate small compared to the paper factory later proposed. At the time, the Vietnamese appeared to have set only three criteria for projects. They had to (i) involve modern industrial technology; (ii) be in an area where Swedish capacity fitted Vietnamese needs; and (iii) not involve military-related activities that would conflict with Sweden's neutrality in the ongoing Vietnam War.

No formal decisions were made at the September meeting regarding the magnitude of aid or its uses. To that extent, the Swedish intention, to keep the first official encounter at an exploratory level, was realised. On the other hand, precisely because the Vietnamese had a firm agenda while the Swedes did not, Vietnamese priorities tended to prevail by default.

Although undecided with respect to particular projects, the Vietnamese were firmly committed to project rather than programme aid. There were several probable reasons. North Vietnamese officials had neither knowledge of Western international markets nor a capacity to buy the technology they wanted. Even if they concentrated on the Swedish market, and with Swedish help, they realized that modern technology cannot simply be acquired by a purchase but requires a context for proper use. Project aid promised a greater transfer of knowledge. Project aid, moreover, meant a more prolonged and visible Swedish presence than credit transfers, thus promoting the political objective of aid by demonstrating Swedish solidarity in the war. Swedish diplomats who were involved in the early planning found the Vietnamese determined on this point. "We tried to convince them that programme aid was the most modern and most progressive form of aid, but they were unmoved. They wanted a project", a Swedish official later recalled.⁶⁹

Implicit decisions were also made at the September meeting with respect to project sector. Forest industry, harbour development, and shipbuilding were at the top of the Vietnamese list. In all areas, Sweden had a relevant industrial capacity, and project planning soon commenced in the three sectors although only the paper factory was realised.

The active and well-prepared delegation that came to Stockholm was a striking departure from the passive, nearly reticent, North Vietnamese role during the previous aid preparations. The explanation is probably simple. In 1968–1969, the Swedes were probing for information about North Vietnam; when aid negotiations opened, the Vietnamese could take the initiative without revealing national information. In retrospect, it is symptomatic of the difficulties faced by the Swedish–Vietnamese venture as an attempted collaboration between a communist and a Western government at the height of both the Cold War and the Vietnam War.

⁶⁹ Interview with Svensson, Stockholm, August 1998.

With limited prior contact between the two countries, the Vietnamese were also poorly informed about the scope, purpose, and policies of Swedish foreign aid. SIDA was equally unprepared. Vietnamese requests for information during the September meeting went unmet since SIDA had no explanatory material in French. Only very gradually was a base of mutual knowledge established that permitted better communication and more realistic expectations. In a telling incident during the September visit, a Swedish official noted that a 350-megawatt hydroelectric power station appeared as an incidental item on the Vietnamese shopping list. A power station of this magnitude, he told his Vietnamese counterpart over dinner, would cost as many million *kronor* and absorb about half of Sweden's entire foreign aid budget.

The aid programme that “disappeared”

There was a good reason why the Swedish side wanted to keep the first official aid meeting at an exploratory level. The talks took place two weeks before Torsten Nilsson was scheduled to make the long-planned announcement of aid to Vietnam. The leading civil servants in the Ministry did not want to get ahead of the political process, especially on an issue as sensitive as Vietnam. The same applied to SIDA, which prepared to write an internal memo on the first Swedish–Vietnamese aid meeting with “wide margins for comments”.⁷⁰

On 30 September, Nilsson announced at the Social Democratic Party congress that Sweden would give North Vietnam around SEK 200 million in aid over a three-year period.⁷¹ Of this, 50 million annually was for reconstruction, and 25 million in humanitarian assistance, it was later explained. There was no mention in the speech about *when* the aid programme would start, but Nilsson told the Swedish press just after the speech that aid disbursements could start immediately and would appear as a budget item in the fiscal year starting 1 July 1970. This timetable had also been envisaged by the task force in the Ministry which had worked on the programme, and was specified in a cable sent out to Sweden's missions abroad the day before the public announcement by Öberg, in his capacity as Nilsson's personal secretary.⁷² The pragmatic argument was that since the US had ceased bombing the North, the war had for all practical purposes ended in that part of the country and reconstruction was possible. As for possible conflicts with Sweden's neutrality policy, the argument had been outlined in a memo from the Ministry's *U-avdelning* earlier in the year: reconstruction aid to a developing country at war was compatible with neutrality under international law, in the sense that it was comparable to trade in non-contraband goods with an industrialised country at war.

Not surprisingly, however, the official announcement provoked a reaction from the domestic opposition and Washington. The objections were mainly expressed in the name of upholding Swedish neutrality. Washington let it be

⁷⁰ SIDA memo, *Direktionssammanträde 8.9.1969*, 17 September 1969. Sida archive.

⁷¹ The main facts of the events surrounding the announcement of aid are not in dispute. For different perspectives, see Möller 1992, pp. 174–201, Elmbrant and Eriksson 1970., entire volume, and Öberg 1985, pp. 1.

⁷² Möller 1992, p.180.

known that providing economic aid to a country at war violated with the principle of neutrality. In addition, it might come under US domestic legislation that prohibited Export-Import Bank guarantees to companies in countries that traded with an enemy of the US. Washington's concerns were seized upon by conservative opposition politicians, who had reacted immediately, and by worried industrialists. The Social Democrat's Vietnam policy, they feared, would jeopardise relations with the US and harm Swedish industry either directly (through Export-Import Bank sanctions) or indirectly (through negative publicity in the US).

In the Ministry for Foreign Affairs, a political dividing line existed as well. The pro-Vietnam faction among the civil servants was viewed by the "establishment" diplomats as "hotheads" – "the boys of 1968" who had easy access to Torsten Nilsson and brought radical-left principles and practices into the civil service part of the Ministry.⁷³ The "establishment" diplomats, by contrast, were generally cautious and conservative, seeking to preserve Swedish neutrality in the tradition of Undén. Among them was the powerful head of the political department and later ambassador to the United States, Wilhelm Wachtmeister.⁷⁴ The "establishment" had not objected when the aid programme was being prepared, but once the issue was out in the political arena they seized the opportunity and advised Nilsson to move cautiously.

Undoubtedly, Palme also advised moderation. He was on the point of taking over as Prime Minister and did not want to start off with a crisis with Washington. The US Export-Import Bank had announced already two days after Nilsson's statement that it would start an inquiry to determine whether sanctions against Swedish companies were appropriate.⁷⁵

Slowly but surely Nilsson backed down.⁷⁶ The public version of Nilsson's retreat appeared a week later, on 8 October, in an article in the newspaper *Dagens Nyheter*. The Foreign Minister suggested that reconstruction aid would not start until *after* the war was over. He hoped this would be in the near future. Humanitarian assistance, however, could start immediately. As it turned out, the 50 million for reconstruction appeared in the state budget for 1970/71, and again the following year, but were not disbursed. The war continued despite the Paris peace talks, and in 1972 the US resumed bombing of the North. Efforts to use the promised credits to give Vietnam fertiliser and call it "humanitarian assistance" stranded on objections from the Americans. Chemical fertiliser could be used to make explosives and hence was contraband, Washington maintained. Having run out of options to disburse, the Palme government decided in 1972 to reallocated the entire 150 million originally promised for reconstruction to humanitarian purposes.

⁷³ Åström 1994.

⁷⁴ Wachtmeister later described his main objectives as preserving Sweden's neutrality and salvaging as much as possible of the relationship with the United States. The proponents of immediate aid to Vietnam "didn't give a damn about Sweden's neutrality". Interview in Washington, April 1998, see also Wachtmeister 1996.

⁷⁵ As it turned out, the Bank concluded that sanctions were probably not called for. See Leifland 1997.

The question at any rate evaporated because aid was postponed.

⁷⁶ For a detailed and somewhat polemical account, see Elmbrant and Eriksson 1970. Their main conclusions are substantiated by Möller's more sober account. Möller 1992.

The significance of this controversy for the Bai Bang project is twofold. First, it gave a decisive push to the incipient shift from programme to project aid already suggested by the Vietnamese. The Palme government needed to preempt criticism from the left which cried betrayal on the aid issue, accusing Nilsson and Palme of giving in to pressures from Washington and the domestic opposition. The government was also concerned not to affront Hanoi. But while these considerations suggested forward movement on aid, the pressures from Washington and a spectrum of domestic opinion pointed in the opposite direction. The solution to these conflicting pressures was to maintain the aid momentum by starting a visible planning process, which – if ordinary aid routines were an indication – might last long enough for the war to come to an end and so permit disbursement. That meant project planning.

A decision to this effect was taken on 6 October at a high-level meeting in the Ministry.⁷⁷ Assessing the options after the aid announcement, Ministry officials decided to turn the case over to SIDA to get the planning process started. SIDA, it will be recalled, was already writing memos on Hanoi's ideas for projects with "wide margins for comments". At the same time, the Vietnam aid dossier in the Ministry was transferred from the "hotheads" in *U-avdelningen* to the Eastern Europe section, which was headed by an "establishment" figure.⁷⁸ Thus, the proponents of aid – and programme aid in particular – were outflanked at a critical point in the decision-making process.

As it turned out, project planning proceeded more slowly than even the most cautious officials might have anticipated. In January 1973, when the war in Vietnam "ended" in the sense that a formal peace agreement was signed in Paris, SIDA consultants were working on a pre-feasibility study for the first project, which was the paper and pulp mill. A project agreement was not signed until a year and a half later, in August 1974. As we shall see, one of the major irritants in Swedish–Vietnamese relations during these years was mounting Vietnamese concern over the slow planning process. Underlying this was a failure to grasp the fine but important change in Swedish policy about when reconstruction aid would start – from "immediately" to "after the war". There is no documented record in the available archives showing that Hanoi was informed about the policy change at the time. Rather, indications are that Hanoi officials expected the promised aid to start immediately, as Nilsson originally had said. When this did not happen, they grew increasingly suspicious and frustrated.

⁷⁷ See particularly Öberg's account of this meeting, Öberg 1985, pp. 175–176: "I pointed out that preparing to execute a large aid programme for reconstruction of the kind announced by the foreign minister would take a very long time, probably years."

⁷⁸ The section was headed by Leifland, later an unhappy chargé in Washington DC in 1973–4 when the US refused to have ambassadorial-level relations with Sweden because of its Vietnam-policy. The transfer was the last step in a counter-coup against the "hotheads" on aid to Vietnam. It started when Nilsson's political advisor, Björk, modified the speech to be given by Nilsson at the party congress. The draft version had specified that reconstruction aid to North Vietnam would start immediately since the war in that part of the country, for all practical purposes, was over. On this point Möller 1992 (p. 185) is incorrect.

Chapter 2

Negotiating a paper factory – tension mounts

The idea of aiding North Vietnam rapidly crystallised into plans for a paper factory. That the flagship of Swedish–Vietnamese co-operation was to be a paper mill was a Vietnamese decision; Sweden acquiesced in accordance with the principle of “recipient orientation”.

The two parties agreed in 1970 to explore the paper factory option, and feasibility studies were started in accordance with SIDA's planning process. The implications of opting for a project rather than programme aid soon became evident. Over the course of four years, the two sides struggled to reach an agreement on the feasibility of building a large, modern paper and pulp factory in a remote and undeveloped region of North Vietnam.

For North Vietnam, Bai Bang was a political symbol of support in the war against the US as well as a gateway to economic co-operation with non-socialist countries, hence political criteria were important. For SIDA, criteria of technical feasibility were paramount. Could this be done, or would it turn out to be a rusting monument to the notion of Swedish–Vietnamese solidarity? Faced with Vietnamese determination and its “can-do” attitude, however, as well as a strong political commitment to the project at home, SIDA officials had no choice but to make the best of the situation. In August 1974 an agreement to build an integrated paper and pulp factory was signed. Reflecting on the efforts, Ernst Michanek, the Director-General of SIDA, wrote a note with the title “Nevermore” (*Aldrig mer*), and filed it away in his private archive.

The dynamic of the four-year planning phase (1970–74) seemed more typical of negotiations between adversaries than co-operation among partners in a development project. To reduce risk and uncertainty, SIDA insisted on elaborate data collection for planning purposes and organisational controls during project

implementation. In Vietnamese eyes, the Swedes were asking for sensitive information that could not be released – particularly in a time of war and certainly not to a Western power. There were differences in priorities. Hanoi wanted a project agreement that clearly respected Vietnam’s sovereignty. SIDA officials wanted an agreement that gave the project a reasonable chance of success. The Vietnamese wanted quick decisions and results. The Swedes wanted a slow pace and minimal risks. The Vietnamese found the technically-driven SIDA officials more intrusive than their “fraternal socialist” aid partners. The Swedes were taken aback by the mistrust and tough bargaining of the Vietnamese.

The different approaches reflected the inherent contradictions of a project undertaken at a time of war between two very different states that had no previous history of co-operation. While perhaps unavoidable, the consequent tension gave the project a wobbly start

In the end, the Vietnamese enjoyed the strongest bargaining position. They were confident that the Swedish government would not back down – “Palme had promised us the aid”, as they later said – and for practical and political reasons, the funds had to be spent in accordance with Vietnamese wishes. This was equally the feeling on the Swedish side, including SIDA’s leadership.

Our analysis of the planning process also provides answers to what would later emerge as central questions. Why did it take over four years to finalise an agreement to build a factory? Why was the project approved at all when SIDA concluded in early 1973 that Bai Bang was “uneconomical” and other alternatives ought to be examined? The paper mill would cost more than if it were built in Sweden, and the price of the paper would be above world market prices, the agency predicted.

Hanoi 1970: The first step

When – and why – did the idea of a paper factory arise? Some Swedish and Vietnamese sources suggest that the idea already emerged at the first official aid meeting in Stockholm in 1969.⁷⁹ That may be so, but there was no formal discussion of particular projects at that time and no mention of a paper factory in the records of the meeting. What is clear is that, soon after that meeting, a paper factory was identified as *the* principal project to give Swedish–Vietnamese

⁷⁹ Öberg, Manuscript, p. 1, and Ministry of Light Industry (MoLI) document, *General Report of Working with Swedish Specialists*, Institute of Paper and Cellulose Industry, no. 78/CNN. TCHC. Hanoi, 15 April 1971. National archives, Hanoi, p.2. (Our translation)

solidarity concrete form. This was entirely a Vietnamese decision. When preparing for the following aid meeting to be held in Hanoi in October 1970, the Vietnamese opted for a paper factory as the opening project of Swedish–Vietnamese development co-operation and subsequently conveyed this view to the visiting Swedish delegation.

The DRV’s State Planning Commission was a principal actor on the Vietnamese side during the planning period from 1970 until 1974, at which time a project agreement was signed. Its Vice-Chairman, Nguyen Van Kha, liaised closely with Jean-Christophe Öberg, who, in July 1970, had been sent by Torsten Nilsson to open the Swedish Embassy in Hanoi. The Kha–Öberg link became the principal high-level channel of regular communication on aid co-operation during the planning period, and arguably the most effective one.

The Planning Commission in effect set the agenda for the 1970 aid meeting in Hanoi, just as it had in Stockholm in 1969. By the time the Swedish delegation arrived in mid-October, Kha was well prepared. He had a blueprint ready for how to use the SEK 150 million. Torsten Nilsson had promised for reconstruction aid, and a long-term, creative vision for Swedish–Vietnamese economic development co-operation. An integrated paper and pulp mill was on top of his list. In addition, Kha reiterated some of the suggestions that he had made during the Stockholm meeting. Vietnam would like assistance for shipbuilding, development of harbours, and “of course” also other areas where Sweden had advanced technological capacity that Vietnam needed, notably steel, railway, and mechanical equipment. Kha realised that the 150 million would hardly cover the full list of projects; rather, it was to be understood as a long-term agenda for development co-operation between the two countries.⁸⁰

Kha made no sharp distinction between reconstruction and development aid. The first project with Sweden would be financed by the SEK 150 million announced as “credits for reconstruction” and lead into broader development co-operation. A request for joint ventures, which also had been mentioned at the Stockholm meeting, was now developed into a long-term vision for the future. Kha’s views were not only ambitious, but – particularly for a high-ranking planning official in a rigid state socialist system – remarkably flexible. Swedish capital and know-how would combine with Vietnam’s inexpensive labour, skilled as well as unskilled, to produce goods for export in Southeast Asia, and launch Vietnam on an export-led growth curve after the war. Once the war was over, he believed, Southeast Asian states would probably enter into regional economic co-operation, thus enlarging the scope for Swedish industry.

Viewed from the vantage point of the 1990s, these were prescient sentiments indeed. No less a pragmatist, however, Kha took one step at a time and chose to start with the paper factory. Paper was *not* at the top of Vietnam’s

⁸⁰ Ministry for Foreign Affairs (MFA) document, *Besök hos nordvietnamesiske bitr. Planeringsministern*. Cable from the embassy in Hanoi (Öberg) to MFA/Klackenberg, 1970-08-24. MFA archive. While in Stockholm the previous year, Kha had been informed about Nilsson’s forthcoming speech and the likely sums involved.

development plans, he told the Swedish aid delegation that arrived in Hanoi, but there was no need for strict congruence between the priorities of Vietnamese development and those of Swedish–Vietnamese co-operation.⁸¹ It was rather a question of finding a fit between the two, and here the match was simple: The Vietnamese wanted to develop their rich forest resources and they needed paper for schools, literacy campaigns, newspapers etc. Sweden, for its part, had a modern paper industry that could share technology and other resources.

Elaborate data were later marshalled to demonstrate North Vietnam's need for paper. The relevant ministries in Hanoi supplied figures in the early 1970s showing actual and anticipated production, consumption, and import of paper.⁸² At the time North Vietnam had three centrally administered paper factories, and some twenty odd very small factories run by the provinces. The largest, built with Chinese assistance in Viet Tri, had been repeatedly bombed and was operating at only half capacity, producing around 5,000 tons of paper annually. A factory north of Hanoi, even more damaged by American bombing, was turning out 4,000 tons of cardboard (for boxes for matches, cigarettes etc), while a third factory south of the capital was producing an unknown quantity of wrapping paper. The twenty-odd provincial factories were producing between 300 and 2,000 tons each, amounting to around 12,000 tons altogether. Domestic paper production did not match consumption even in peacetime. Statistics going back to 1960 showed that the DRV had imported paper since 1960, with the amount almost doubling from 16,600 tons in 1960 to 27,550 tons in 1971. By then, imports accounted for about three-quarters of total consumption. Most came from the Soviet Union and was purchased at prices far below those set by Vietnamese authorities for domestically produced paper, but were apparently well above world market prices.⁸³ Official Vietnamese projections for future paper consumption showed a dramatic increase to ca. 300,000 tons in 1980 – a ten-fold increase over current levels. Even allowing for depressed consumption during the war, this was a remarkably sharp expansion, as SIDA officials commented.⁸⁴

Both Vietnamese and Swedish officials recognised that these statistics had limitations. On the Swedish side, there was scepticism towards the use of “magic numbers” in Vietnamese state socialism; planning required numbers – large and preferably not rounded-off numbers.⁸⁵ Vietnamese

⁸¹ SIDA memo, *Sammanträde 16.10.1970 ang. Kreditbelopp, kreditvillkor, inriktningen av det framtida samarbetet m.m.*, 19 November 1970. Sida archive.

⁸² MFA document, cable from the embassy in Hanoi (Öberg) to MFA/Klackenberg, 31 January 1972, MFA archive, and figures from the Planning Commission given to the first SIDA consultant, Pöyry & Co 1971.

⁸³ The point was made in a report by ambassador Öberg from Hanoi to the Ministry for Foreign Affairs in Stockholm, but without source references. MFA document, cable from the embassy in Hanoi (Öberg) to MFA/Klackenberg, 31 January 1972. MFA archive.

⁸⁴ SIDA memo, *Skogsindustriprojekt i Demokratiska republiken Vietnam (DRV)*, insatspromemoria, 19 February 1973, p. 6. Sida archive.

⁸⁵ The projections for paper consumption given to the Swedish Embassy, for instance, estimated the demand in 1980 as 312,600 tons. The Planning Commission used more round-off figures, thus their projections for 1980 was 280,000 tons.

officials later admitted that the sources and methods of planning in those years were less than rigorous.⁸⁶ Irrespective of how the figures on paper production and consumption had been arrived at, however, the conclusion was unequivocal: North Vietnam had to import substantial amounts of paper even in wartime, and had decided to expand domestic production to permit much greater consumption after the war. It was essentially a statement of aspiration; for a modernising socialist society, current consumption of paper in the DRV – particularly of schoolbooks and newspapers – was much too low. Vietnamese paper production was at the level of Bangladesh and Burma, officials despaired.⁸⁷ In line with this reasoning, plans were made to repair and expand the Viet Tri paper factory to produce 20,000 tons per year in 1975.

Other factors also favoured using the promised Swedish reconstruction credits to build a large paper factory. Specific agencies had an organisational interest in promoting the project, above all the Ministry of Light Industry (MoLI). As the agency in charge of production and distribution of paper at the central level, MoLI had for the past few years been blamed for shortages of paper. Here was an opportunity to mute the criticism. Moreover, the factory would be turned over to MoLI for management, thus enhancing the Ministry's prestige, resource control, and hence power. An integrated paper and pulp factory was also viewed by some in the Planning Commission and the Directorate of Forests as a catalyst for development of the forests.⁸⁸

Behind it all was the basic assumption of North Vietnamese development theory that industrial development was the principal engine of growth and modernisation. As a leading expert on the DRV's economy put it, "the Vietnamese Communist leadership consciously sought to implement the process of social and economic development that would constitute their hoped-for Socialist Revolution. . . They believed in the neo-Stalinist assumption that the most fundamental, and therefore most important, constraint upon national economic development was the availability of industrial fixed capital."⁸⁹ Industrial investment, in other words, was essential to progress. A factory located in the impoverished Vinh Phu province would further contribute directly to regional development.⁹⁰

⁸⁶ Interview with former Vice-Minister in the State Planning Commission, Pham Hao, Hanoi, March 1998.

⁸⁷ The Vietnamese book on the Bai Bang factory commissioned by the enterprise to commemorate its 15th anniversary in 1997 claims that paper production in the Democratic Republic of Vietnam was equivalent to 1 kg per capita, only just above Burma (0.9) and Bangladesh (0.5). Dao Nguyen and Quang Khai (eds.) 1997, p.15. Vietnamese officials later interviewed for this report made similar comparisons. The source for these figures is unclear.

⁸⁸ Persistent Swedish concern with the raw material base found an echo on the Vietnamese side, leading to a commitment in 1972 to establish new plantations near the factory site and consideration of a large, long-term programme for forest planting. On the instructions of Vice-Chairman Nguyen Van Kha of the State Planning Commission, the Directorate of Forests set aside 100,000 ha for tree plantations in mid-1972. At the same time, Kha wondered if the Swedish government would support a 10–15 year programme involving 1 million ha of pine plantations. East Germany had been approached as well to support such a programme. MFA document, cable from the embassy in Hanoi (Öberg) to MFA, 6 June 1972. MFA archive.

⁸⁹ Fforde and Paine 1987, p. 38.

⁹⁰ Interviews in Hanoi, March 1998.

These considerations pointed not only to a factory, but to a very large factory. At the 1970 aid meeting in Hanoi, the Vietnamese suggested a paper factory with an annual production capacity of 100,000 tons. This was slightly above the capacity of the paper factory in Sweden that had impressed the Vietnamese delegation during its visit the previous year. At the time this was a medium-sized factory in Sweden, but by Vietnamese standards it was very large indeed – almost ten times larger than the Chinese-built factory in Viet Tri, which was the biggest in the country.⁹¹

The immediate Swedish reaction was that a factory producing 100,000 tons was out of the question. To build such a factory in Sweden was relatively easy; to build it in a poor country which lacked economic and social infrastructure, had no prior experience with an industrial venture of this scale and complexity, and had been devastated by two successive wars after its self-proclaimed independence in 1945, was quite unrealistic. The first report by the Swedish forestry consultant who assessed the possibilities for a paper factory echoed these views. The 1971 report concluded that a factory of 100,000 tons was too large, only a factory about half that size would be feasible. The reasons cited were administrative and technical constraints – not the raw material shortages which later became the principal focus in the technical assessments.⁹²

The figure of 100,000 tons seems to have originated with – or at any rate was strongly supported by – Nguyen Tao, the head of the Directorate of Forests. Being in charge of the nation's forests, Nguyen Tao pinned his arguments on the availability of fibrous raw materials, which he claimed were sufficient to support a factory of 100,000 tons. In the State Planning Commission and the Ministry of Light Industry there was apparently some scepticism to this sustained by previous paper production records. Nevertheless the sceptics found it difficult to challenge the Directorate of Forests by themselves. They lacked the necessary technical data, and Nguyen Tao was a powerful political personality.⁹³ Moreover, the conventional wisdom at the time, and which lasted into the 1980s, was that Vietnam's forests were plentiful. "Wherever you looked, there were forests", one official later noted. If this should turn out to be wrong, "we would simply plant some more," he added.

Faced with stiff opposition from the Swedes, as well as people in the State Planning Commission and the Ministry of Light Industry who were eager to move the project forward, Nguyen Tao relented. Kha proposed a compromise solution of a factory producing 50,000 tons, as he later recalled. It worked. In October 1971, SIDA's Board authorised "a pre-feasibility study" of a factory

⁹¹ The Vietnamese claimed that the Viet Tri factory had an original capacity of 15,000 tons, but Swedish consultants put it closer to 8–10,000 tons. E. Diedrichs, *Beträffande skogsindustriprojektet i DRV*, memo to SIDA, 12 June 1973. Sida archive.

⁹² Pöyry & Co 1971. This was the consultant's first assessment. Not until 1972 did he raise the issue of shortages of forest resources with full force.

⁹³ Nguyen Tao's credentials as a close associate of the then President Nguyen Luong Bang (with whom he had shared a long term in French prisons), made everyone from the Prime Minister and down reluctant to challenge him.

with a capacity of 50,000 tons. This became the point of departure for the rest of the assessment period.⁹⁴

The incident highlights two dynamics that characterised the decision-making process during the planning period. First, while the principal division was along national lines with Vietnamese officials arrayed on one side and the Swedes on the other, cross-border alignments were sometimes formed. Tacit alliances of this kind were typically designed to remove bottlenecks and were initiated by persons who had a strong interest in moving the project forward. Second, the Vietnamese positioning and repositioning on the issue of size was based on political-pragmatic considerations rather than technical assessments. Technically oriented officials in SIDA found this profoundly frustrating and an obstacle to effective communication.

Moving at a different pace

The Directorate of Forests's view of the national forests in some ways reflected the general Vietnamese approach to the project in this period. There was a sense of pride and power, a "can-do" attitude partly generated by the progress in the war against the United States and the earlier victory over French colonialism. To build a paper factory was a manageable task compared to other challenges that the Party and the people had faced. As an army engineer turned economic planner later said, "the war had made us believe that with determination we could overcome any obstacle."⁹⁵ Most of the officials involved in the negotiations were veterans of the earlier war against the French, including Vu Tuan – the Vice-Minister of Light Industry who became a key player later in the planning period – and Kha. When discussing the project in 1970, Kha exuded confidence and optimism. The factory would be ready by 1975, he thought. While he knew that the Chinese required four years to build an 80,000-ton-capacity mill, with advanced Swedish equipment the construction period could be even shorter!⁹⁶

As it turned out, the factory was not officially opened until 1982, twelve years later. Part of the explanation lies in another observation made by the ex-army engineer mentioned above: "Later we also came to understand that the sacrifices called for by the war could not be realised in peacetime." The dynamics of wartime mobilisation did not readily carry over. Building a paper mill was a different order of challenge under very different circumstances. But in the 1970s, self-confidence generated by the war shaped the Vietnamese approach to the planning process and gave rise to irritation and suspicion

⁹⁴ The principal Swedish consultant, Pöyry's Magnus Spangenberg, later suggested that the raw material situation permitted a factory with a capacity of only 35,000 tons. But the starting point from 1971 onwards was 50,000, not 100,000 tons. SIDA officials speculated that a paper factory with a capacity of 100,000 tons had been included in the Five-Year Plan for 1970–75. This could not be confirmed since the Swedes were not allowed to see the Plan. SIDA memo, *Skogsindustriprojekt i Demokratiska republiken Vietnam (DRV)*, insatspromemoria, 19 February 1973. Sida archive.

⁹⁵ Interview with Pham Hao, Hanoi, March 1998.

⁹⁶ Interview in Hanoi, March 1998, also Kha's communication to Öberg as reported in cable from the embassy in Hanoi to MFA/Klackenberg, 24 August 1970. MFA archive.

towards the Swedes who insisted on a long and elaborate pre-project assessment.

Behind the rising irritation was also Hanoi's understanding that North Vietnam in 1969 had been promised a three-year aid programme with no particular conditions attached. There is no evidence in the archives made available for this study that the Vietnamese were informed of the additional stipulations that Torsten Nilsson had made to the Swedish media after he announced the programme, i.e. that the funds could not be disbursed until after the war. The Vietnamese position reflected a contrary assumption. For instance, in October 1970, Kha wanted to conclude a project agreement and said he hoped that the paper factory would be *completed* in 1975. By that time, the war might be over as well, he said laughingly to Jean-Christophe Öberg who had just arrived to open Sweden's embassy in Hanoi.⁹⁷ In other words, Kha assumed that construction of the factory could proceed independently of the war, while the Swedes had decided that only planning could be done while the war lasted. There is no mention in the available records of how this blatant misunderstanding was handled; indeed, there is no clear indication that it was even recognised as a serious misunderstanding by the participants at the time.

The utilisation of the funds seemed to Kha straightforward as well. The Swedish government had promised 150 million in reconstruction credits, and the State Planning Commission had presented a list of possible projects. After the first round of talks in Stockholm in 1969, his government had decided to start with a paper factory, hence it was time to discuss the terms of the project agreement, he told Öberg on the eve of the second aid meeting in 1970. It was the first of a series of similar statements made with increasing frequency and urgency during the next four years. Kha considered that a decision to build a paper factory had been made. In his view, "the feasibility report would therefore be merely a preparatory study to plan a project that already was agreed upon", Öberg reported back to the Ministry after his talks with Kha in the autumn of 1970.⁹⁸

The Swedish aid delegation that arrived in Hanoi for the 1970 meeting saw the matter quite differently. There was no Swedish commitment to a particular project at this time. A project decision could only come as a result of the planning and assessment phase itself. The view was clearly articulated on the SIDA side of the aid delegation, which was jointly led by SIDA's Director-General Ernst Michanek and the new state secretary in the ministry's *U-avdelning*, Lennart Klackenbergh. Internal SIDA reports prior to departure for Hanoi had characterised the visit as a "get acquainted mission". One report pointed out that the Vietnamese hoped to discuss terms of a project agreement at the forthcoming meeting and wanted to start planning immediately for a paper factory. It received comments of "senseless" (*huvudlöst*) and "!!" in the

⁹⁷ MFA document, cable from the embassy in Hanoi (Öberg) to MFA/Klackenberg, 25 September 1970. MFA archive.

⁹⁸ *Ibid.*

wide margins with which SIDA memos on aid to Vietnam now were equipped.⁹⁹

Despite the difference in initial positions, the October 1970 meeting in Hanoi went well. The differences were aired, contributing to better mutual understanding and some adjustments on both sides. The parties agreed to start assessing project possibilities within the forest industry, with emphasis on paper production. Project assessment would start in other sectors requested by the Vietnamese as well. In retrospect, participants on both sides recall it as a very positive meeting. The Swedish delegation was impressed by what it saw during this first visit to Vietnam. Even a cautious and sceptical man like Michanek later marvelled at the Vietnamese ability to function despite the hardships of war. In a telling incident, the SIDA director later remembered the delegation's visit to the Viet Tri paper factory. "It was a miserable, bombed-out structure, you would hardly believe it could produce anything. But the Vietnamese fed some bamboo sticks into it and, miraculously, out came sheets of paper!"¹⁰⁰ It seemed to be proof that the legendary Vietnamese reputation of "victory-against-all-odds" was not merely a myth.

SIDA officials nevertheless did not yield on the demand for thorough and detailed pre-project assessments before deciding on a project. The basic SIDA approach was that the paper mill entailed more risk, involved greater costs, and was politically more sensitive than most projects. The decision to aid Vietnam had been made on political grounds largely unrelated to development considerations and given to SIDA for implementation. SIDA now had to make the best of it, but there was little enthusiasm at the leadership level. This was Sweden's first major aid project to a communist country, and political critics were waiting on the sidelines ready to spring to attack at the first signs of failure. SIDA had no experience of working in Vietnam and faced the cumbersome bureaucracy of a state socialist system as its counterpart. Communication problems of all kinds were formidable. Unlike in most projects, the agency lacked in-house technical expertise for the task on which it was about to embark and had to rely entirely on Swedish industry. Building a modern, integrated paper and pulp mill – even a medium-sized one by Northern European standards – was a larger and more complex project than SIDA had ever undertaken before. North Vietnam, for its part, lacked economic infrastructure and relevant technical expertise. There was a distinct danger the project would end up a rusting hulk in the jungle, contributing nothing to development and damaging the reputation of SIDA and Swedish industry in the process.

With these considerations in mind, SIDA officials looked to risk-reduction strategies. One such strategy was to institute elaborate and detailed pre-project assessments, and this approach came to prevail on the Swedish side. The aid

⁹⁹ SIDA memo, *Ang. Svensk delegationsbesök i DRV i oktober 1970*, 7 September 1970, and SIDA memo, *Utkast till uppdragsbeskrivning för Vietnam-delegationen*, 9 September 1970. Sida archive.

¹⁰⁰ Interview with Ernst Michanek, Stockholm, October 1997. In the Bai Bang project discussion in 1970–74, Michanek consistently expressed caution and scepticism on technical grounds.

section in the Ministry for Foreign Affairs remained involved in matters of policy, and the division of labour between SIDA and *U-avdelningen* was not always easy. But in the day-to-day operations of preparing the project, SIDA's jurisdiction and authority were clear.

SIDA's approach collided head on with the Vietnamese insistence on speed, a "can-do" attitude, and perceptions of the project as a political monument to Swedish–Vietnamese solidarity that did not require prolonged technical assessments. The conflicting approaches characterised the entire planning period up until August 1974, when an agreement to build a paper and pulp mill was finally signed.

Assessing and planning the project: A long haul

The differences in approach manifested themselves in several areas during the planning period (see Box 2.1). Negotiations were particularly difficult in relation to (a) raw material sufficiency; (b) sequence of construction; (c) project organisation; (d) rights of foreign advisors and access to information; and, (e) timing and nature of a project agreement. Ironically, what was *not* problematic were two issues which in retrospect proved to be the most controversial in the public mind. One was the decision to build a large industrial project in a remote jungle region with no infrastructure. This contributed to the delays and cost overruns that made Bai Bang infamous in the annals of Swedish foreign aid (see Chapter 3). The second problem area related to social issues: the recruitment and living standards of workers at the mill and in the forest areas that provided the raw material. These became the focus of an intense debate in Sweden during the 1980s (see Chapter 6). Yet none of these issues were controversial or much discussed during the planning period. They were in effect non-issues.

The non-issues: Industry, location, and social conditions

The Vietnamese reasons for wanting a large industrial project have been outlined above. On the Swedish side, there was remarkably little discussion of the pros and cons of embarking on a large industrial project as such. Apart from the requirement that Swedish aid could not be used for strategic purposes during the war, and must be in an area where Sweden had relevant expertise, the sector choice was hardly discussed. The Vietnamese emphasis on industrial development for aid co-operation met with no objections from the Swedish delegation at the 1970 aid meeting or during the next two years when other projects were explored in addition to the paper factory (harbour construction and ship building).¹⁰¹ There are two main reasons. First, the Vietnamese wanted

¹⁰¹ The State Planning Commission wanted an alternative to Haiphong harbour, and Kha tried to interest Swedish industry in the project during his September 1971 visit to Stockholm. In co-operation with the industry, SIDA started in early 1972 to assess assistance for harbour development, ship-building and constructing a diesel engine factory, but the work was interrupted by the renewed US bombing of North Vietnam. The initiative was never revived.

aid to industrial development and “recipient orientation” was a major principle of Swedish aid. The principle had just been affirmed in an important government statement on aid to the parliament in 1968,¹⁰² and only modified to permit some assistance which the recipient government might not desire (e.g. aid to family planning and women). When the Vietnamese insisted on a paper factory – which, moreover, was politically neutral and would draw on Swedish industry – the Swedes could hardly object. “We had painted ourselves into a corner”, the deputy and later Director-General of SIDA, Anders Forsse, later wrote.¹⁰³

Box 2.1: Vietnamese minutes of meeting with Swedish experts

(Vu Tuan was Vice-Minister of Light Industry, Magnus Spangenberg represented SIDA's forestry consultant firm, Jaakko Pöyry, and Ngu was Deputy Director of the Directorate of Forests):

Spangenberg: The planned output of 50,000 tons per year is rather high, so the factory should be smaller. The situation shows the necessity of afforestation and new plantings. Sometimes I think you overestimate existing forests. You should be more realistic.

Vu Tan: Your worry is understandable because you, as a foreigner who has just come to Vietnam for a short time, do not know our forest situation very well. Raw material is not a big problem. Our government has planned afforestation to serve different industries, including paper. Therefore, I think this debate may continue, but you should believe that Vietnam has enough materials for the factory (. . .)

Spangenberg: We and people all over the world have seen your intelligence, especially in the resistance against foreign invaders, but no government has magic. Therefore, again, you should be very realistic. What we imagined before is different from what we see now. . .

Vu Tuan: . . . We would like to reaffirm that Vietnam will be responsible for the supply of enough materials. You should not compare Vietnam with Nationalist [i.e. non-communist] countries. Many things they cannot do but we can.

Ngu: We are only worried about the transportation [i.e. not the stock of raw material but transportation to the factory site]. It is true that there are many difficulties in realising our objectives, but all difficulties will be overcome if the State and the Ministry of Light Industry are committed to building the factory.

Spangenberg: Additionally, I want to draw your attention to our co-operation in the forest inventorying (. . .) We felt we were left aside in that process.

Vu Tuan: To be frank, there is a war going on in our country. In some places, even Vietnamese are not allowed to pass freely. . . As agreed, Vietnamese specialists will do the work with the assistance and guidance of Swedish counterparts. If we displeased you by not taking advantage of your assistance, we will try to improve the situation.

Source: Ministry of Light Industry document, National archive, Hanoi. (Our translation)

¹⁰² Prop.1968:101.

¹⁰³ Written communication to the authors, 10 November 1998.

At the start of the 1970s there were also new trends in Western thinking about development aid that favoured industry. The evolving principles were incorporated in the guidelines for Sweden's foreign aid policy in the budget authorisation for 1971.¹⁰⁴ The Bai Bang paper factory was in this context at the cutting edge of evolving paradigms about development assistance. As in socialist thinking, large industrial projects were seen as critical to growth, modernisation, and hence "development".

The site of the future factory was decided quickly and primarily by the Vietnamese. Of the four administrative divisions of the country's forests, Hanoi chose region IV based on the availability of raw materials. Within this region, they gave Swedish consultants a choice of three sites, as the principal consultant later put it.¹⁰⁵ The criteria for location were a) proximity to Song Hong (Red River) for transportation of raw material and other supplies, b) proximity to Song Lo (Clear River) river which would provide good processing water for the mill, and c) development of a poor region. The Vietnamese were also anxious that wastewater from the mill should not contaminate the irrigation water used for rice cultivation in the lowlands. In the end, the mill was situated a little upstream from the confluence of the two rivers, sufficiently far from the lowlands to permit the waste water to recover in case of accidental spills, according to the Swedish experts, and, on an extended line from Road no. 2 from Hanoi, not far from the Chinese-built paper factory at Viet Tri.

It was agreed from the beginning and specified in the project agreement that Vietnam would be responsible for providing sufficient workers for the mill. This was part of the division of labour whereby Sweden would provide capital and know-how, and Vietnam most of the rest. The living and working conditions of the labourers were therefore considered to be a matter for the Vietnamese to decide. The subject did not arise as a contentious issue between the two states until the early 1980s, when it was generated by a different political context in Sweden.

Another social issue emerged briefly during the planning period in the early 1970s, though only to be put aside. SIDA officials who handled the feasibility studies noted that a substantial number of slash-and-burn cultivators – most of whom were ethnic minorities – probably would be displaced by commercial forestry operations designed to provide timber for the mill. However, Hanoi maintained that this was an internal affair and did not permit SIDA to investigate more closely.¹⁰⁶ For Vietnam this was partly a matter of respect for its sovereignty and the principles underlying the Swedish–Vietnamese division of responsibility on the project. Moreover, slash-and-burn cultivation was viewed as a destructive practice that, without regrets, could be allowed to disappear and replaced by a more rational exploitation of the forests. The pace of economic progress thus shaped fate of the cultivators, in this view.

¹⁰⁴ Prop.1971:1. Cited in Stokke 1978, p. 206. In the period 1962/3–1968/9, an estimated 25 per cent of Swedish development credits – not including technical assistance – went to industrial development.

¹⁰⁵ Magnus Spangenberg, written comments to the authors, 27 October 1998.

¹⁰⁶ SIDA memo, *Skogsindustriprojekt i Demokratiska republiken Vietnam (DRV)*, insatspromemoria, 19 February 1973, para. 4.3.2(b).

During the planning period, SIDA basically accepted the Vietnamese position that social matters were within the Vietnamese domain.¹⁰⁷ This position was in line with both the underlying division of responsibilities and the dominant thinking on development assistance in Sweden at the time. Apart from the political and humanitarian case for aiding Vietnam, the DRV was viewed by the centre-left as a suitable partner for development co-operation precisely because it was “progressive” with respect to social justice.¹⁰⁸ Finally, the Vietnamese made it quite clear they would stand firm on this and other matters they considered within their jurisdiction, as they demonstrated on a range of more controversial issues. As the planning progressed, SIDA had to show care in picking its battles in what increasingly appeared as negotiations between adversaries rather than partners in development co-operation. Social issues was not one of them.

The major issues

Timing

More controversial was the issue of timing, which revealed the basic disagreement in approach between the Vietnamese and the Swedes. At the third aid meeting, held in Stockholm in August–September 1971, Kha again acted as if the decision to build a factory had already been made and emphasised speed of implementation. The factory should be ready as soon as possible, preferably by 1975. By this time, Kha apparently had come to believe that the process was being slowed down by American objections to reconstruction aid while the war was still going on. The paper factory could be seen as a form of humanitarian assistance, Kha told his Swedish hosts, since the purpose was to produce schoolbooks and paper for cultural purposes.¹⁰⁹ The implication was that political constraints could be circumvented by stretching the concept of humanitarian assistance, just as the Swedes had tried to do on the fertiliser issue two years previously (see Chapter 1).

On the Swedish side, the idea that a paper factory could be reclassified as humanitarian assistance was not entertained at any time. But the immediate obstacles in 1971–72 were technical, not political. SIDA had taken over the project negotiations and – while working on the assumption that disbursement could not take place until after the war – SIDA followed its own planning schedule. The agency would not commit itself to a target date for completion until the required feasibility studies had been completed.

¹⁰⁷ SIDA's position is well articulated in two central documents prepared in the spring of 1973, which show a retreat from concern to resignation. See Box 2.3 in the text.

¹⁰⁸ Using the criteria developed in previous policy statements on aid (Prop.1968:101 and Prop.1970:1), a Ministry for Foreign Affairs memo in early 1972 noted that “reconstruction aid has been fused into long-term development aid partly because... (the DRV) has made impressive efforts with great results to create economic development and social justice.” MFA memo, *Bistånd till DRV, memo, U-avdelningen*, 3 February 1972, p.3. MFA archive.

¹⁰⁹ SIDA memo, *Avslutande överläggningar med den nordvietnamsiska biståndsdelegationen 6 September 1971*, 6 September 1971. Sida archive.

The first assessment from the Swedish consultant on a time schedule for the factory did not differ greatly from the Vietnamese expectations. The report from Jaakko Pöyry/Sweden discussed at the third aid meeting in 1971 estimated that the assessment phase would take another two years and the construction 3–3 1/2 years, with the result that the factory could be ready in mid-1976. But the principal author, Magnus Spangenberg, had explicitly used a model of what it would take to assess and construct a 50,000-ton factory in Sweden.¹¹⁰ This was of course totally inappropriate to Vietnamese conditions, as was recognised by ambassador Öberg – who had little technical expertise but much know-ledge of Vietnam – as well as by SIDA director Ernst Michanek.

The Swedish position at the 1971 meeting was that it was too early to set a starting date for construction, let alone for completion of the factory. The pace must be set by the assessment process. At every subsequent high-level aid meeting, the scene was repeated. SIDA officials maintained that no final decision on the project could be made, and therefore no project agreement could be signed until the assessment process was finished. Vietnamese officials continued to press for an early project agreement and a timetable for construction. The only difference was that the consultant, Spangenberg, became increasingly less confident about his optimistic time schedule and in the end jettisoned it altogether.

Vietnamese persistence suggests more than general impatience or a different project approach. For instance, in March 1972, the Vice-Minister of Light Industry, Vu Tuan, informed the Swedish embassy in no uncertain terms that the assessments and information gathering of the Swedish consultants would have to end. He wanted the construction of the factory to start in September 1973.¹¹¹ Three months later, in July 1972, Kha again asked Öberg: Would it be possible to sign a formal project agreement in the autumn? In July 1972, when the Swedish government decided to reallocate the remaining part of the promised 150 million for reconstruction to humanitarian assistance, Foreign Minister Nguyen Duy Trinh anxiously inquired whether this would affect the paper factory. When discussions were underway in mid-1972 on an umbrella agreement for aid between Sweden and Vietnam, Kha wanted an agreement on the paper factory included.

The anxiety must be seen in the broader political context of the aid relationship. The paper factory represented not only one of the biggest industrial investments in North Vietnam since the faltering Russian steel mill in Thai Nguyen. As the first major project with a capitalist state, it was also controversial within the Vietnamese Communist Party, and criticised by the Russians who felt their position threatened. In some cases, the Russians started “bidding” for projects that the Vietnamese had also approached the Swedes to support. By mid-1972, according to Öberg, the Russians were spreading rumours that the apparently insatiable Swedish demand for data on forests and

¹¹⁰ Ibid., p. 2. Sida archive.

¹¹¹ MFA document, cable from the embassy in Hanoi (Öberg) to MFA\Klackenberg, 1 March 1972. MFA archive.

communication was motivated by interests other than building a factory. If the Swedes really wanted a paper factory, why did they not sign a project agreement?¹¹² Prime Minister Pham Van Dong, it will be recalled, had invested considerable prestige in the opening to the West. He now seemed to need concrete results to counter orthodox Party challenges to his liberal line, generally represented by the formidable figures of Truong Chinh and Le Duc Tho.

By mid-1972, the grand declarations of Swedish solidarity and aid had produced some results, but mainly in the humanitarian sector, which carried least political and economic significance. Sweden had started a programme of family planning, and, under the rubric of humanitarian assistance, was equipping the Bach Mai hospital in Hanoi as well as providing various commodities (textiles, dried milk, and paper). When the US resumed its bombing of North Vietnam in April 1972 and the end of the war appeared more uncertain, the Swedish government reallocated the entire reconstruction credits promised in 1969 to humanitarian aid. To enhance its political importance, however, the offer was made in letters from Palme and the foreign minister, Krister Wickman, to their counterparts in the DRV.

At the same time, the Swedish commitment to aid North Vietnam after the war was given a more general form. Vietnam was in 1972 designated as major recipient of Swedish aid, and a high-level Swedish delegation visited Hanoi in August to inform the government that annual allocations were planned in the order of SEK 100 million for 1973/74 and SEK 130 million for 1974/5.¹¹³ This would cover the planning costs for the paper factory as well as additional projects. Formal preparations were made in mid-1972 to regulate the aid relationship with an umbrella agreement which was signed in mid-1973. This was support of a different order and stronger evidence of solidarity than had been implied by humanitarian assistance and the presence of Swedish forestry consultants.¹¹⁴ It gave the advocates of “the opening to the West” some arguments vis-à-vis their critics in the Party, and took some of the heat off the Bai Bang project. Yet when discussions on a the umbrella agreement for aid were concluded in the autumn of 1973, even Foreign Minister Trinh pressed hard to include the paper factory.¹¹⁵

¹¹² MFA document, cables from the embassy in Hanoi (Öberg) to MFA/Klackenberg, 26 July 1972, and 19 November 1971; also Öberg, *Manuscript*.

¹¹³ MFA memo, *Besök av svensk UD/SIDA delegation i Demokratiska republiken Vietnam den 5–12 august 1972*, 15 September 1972. MFA archive.

¹¹⁴ The political significance of Swedish aid is indicated by an addition proposed by the North Vietnamese to the communiqué issued after the Swedish aid delegation had visited Hanoi in August–September. This was at the time of heavy bombing of the North, and the Vietnamese wanted to express their profound gratitude to the Swedish people and government for having “*activement soutenu et continué de soutenir politiquement, moralement et matériellement*” the struggle of the Vietnamese people against American aggression. (Italics added.) The Swedish delegation rejected the proposal. MFA document, cable from the embassy in Hanoi (Öberg) to MFA, 14 August 1972. MFA archive.

¹¹⁵ MFA document, cable from the embassy in Hanoi (Öberg) to MFA/Klackenberg, 6 November 1972. MFA archive.

Raw materials

The supply of raw materials for the factory was a vexing issue throughout most of the planning period. This concerned not only the adequacy of forestry resources for the pulp mill, but also coal for the power unit, lime for the production process, etc. Of these, assessing the fibrous raw material was the most controversial and complicated. The assessment entailed two steps: first, collecting data on the stock of raw material, and second, estimating its availability to the factory as compared to other users. Both tasks were included in the pre-feasibility study for a 50,000-ton paper factory that started in October 1971 – the second of three major studies undertaken by Jaakko Pöyry/Sweden for SIDA during the planning phase.¹¹⁶

The data collection task proved extraordinarily complicated. The Swedish experts brought to Vietnam by Jaakko Pöyry's Magnus Spangenberg encountered obstacles on all fronts when trying to survey the assigned forests areas. The Vietnamese had made only a partial and inadequate inventory of the selected areas in 1962–69. To conduct a systematic and detailed survey, the Swedish experts asked for permits to travel throughout the region northwest of Hanoi. More problematic, the Swedes asked for aerial photographs of the forest region. The security-conscious Vietnamese, who would not even let the Swedes see their Five Year Economic Plan, objected. The country was at war, and American spy planes were busy collecting intelligence on movement of troops and supplies and, in 1972, to identify targets for bombing and Vietnamese positioning of anti-aircraft defences. Requests for travel permits raised security questions as well, but were also constrained by a cumbersome bureaucracy.

It is a tribute to the political importance attached by the Vietnamese government to co-operation with Sweden that it finally did permit aerial photography. The authorisation was given by none other than Defence Minister Vo Nguyen Giap, North Vietnam's most renowned military figure and the hero of Dien Bien Phu. Scheduled for early 1972, photographing was interrupted by American bombing raids but partially resumed. Yet it was insufficient. The Swedish forestry experts were allowed only limited access to the photos, and had little opportunity to assess the methods used by Vietnamese technicians in interpreting the results. Repeated offers of additional training were refused. A chronology of the events prepared by an exasperated Swedish expert is a striking testimony to the frustrations on both sides (see Box 2.2).

The story of forestry inventorying was repeated in other sectors. Swedish consultants wanted information on harbour capacity and the road net. They tried to check the carrying capacity of bridges on the road leading to the factory site to see if they could withstand the load of heavy lorries. All this information had a military significance which the Vietnamese government –

¹¹⁶ The first report, prepared by Magnus Spangenberg, was completed in July 1971 and assessed various options

for forestry industry. It concluded that a paper factory was a better option than plywood, and that there was sufficient forest in the likely area – indeed, enough for an expansion of the factory whose initial capacity was to be 50,000 tons.

accustomed to nothing but war and deeply conscious of the country's historic vulnerability – was reluctant to release. Aid co-operation with socialist partners had been easier. No further questions were asked when the Vietnamese said that the information was classified.¹¹⁷

The information gathering process revealed the fundamental contradictions of the project. SIDA insisted on technical studies which under normal conditions would be considered obvious and essential to a feasibility assessment, but which in wartime proved equally impossible for the Vietnamese government to accept. The Swedes knew, of course, that a war was going on. The Ministry for Foreign Affairs in Stockholm had, in fact, equipped ambassador Öberg with a little rubber boat, which he kept on his balcony for a safe escape in case the Americans bombed the dikes and caused general flooding. SIDA consultants reported home about the difficulties of collecting data during the B-52 bombing raids. The problem was, rather, the inherent inconsistencies between the political and economic functions of the project.

On the Vietnamese side, the paper factory was seen primarily as a political project that should meet political criteria. As an expression of political solidarity, work on the project should start as soon as possible. The Vietnamese recognised that the paper factory must meet economic and technical standards, but these were subordinated to the overriding principles of Vietnamese sovereignty and security – the importance of which had been accentuated by the war. Political actors on the Swedish side understood the political perspectives in Hanoi; the project had in fact a similar political significance in Sweden. However, the principal Swedish counterpart to Hanoi during the assessment and planning phase was not the cabinet or even *U-avdelningen* in the Ministry for Foreign Affairs, but SIDA. The relevant criteria for SIDA concerned economic and technical feasibility, which was central to its organisational mandate and responsibilities. The extraordinary element in the situation was that the agency was asked to plan a complex aid project in time of war, and with a totally unfamiliar partner. The consequent contradictions were understood by the principals on both sides, including Öberg and Kha who sought to untangle the knots during the assessment phase. Yet the result was a measure of ritual co-operation that produced little data and much mutual frustration. It also caused delays and unpleasant surprises.

One surprise related to the forest area assigned for the mill. Early in 1972, the Swedish consultant revised his earlier assessment and now suggested that the raw material area assigned to the paper mill (the Ham Yen and Bac Quang areas in Region IV) was insufficient, partly because the mill would not be the only consumer of wood from the area. Both the Swedish Embassy in Hanoi and SIDA reiterated his warnings that the 50,000-ton paper factory might be reduced to 35,000 tons; perhaps not even realised at all.¹¹⁸ As the raw materials

¹¹⁷ Interviews with Vietnamese officials in Hanoi, March 1998, and Öberg, *Manuscript*, p. 2.

¹¹⁸ Pöyry & Co, letter from Spangenberg to Kha, 4 February 1972, and MFA document, cable from embassy in Hanoi (Öberg) to MFA/Klackenberg, 8 February 1972. MFA archive; also SIDA memo, *Frågeställningar beträffande det planerade Återuppbyggnadsbiståndet till DRV inför av Forsse förestående besök i DRV*, 31 July 1972. Sida archive.

issue seemed to jeopardise the project, Kha proposed that Vietnam should establish new plantations. It was to no avail. When the complete consultant report was released in November 1972, it stated that the assigned forest area was too small. Seen alongside the high investment and manufacturing costs of a paper mill, the overall conclusion was that “the feasibility of the project as such will be unsatisfactory [sic]”.¹¹⁹

As the principal pre-feasibility study of the project, the report set the stage for a tense aid meeting in Hanoi in March 1973. Other cost and technical issues receded in the background as the forestry issue took centre stage. The Vietnamese government put two new raw material areas on the table (Yên Sơn and Chiem Hoa), but that still did not satisfy the Swedes. The Vietnamese Directorate of Forests had surveyed the two areas in 1967, using methods known to be weak. The Swedish delegation insisted on further control and inventories during the next assessment phase. The Vietnamese agreed in principle, but the by now familiar problems arose once more. As late as March 1974, when SIDA director Michanek was in Hanoi to finalise negotiations on the paper factory, the raw material issue remained so problematic that it continued to delay the project agreement and at one point brought the talks close to collapse.

Problems of data collection caused multiple delays. The pre-feasibility report was almost half a year behind schedule. The final feasibility report was not ready until April 1974, the time at which Kha had hoped to see the factory almost up and running. The blame went back and forth. The Swedish consultant with principal responsibility for the assessment up to mid-1973, Jaakko Pöyry's Spangenberg, cited unanticipated problems in the field and lack of co-operation by the Vietnamese. He was supported by ambassador Öberg in Hanoi. Noting the cumbersome and rigid bureaucracy of the DRV, Öberg recommended making haste slowly – even the Chinese complained about the poor planning practices and administration in the DRV.¹²⁰ Some SIDA officials blamed Spangenberg for being inefficient and ineffective.¹²¹ On the Vietnamese side, where irritation over the delays mounted, officials alternately fumed against Swedes who did not understand Vietnamese realities and sovereignty, or they sought to build bridges across the divide.¹²² Only later did Vietnamese officials recognise the process as a positive learning experience. Swedish methods of assessing costs and benefits, and the readiness to challenge Vietnamese figures, were useful, a high-ranking official said. “We were not used to this from our socialist partners. Working with Sweden helped prepare us for co-operation with other Western countries and Japan on aid projects after the war.”¹²³

¹¹⁹ Cited in Pöyry & Co 1974, 2.1. p. 3.

¹²⁰ MFA document, cable from the embassy in Hanoi 1 March 1972. MFA archive.

¹²¹ SIDA memo, *Erfarenheter av samarbetet med Pöyry AB, Lidingsö, för skogsindustriprojektet i DRV*, prepared by SIDA/Industry Division, 1 October 1973. Sida archive.

¹²² For instance, the Deputy Director of the Directorate of Forests, Mr Ngu, tried to smoothen the conflicts over forest surveys in a constructive and conciliatory manner. See e.g. SIDA memo, *Sammanträde på Skogsstyrelsen*, Protokoll, Hanoi, 18 February 1972. Sida archive.

¹²³ Interview with Pham Hao, former Vice-Minister in the State Planning Commission, Hanoi, March 1998.

In retrospect, the emphasis on forest surveys during the planning period appears somewhat misplaced. After the mill went into production, problems of obtaining sufficient fibrous raw materials were not due to shortages of trees per se. As we shall see (chapters 5 and 6), the main bottlenecks were of a social and managerial nature. Harvesting and transporting wood to the mill was slow and inefficient. The forestry workers lived under appalling conditions that reflected the general economic crisis in Vietnam at the end of the 1970s and in the early 1980s, and which reduced their productivity. Other users competed for the wood, and the central planning system that was designed to provide a smooth supply of raw materials for the mill evidently had the opposite effect. These critical “soft” factors were not directly assessed during the planning period. Although these factors were hard to analyse, the physical inventorying of trees proved difficult and controversial as well.

Organisation and participation

Both SIDA and Magnus Spangenberg had from the beginning stressed the need for a strong project director on the Vietnamese side. This was seen as imperative given the complexity of the project and the fact that it required the co-ordination of several ministries and agencies in Vietnam. In a tribute to the importance of the project, the Vietnamese government agreed to depart from the organisational model used in aid co-operation with socialist states. Normally, a foreign government would deal with the State Planning Commission in planning the project, the Ministry of Construction in constructing the enterprise, and the relevant line ministry during operations. This time the Ministry of Light Industry (MoLI) was designated the key ministry throughout so as to provide continuity among the phases and co-ordinate the various line ministries which supplied input (wood from the Department of Forestry, coal from the Ministry of Metallurgy, Power and Coal, workers brigades from the Ministry of Construction to build the factory, and so on). In early 1972, a Vietnamese project co-ordinator was appointed – it was Nguyen Dang Ngay, the French-educated paper engineer who during the 1969 visit in Sweden had made special efforts to study paper factories. Previously head of the Chinese-built paper mill in Viet Tri, Ngay was a mid-level official in the Ministry of Light Industry and was not given the formal position of project director. He soon proved unequal to the task of mobilising the heavy line ministries over which MoLI had no direct authority.

In response to continued urgings from SIDA, Prime Minister Pham Van Dong authorised a new administrative structure in the spring of 1973. The project was moved directly under the office of the Vice-Minister at MoLI, Vu Tuan, who was also given an inter-agency committee to facilitate co-operation among the ministries concerned.¹²⁴ Below him a new and formally designated project director was appointed, Ngo Dinh Truong. He remained as project manager for a full decade and proved both resourceful and innovative. In formal terms, this clearly strengthened the project organisation but problems remained. The Swedes – sometimes seconded by their Vietnamese counterparts at the

¹²⁴ Dao Nguyen and Quang Khai (eds.) 1997.

Box 2.2: Co-operation between the DRV and Sweden to survey the forest areas for the mill

Excerpts from memo written by Swedish forestry expert, *Jägmästare Blomkvist*, May 1974

1971 September. Agreement on aerial photography of region IV, which the Vietnamese had set off as raw material area for the factory.

1971 October. Phase II starts. [Jaakko Pöyry] specialists come to Hanoi to do inventory of region IV in co-operation with DRV colleagues. The Vietnamese produce results, from another area, Yen Bai, which they say has been inventoried during the spring and summer. They claimed that this was the project area and that the work was now completed. Van Kha intervened, and work on region IV with aerial photos continued. We worked out methods satisfactorily.

1971 November. Personnel from the Inventory Institute of the Directorate of Forests and the 5th. Inventory company started working without our participation. They refer to the pressure of time. They started in the wrong end (sampling before stratification), and with insufficient training in the new methods. We fear the results will be poor.

1972 January. Our specialist on photo-interpreting asks to see the aerial photos and the maps. Answer: "They are in the forests". We go out to the forest, no photos. "Oh no, they are in Hanoi". Before that, two weeks of useless discussion.

1972 February. Several days of discussions with M. Dien, head of the Inventory Institute, about cooperation and methods. It is not enough for us to do desk studies. Norin (the other Swedish specialist) and I were permitted to go into the raw material area and to stay there for several weeks to instruct the Vietnamese and avoid further delays. We were also allowed to "control" (without using the word) the results. A good time – shades of "close co-operation". When we discovered mistakes in photo-interpreting we offered DRV interpreters 10 days training. Offer refused without explanation.

1973 January. Efforts to have additional raw material areas assigned when we start to doubt that Ham Yen and Bac Quang will not suffice, particularly given the difficult terrain in Bac Quang. Limited permission to visit area.

1973 May–October. Assessment and planning. Conclusion: gross production of 200,000 ton in Ham Yen-Bac Quang, but considerable amounts used for other purposes.

1973 June. Attempts to get concrete discussion of continued inventory of bare areas and additional bamboo areas, but with no results. . . Vu Tuan [the Vice-Minister of Light Industry] promises to arrange for me to make an assessment of [the additional] forests. We meet a few weeks later . . . but nothing is said about this matter.

1973 August–October. DRV specialists say they have inventoried bare areas. It takes me two weeks to pull the information out of them. They present their methods and results very reluctantly. I find their work of doubtful value. Discussion with Truong and Son (of the Directorate of Forests) about principles of "co-operation". Agreement reached on methods for inventorying and the time schedule. The work is done in Ham Yen, but we are not allowed to follow it.

1973 November. New offer of training of photo-interpreters, new refusal.

1974 January. The Ministry of Light Industry explains that the aerial photos of the deciduous forests exist, and I can study them.

March 1974. Aerial photos turn out to cover only 1/4 of the deciduous forests. The forests appear to have been reduced by half. Information about content is lacking.

Source: SIDA memo, *Skogsinventering – samarbetet DRV-Sverige*, prepared by Industry Division/Blomkvist, 5 April 1974. SIDA archive. (Our translation)

factory – complained that even small matters had to be approved at the highest levels, and that MoLI was too light-weight a ministry to extract co-operation from other agencies and remove bottlenecks on the supply side.

The cumbersome decision-making process was not only a product of the central planning system. It reflected North Vietnam's development ideology. Heavy industry was seen as the principal vehicle for generating growth and development. As a result, there were two central ministries for heavy industry – the Ministry of Metallurgy, Power and Coal, and the Ministry of Mechanical Engineering. The Ministry of Light Industry occupied a place considerably below them in the bureaucratic hierarchy, and no project reorganisation could hide that fact.

Divisions among the Swedes

On the Swedish side, there were contradictions and divisions of a different kind. One concerned the relationship between SIDA and the consultant. Having no in-house expertise to assess a major industrial project, SIDA relied heavily on the one consultant – Spangenberg of Jaakko Pöyry/Sweden. A subsidiary of the renowned Finnish forestry firm, the Swedish company was much smaller and did not carry enough weight to handle an evolving dispute with key SIDA officials over task performance. There were disputes relating to substance, process, and personality. There were substantial cost overruns.¹²⁵ As Spangenberg in 1973 became increasingly worried about the adequacy of raw materials and feared that the project was being rushed through for political reasons, he made his case directly to the Minister for Foreign Affairs. Not surprisingly, this caused strong reactions in SIDA. The consultant, for his part, was open to criticism because he had a vested interest in prolonging an assessment that he was hired to undertake. From 1972 and onwards Spangenberg constantly stressed the need for further assessment, even in the supposedly final feasibility study released in April 1974. By then, SIDA had decided to outmanoeuvre him by signing on another Swedish company, WP-System, as chief project consultant.

WP was included in May 1973, and the principal result was to speed up the project schedule. After a brief visit to Vietnam in December 1973, WP declared that the raw material situation was satisfactory with respect to forestry.¹²⁶ That removed the principal hurdle to a project agreement, and plans were made to conclude the negotiations in the following year.

Criticism of WP's entry in the project has ranged from charges of collusion with SIDA's principal engineer and key actor in the project, Petter Narfström, to concern that WP drew wishful conclusions regarding the raw material supply so as to move quickly to the construction phase where a large contract awaited (see Chapter 3). In fact, there is little difference in the methods of analysis

¹²⁵ The first two assessments (October 1971–November 1972) had a budget of SEK 1.2 million, but the actual cost was 1.6 million. Svensson 1998, p. 9.

¹²⁶ WP-System 1974.

used by WP and Jaakko Pöyry's Spangenberg to assess the timber supply.¹²⁷ Both operate with different scenarios of the plantation programmes required to feed the mill from mid-1980s and onwards. Both assume that the statistical information provided by the Vietnamese on the additional two raw material districts assigned by the Directorate of Forests to the project in March 1973 is correct, although the areas had only been surveyed by the Vietnamese using weak methods. WP draws the conclusion that the raw material situation is sufficiently adequate to move to the construction phase, and argues that additional assessments can be made subsequently as, or if, problems appear. Spangenberg concludes that the raw material situation is insufficient and recommends further studies before signing an agreement.

Within SIDA, the project file was initially handled by the finance division and subsequently the industry department. In January 1973, a task force (*insatsgrupp*) was created with representatives of the various involved sections in SIDA (i.e., country and industry sections). In addition, SIDA's chief engineer Narfström established an advisory group from the private sector to provide technical expertise and fill out the work done by the consultant. In other words, considerable manpower resources were mobilised to assess the project as thoroughly as possible. One administrative weakness still remained. No single, high level person was identified as project director or its equivalent on the Swedish side. The signal to the Vietnamese was to downgrade the project, as Öberg perceptively noted in retrospect. Pointing out that effective co-ordination on the Vietnamese side made it necessary to anchor the project at a high level in the Vietnamese administration, Öberg concluded that "the prerequisite for a high-level project leadership in Vietnam is that an equivalent status is given the project in Sweden."¹²⁸ To this end he recommended giving a high-level Swedish official exclusive responsibility for leading the project. Jan Cedergren in the SIDA task force made a similar proposal in early 1974, just before the final negotiations on the project agreement. The Cedergren proposal, however, was designed to give SIDA more control over the project during the construction phase, and as such was essentially proposed as a Swedish risk-reducing strategy.¹²⁹

The deepest division on the Swedish side was probably between the political and the technical approach to the project, represented by the cabinet and *U-avdelningen* in the Ministry for Foreign Affairs, on the one hand, and SIDA on the other. The politically radical reputation of *U-avdelningen* was strengthened when Klackenberg was appointed to lead it in 1970, and contrasted with SIDA's technical orientation. The working relationship between the two units became increasingly strained by organisational competition, personal differences, and political-technical divisions. Matters came to a head over the Bai Bang project because of its political sensitivity, high costs, and unclear rationale.

¹²⁷ WP-System 1974 and Pöyry & Co 1974.

¹²⁸ Öberg, *Manuscript*, p. 13.

¹²⁹ SIDA memo, *Den svenska organisationen av skogsindustriprojektet i DRV*, 5 February 1974. Sida archive. The management group established in SIDA in August 1974 (Vietnam-gruppen) was at a lower level.

From a political perspective, the main objective was to move the project forward in a way that satisfied the Vietnamese, although naturally within a technical sound framework. For SIDA, the main task was to prepare a project that was technically and economically sound. But given the problems of determining technical and economical viability, and the high political profile of the project, there was a tendency for political imperatives to drive the assessment process. This is evident in the readiness of officials on both the Swedish and Vietnamese side to appeal directly to the political level in Sweden when faced with bottlenecks.¹³⁰ The Vietnamese, it will be recalled, had from the beginning viewed the project in terms of its political significance and gave some SIDA officials the impression they had wanted to negotiate with the Ministry rather than SIDA. The political imperatives shaped the dynamic of the assessment process more generally as well.

Technical feasibility and political realities

The contradictions between political imperatives and technical-economic feasibility became progressively evident during the planning phase.

As we have seen, the first, major Jaakko Pöyry assessment of the project completed in late 1972 was rather negative. It concluded that there was probably insufficient raw material to sustain a 50,000-ton paper factory, and, further, that investment and manufacturing costs would be higher than in industrialised countries because of capital costs and the lack of infrastructure. As a result, “the feasibility of the project as such will be unsatisfactory.” However, it could still be justified if “regarded as a pilot project in the development of the DRV’s forestry and forest industry, and if the total benefit to society is taken into account.”¹³¹ It was hardly an encouraging conclusion, particularly since this was a time when Swedish–Vietnamese solidarity reached a new peak. In November 1972 a leading figure in the liberation front in South Vietnam, FNL’s Madame Binh, was a guest of honour at the annual party congress of the Social Democratic Party. In December, the United States intensified its bombing of the Hanoi–Haiphong area, culminating in the infamous Christmas bombings which also hit the Swedish-aided Bach Mai hospital and provoked 2.7 million Swedes to sign a protest. Prime Minister Olof Palme compared US policy to the worst acts of barbarism in Western history. The United States responded by not appointing an ambassador to Stockholm for 14 months. And in this context, the first serious assessment of the paper factory – the intended monument of Swedish-Vietnamese solidarity – was pronouncing it unfeasible on technical and economic grounds!

¹³⁰ Öberg – by then ambassador in Hanoi – took up the question of the Swedish project organisation directly with Foreign Minister Wickman, but in the presence of SIDA’s director Michanek. The latter apparently became “furious” (*ursinnig*). Öberg, *Manuscript*, p.11. At the Swedish-Vietnamese aid meeting in Stockholm in August–September 1971, Gösta Edgren, at the time serving in SIDA’s finance division, proposed to the Vietnamese delegation that instead of embarking on a large, complex industrial project, the DRV might consider receiving import credits. As he later recalled, the intended trial balloon was instantly shot down when the Vietnamese took the matter to the highest political level in Stockholm. The word came back that import credits were out and a paper factory was in. Interview in Stockholm, June 1997.

¹³¹ Cited in Pöyry 1974, p. 5. The “total benefit to society” is not specified.

The Paris peace agreement was signed on 27 January 1973, formally ending the Vietnam War and removing any remaining political obstacles to Swedish aid. Simultaneously, SIDA officials moved closer to a decision, but – as the paper trail from the decision-making process during the early months of 1973 clearly reveals – they were labouring under a sensation that the paper mill was already a *fait accompli*.

The first major SIDA report on the proposed paper mill, an *insatspromemoria* prepared in February 1973, was even more critical than the Jaakko Pöyry report. The factory would be more costly than if it had been built in Sweden, and the price of paper would be above world market prices. The administrative and technical aspects were complex, the social impact questionable, and the raw materials situation uncertain. The conclusion was negative: “The project is uneconomical. The social benefits are hard to evaluate but might be positive. Other investment alternatives probably exist that are more profitable and yield more social benefits.”¹³²

While vaguely articulated as bringing “social benefits”, the rationale for the project had evidently become “development” in some sense. There was no reference to reconstruction after the war, which had been the main purpose of the aid programme announced in 1969. As a development project, it was recognised that the paper mill should not be gauged by the standard of profitability required by a commercial enterprise. Yet the uneconomical aspects did cause concern. To explore alternative projects was difficult, however. As long as the Vietnamese wanted a paper factory, no information was forthcoming on any alternatives. Against this background, the *insatspromemoria* changed from a cost-benefit to a cost-effectiveness perspective. Given that it must be a paper mill, the risk and uncertainties should be explored by means of a stepwise construction design. For instance, two smaller paper machines could be installed with a time interval rather than one large, and they could rely on imported pulp.

SIDA's Management Board (*Direktionen*) had arrived at the same conclusion a few weeks earlier.¹³³ The only difference was that the underlying political rationale for the paper mill was more fully articulated. SIDA's leadership found itself being squeezed between North Vietnamese wishes and its own assessment. Would it not be better to give credits for imports instead of constructing a factory, one member asked. No, it was too late to revive programme aid as a substitute for an industrial project because the Vietnamese wanted an industrial project. Shipment of Swedish paper was not an option for the same reasons. “We have to listen to the Vietnamese”, one official said. In the end, the discussion turned on the fundamental question of whether SIDA at this point really could reject the paper mill. The answer was no – given the heavy political commitment to the project; there was not sufficient basis for turning it down. The Management Board decided that SIDA should stay the course by moving to a full-fledged feasibility study.

¹³² SIDA memo, *Skogsindustriprojekt i Demokratiska republiken Vietnam (DRV)*, *insatspromemoria*, 19 februari 1973, p. 21. Sida archive.

¹³³ SIDA memo, *Skogsindustri-DRV. Direktionsbehandling 22 January 1973*, *minnesanteckningar*. Sida archive.

The decision was confirmed at the Vietnamese–Swedish aid meeting held in Hanoi in March 1973. By this time, the Vietnamese had further signalled their commitment to the paper mill by appointing a high-level inter-ministerial project committee, headed by Vice Minister Vu Tuan. With the Vietnamese standing firm, the meeting quickly proceeded to discuss technical specifications of the project. The only Vietnamese concession to Swedish doubts about the technical feasibility of the factory was to allocate two more forest sections to the raw material area, and to consider two paper machines with a combined capacity of 50,000 tons, rather than one large.¹³⁴

After the meeting SIDA officials prepared a final version of the *insatspromemoria*. It was more positive than the draft version prepared prior to the Hanoi meeting, although in reality little had changed. But after Hanoi, SIDA officials were more prepared to interpret uncertainty in a favourable light – e.g. regarding raw materials¹³⁵ – and to place greater weight on Vietnamese determination to have the factory (see Box 2.3). The memo was the basis for the next step in SIDA's formal decision-making process.

SIDA's Board discussed the project on 13 April with noticeable lack of enthusiasm.¹³⁶ The principle of recipient orientation again appeared as the bottom line. Michanek noted that the idea of a paper factory originated in the priorities of the DRV, and that North Vietnam wanted to pursue it. Ideally, a feasibility study should have been made before deciding on the project, particularly given the unprecedented size and overall complexity of this case.¹³⁷ Now the cart was before the horse: both governments were committed to it and the Swedish government was prepared to pay. The only way out was to develop a design in the remaining pre-project phase that would reduce further risk and uncertainty, namely by going for stepwise construction and establishing strong project leadership on both sides.

In retrospect it appears that the tension between the political and the technical rationale of Bai Bang changed the purpose of SIDA's planning. Instead of assessing costs and benefits to decide whether to build a paper factory, SIDA's leadership had, by early 1973, accepted the factory as a *fait accompli*. As SIDA's task force later pointed out, the decision to proceed to a full-fledged feasibility study “entailed a commitment to the project for both parties, which in practice made it impossible for Sweden later to reject the project unless very serious and obvious technical reservations appeared.”¹³⁸ The task was now to control the damage. Jaakko Pöyry was contracted to do another major assessment (April 1973–April 1974), this time a formal feasibility study designed to collect detailed information on design and implementation.

There is a certain ritualism in the last phase of the assessment activities. A *de facto* decision to go ahead with the factory had been made in early 1973, but

¹³⁴ Based on minutes taken by Spangenberg/Pöyry, meeting in Hanoi 6–9 March 1973. Sida archive.

¹³⁵ The two additional forest areas had been surveyed by the Vietnamese in 1967 with old methods. There had been no Swedish control surveys.

¹³⁶ SIDA memo, *DRV-Skogsprojektet, Sammanträdesanteckningar, SIDA Styrelse*, 13 April, 1973. Sida archive.

¹³⁷ The only other comparable experience, Michanek felt, was LAMCO – a mining project in Liberia.

¹³⁸ SIDA memo, *Skogsindustriprojektet i DRV – beslutsalternativ*, 14 January 1974, p. 1. Sida archive.

SIDA tried in late 1973 to do a formal cost-benefit analysis, i.e. one that does not assume the project has already been decided upon but seeks to assess whether the benefits outweigh the costs of going ahead.¹³⁹ In January 1974 the SIDA document required to formally decide on a project, a *beslutspromemoria*,

Box 2.3: Assessing Bai Bang

Main issues raised in SIDA insatspromemoria, draft of 19 February 1973 and the final version, 4 April 1973:

- *Overall cost-benefit*: In the draft: "The project is uneconomical. The social benefits are hard to evaluate but might be positive. Other investment alternatives probably exist that are more profitable and yield greater social benefits." Changed in the final version. No mention of alternatives. Instead, the DRV has given priority to the project and finds it socially profitable.
- *Social impact*: Draft version: Approximately 85,000 forest-dwelling, slash-and-burn cultivators in the project area will be prevented from using the forest and require new employment. Sweden has little opportunity to help solve this problem. Final version: figure replaced with "an unknown number of persons" and discussion shortened.
- *Cost*: Project is capital intensive. The DRV wants modern technology, hence little alternative. But the costs per employed person are very high, much higher than e.g. comparable IDFC aided paper mill in Kenya. High cost of capital (shipping etc) will outweigh low labour cost, besides, the design is not labour intensive. The factory will cost more than if it had been built in Sweden and the price of paper will be above world market prices. Return on the capital will be low or negative. [Draft and final report identical].
- *Infrastructure*: Lack of existing infrastructure in area will bring up cost of factory [Issue modified in final report after Spangenberg argues that industry must be viewed as a means to generate infrastructure.]
- *Raw materials*: Draft finds forestry supplies to be "rather insufficient". The final version notes that additional areas have been assigned by the DRV, but the areas have to be inventoried. Nevertheless, the memo concludes that "the raw material base for the proposed factory must be judged as satisfactory."
- *Complexity of project*: Technically and administratively complex, even more so because the Vietnamese are pushing to get started quickly and want to do everything at once – i.e. parallel activities [Draft and final report identical].
- *Tenders*: The draft suggests limited international tender, although tying to Sweden would increase costs with 15–20 percent. Modified in final version to full international tender, but notes that Vietnam (Kha) expects some aid tied to Sweden.

Source: SIDA memo, *Skogsindustriprojekt i Demokratiska Republiken Vietnam (DRV)*, insatspromemoria, 1973-02-19, and 1973-04-04. Sida archive.

¹³⁹ SIDA memo, *Ekonomisk utvärdering av skogsindustriprojektet i DRV*, December 5, 1973. Sida archive. The memo admits that it was difficult to do a conventional cost-benefit evaluation because there were no estimates for shadow prices of Vietnamese labour, and at any rate had little purpose because the project had already been decided upon. It concluded that a cost-effectiveness analysis, designed to assess the effectiveness of various ways of achieving the objectives of the project, would be more appropriate under the circumstances.

weighed the options of accepting a paper mill or not, and concludes that there was no way back – i.e. repeating what SIDA's Management Board had concluded almost a year earlier.¹⁴⁰ To the Vietnamese, this elaborate planning was both frustrating and mystifying. They were as convinced as SIDA's leadership that the project was too politically important to be called off. But why, then, did the assessment process continue? Why not sign an early project agreement? And when the project agreement was finally concluded in mid-1974, why did the Swedes refuse to include the details that had been so painstakingly collected?

Hanoi 1974: Concluding the project agreement

In an atmosphere of apprehension and scepticism, SIDA prepared in January–February 1974 to make a final project decision. The memo by SIDA's task force that constituted the formal basis for decision was prefaced by the statement that there was no way back.¹⁴¹ The project must go ahead for political reasons. Yet it was uncertain whether the paper mill could be completed in five years and at the cost of SEK 667 million as planned. There was no estimate of the cost of the Vietnamese contribution. The memo raised doubts about the ability of the Vietnamese to establish an effective project organisation and about the adequacy of raw materials.

The concerns were echoed in SIDA's Management Board and Board.¹⁴² The deputy director of SIDA described the project as an Eiffel tower without legs. Some Board members wondered if the political consequences of going ahead would be more negative than abandoning a project to which both governments were committed. The unprecedented cost of the project was emphasised – over 600 million as compared to some 90 million allocated for the hospital and other aid to the health sector in North Vietnam.¹⁴³

The sentiments in SIDA in early 1974, in other words, are strikingly similar to early 1973. A project agreement had to be signed, but the terms should reduce the considerable risk and uncertainty that remained. To SIDA, that meant a general rather than detailed agreement since further studies might be required. Moreover, as an additional risk-reducing strategy, there should be a strong Swedish presence in the project organisation. By the time of the March 1974 negotiations in Hanoi, this had come to mean an “integrated project

¹⁴⁰ SIDA memo, *Skogsindustriprojektet i DRV – beslutsalternativ*, 14 January 1974. Sida archive.

¹⁴¹ *Ibid.*

¹⁴² SIDA memo, *Anteckningar – Skogsindustriprojektet DRV*. Direktionen, 17 January 1974, Sida archive; and SIDA memo, *Sammanträdesanteckningar*, Styrelsen, 31 January 1974. Sida archive.

¹⁴³ When presenting the project to the Minister of Development Co-operation, SIDA officials emphasised the technical and organisational complexities of the project rather than the raw material factor. SIDA memo, *Föredragning 1974-01-30 inför statsråden Johansson och Sigurdson om skogsindustriprojektet i DRV*. SIDA, 8 February 1974. Administrative and technical restraints had been emphasized by Jan Cedergren, then in SIDA's Industry Division, in a memo the previous week, *De viktigaste problemen för skogsindustriprojektets genomförande*, 22 January 1974. Sida archive. At the meeting with the minister Johansson, the sceptics were supported by ambassador Öberg, while Klackenbergh (MFA) appeared more sanguine.



Prime Minister Pham Van Dong frequently received Swedish aid delegations and followed the Bai Bang project closely. In 1979 he met with a SIDA delegation headed by SIDA's newly appointed Director-General, Anders Forsse in Hanoi. Photo: WP-System archive

organisation” with a Swedish veto on procurement, and a planning unit on the project level led by Swedish engineers and assisted by Vietnamese. While detailed feasibility studies previously had been designed to reduce risk, now that a project agreement was on the table, SIDA needed to engage itself directly for the same reason. SIDA director Michanek repeatedly made the point: Whatever happens, SIDA will be held responsible for the outcome. SIDA, therefore, must be involved.¹⁴⁴

By early 1974, then, there was a sense in Stockholm that Bai Bang was too important to Sweden to be left to the Vietnamese. The Vietnamese took a rather different view, with the result that the negotiations in Hanoi to finalise a project agreement in 1974 became acrimonious.

As we have seen, the Vietnamese had all along maintained that their sovereignty and expertise be respected. They had considerable experience of industrial co-operation with “fraternal socialist states” and found it difficult to accept the intrusive demands for information and control that the Swedes insisted upon. They resented demands for special conditions for Swedish experts, and wanted a clear limit on their number. There was a sense that the Swedish aid funds now belonged to Vietnam, and for that reason should be carefully spent with Vietnamese consent. Hanoi had originally wanted an industrial venture with significant transfer of technology. They now wanted a greater role in the procurement and design of the factory than the Swedes were prepared to give (see Box 2.5). Above all, they wanted a range of details spelled out with great clarity in the project agreement. This was required by

¹⁴⁴ *Direktionen* in January 1974, also in March 1973.

their own planning process,¹⁴⁵ and was also a means to nail down SIDA after a long and uncertain planning process. The multiple concerns emerged in a critical meeting of the major Vietnamese ministries involved in June 1974, called to discuss the draft project agreement prepared by the Swedish side (see Box 2.4).

The final talks on a project agreement were held in Hanoi in March and June 1974. Both sides were tough and unyielding; the conflicting positions produced a dynamic that was more characteristic of negotiations between adversaries than discussions between partners in development co-operation (see Box 2.5). In fact, the first round led Michanek, who headed the Swedish delegation, to write a bitter personal note entitled *Aldrig mer!* (Nevermore!) – the title being inspired by Edgar Allen Poe’s famous poem about a nightmare.¹⁴⁶

Michanek’s note reflected on the mistrust, conflicts, and problems of communication during the negotiations, and Vietnamese objections to what the SIDA director regarded as key demands: (a) adequate information on forestry resources; (b) stepwise construction of the factory (two paper machines and the pulp mill) in accordance with the availability of raw material; (c) freedom of movement for Swedish experts assigned to the factory; and, (d) Swedish determination of location and standards of residence for its experts. Michanek’s position was based on the assumption that if North Vietnam wanted to co-operate with the West, it had to pay a price. One of them was to permit Swedish experts liveable conditions (otherwise they would not come), and give Swedish technology an acceptable environment (otherwise it would not work).

Clearly exasperated, Vice-Minister Vu Tuan, who lead the Vietnamese delegation, pointed out that Vietnam was as interested as Sweden in making the mill work. Vietnam had invested more in surveys for this than for any other project. After four years of planning they now wanted a firm and detailed commitment.¹⁴⁷

According to the Vietnamese minutes of the negotiations, the Swedes refused to be specific except on issues that enhanced their own control over the project. Thus, the Michanek delegation first refused to include the amount allotted for the project (SEK 660 million) in the project agreement (it was included in the end). The Swedish side did not want to fix a date for installation of the second

¹⁴⁵ Already in the first half of 1973, the Vietnamese repeatedly requested the Swedish side to provide a design and budget for the factory, as this was required by their planning process. In October 1973, Pham Van Dong signed the first policy Decision about the project (Decision No. 228/TTG), which included a design for the factory, its administrative structure and an investment sum of 182 million *dong* (SEK 138 million according to a rate of SEK 0.76 to the *dong*). SIDA contributed little to this process, claiming that a factory design at this stage was premature.

¹⁴⁶ Michanek had just read a Swedish translation of Poe’s “The Raven”. The poem is about a large black bird which sits in the window and, to the poet’s every hopeful thought, cries “Nevermore”. In the Swedish version, this was rendered as “*Aldrig mer*”. Michanek’s note, dated 2 April 1974, is in his personal archive.

¹⁴⁷ Based on Vietnamese summary proceedings from the meetings, 27 March to 1 April, 1974. Ministry of Light Industry document, National archive, Hanoi (our translation). Only one technical report from the negotiations was found in Sida archives. The MFA archive had the agreed minutes and reports from ambassador Öberg.

Box 2.4: Vietnamese officials discuss the draft project agreement, Hanoi June 8, 1974

The meeting was chaired by Vice Foreign Minister Nguyen Co Thach. Representatives from the Ministry of Light Industry (MoLI), the Interior Ministry (IM), the Ministry of Foreign Trade (MoFT), the Directorate of Forests (DF) and the State Planning Commission (SPC) were present. Excerpts from summary proceedings of the meeting:

Thach: Vietnam must manage and monitor the use of the funds carefully because this is money from the Swedish people and does not belong to a few individuals. Even if it is a grant – which we must ascertain – we must use it effectively. Do not easily accept whatever is proposed in the negotiations. Instead, careful checks must be undertaken. With regard to Swedish personnel, we accept that a higher portion of aid can be spent on foreign experts than what is accepted for projects with socialist countries, but there should be limits. We can make some exceptions and special treatment for the Swedish experts (e.g. travel permit, visa, living quarters, etc.), but the regulations should not be too different from those applied to experts from the socialist countries.

Dai (MoFT): The draft Agreement is not clear and does not specify Sweden's responsibilities clearly enough. The [Vietnamese] foreign trade agency [Technoimport] should be specified in the Agreement to handle import contracts.

Vu Tuan (MoLI): It is not clear to MoLI how the project will be carried out. The Agreement should specify the organisation responsible for procurement, and the principle of price and costing. A clearer plan of action and time schedule should be agreed upon.

Representatives from SPC, MoLI, DF and IM said that the Vietnamese must control the use of the Swedish project funds to ensure that the goods procured are not overpriced, and that the items purchased are relevant for Vietnam.

Source: MoLI documents deposited in the National Archives, Hanoi. (Our translation)

paper machine (a compromise formula was found). But the Swedish side insisted on controlling the procurement process, and wanted a specific clause in the project agreement to give Swedish experts greater authority to plan the construction. The Vietnamese protested that they knew a lot about planning. Besides, this was a Vietnamese project, and Sweden's role was to provide assistance. The Vietnamese also wanted very much a Super Calender for the factory, probably more as a symbol of modern technology than to make the glossy paper for which it was designed. The Swedes continued to refuse. Hanoi, for its part, resisted Swedish demands for special privileges for their experts (particularly freedom of movement) which other foreigners and even Vietnamese did not enjoy.

Both Michanek and his counterpart Vu Tuan at different points threatened to cut off the talks.¹⁴⁸ A protocol was signed only at the last minute, and it

¹⁴⁸ Michanek later said he did not "threaten" to break off the talks, but concedes the logic of the situation contained the possibility of a break. He had pointed out that his plane was leaving in a few hours, and that Prime Minister Pham Van Dong was about to make his long-planned visit to Stockholm. (Communication to the authors, November 1998). Narfström, SIDA's chief engineer, who was also at the meeting, later recalled the scene: "Late in the evening Michanek collected his papers, stood up, and proposed to break off the negotiations since they could not reach agreement. His plane would be leaving early in the morning. That made the Vietnamese turn around and agree to our formulations." Written communication to the authors, 28 November 1998.

contained a list of outstanding issues.¹⁴⁹ This meant further uncertainty, and it was hardly a propitious moment. Prime Minister Pham Van Dong was due to visit Sweden in a few days – his first visit to a Western country after Vietnam’s independence. For both governments, this was not the time for further delays, let alone disputes that might jeopardise the entire project.

Events then moved swiftly. Pham Van Dong came and left in a celebrated visit, and a few days later, on 26 April, SIDA’s Board made a decision on the Bai Bang project. The decision was stamped “secret” and removed from the general Sida archive.¹⁵⁰ A week later (3 May), SIDA sent a letter signed by Petter Narfström (SIDA’s Chief Engineer) to the Ministry of Light Industry, stating that the project would be implemented. Only one condition was attached: construction should take place step by step, involving two smaller paper machines rather than one large, and the decision on when to install the second machine should only be taken when both parties were convinced that sufficient fibrous raw material was available.¹⁵¹ On 10 May, SIDA’s Board formally recommended that the government conclude a project agreement with the DRV, citing a maximum price tag of SEK 700 million, of which at least SEK 300 million should be spent on procurement in Sweden.

There had been no further negotiations with the DRV since the March talks. The outstanding issues listed in the protocol from the March meeting remained to be resolved, including the controversial question of working and living conditions for Swedish experts assigned to the project. An obvious conclusion is that the political dynamic again had prevailed to move the project forward despite technical uncertainties and SIDA’s demonstrated aversion to risk.

The final round of negotiations took place in Hanoi in June and July. This time the Swedish delegation was headed by the deputy Director-General of SIDA, Anders Forsse. The talks were very tough, Forsse later recalled, but compromise formulas were eventually found for the outstanding issues, permitting the project agreement to be signed in August 1974. It was a general agreement which basically stated that an integrated paper and pulp mill would be built, and that Sweden would allocate a total of SEK 770 million, enumerating the obligations of each party (see Box 2.6). All these points had been agreed upon at the joint aid meeting in Hanoi in March 1973, suggesting that a generally similar document could have been signed one year earlier.

In Sweden, very little information about project had been made public during the planning stage. As news leaked out that a project agreement was to be signed, it created a “serious political storm”.¹⁵² While the 1969 debate on aid to Vietnam had been shaped by the war and foreign policy issues, the US had

¹⁴⁹ *Agreed Minutes*, 1 April 1974. MFA archive.

¹⁵⁰ The file has a note stating that the Board made a decision regarding the forestry industry project in the DRV, which was stamped secret according to § 3 of the law of confidentiality. (Nr. 1974:8, 26 April 1974, Dossier 1 VIE 52). There is no record of the discussions or the nature of the decision made.

¹⁵¹ Letter to the Ministry of Light Industry, Hanoi, 3 May 1974. Sida archive. Copies were also sent to the Planning Commission and the Ministry of Foreign Trade. The word *both* was underlined.

¹⁵² Frühling 1978.

now withdrawn and Vietnam was formally at peace, though still divided with two rival governments (Saigon fell in April 1975). With foreign policy issues more removed, the aid debate in 1974 turned on technical-economic issues. The conservative and centrist opposition parties charged that the project was too costly, and entailed too many risks and uncertainties. Marking a partisan stand on aid policy, the conservative party proposed in February 1974, i.e. just before the March negotiations, that no project agreement be signed until the Vietnamese had provided more guarantees that the project could be implemented.

Only one type of criticism recalled the essentially political origins of the project. The amounts of money involved in the project suggested that it was not aid in the conventional sense, two conservative parliamentarians concluded. Rather, it seemed to be a kind of war reparations. But since Sweden had not been involved in the Vietnam War, they argued, it had no obligation to pay.¹⁵³

Box 2.5: Negotiating a project agreement

Excerpts from Minutes of meetings in Hanoi, 27 March–April 1, 1974 as recorded by MoLI, Hanoi:

29 March: on the supply of raw material

Son [Ministry of Forestry]: Explains that the raw material supply is sufficient

Spangenberg [consultant]: The whole raw material issue must be reconsidered to see if it is sufficient. . .

Narfström [SIDA]: I think you know how important raw material is. We have to be objective and exact.

Son: . . . To provide raw material is our obligation. We are at least as concerned about it as you are. We have re-examined the issue, and found the information correct. There is enough wood. The main thing is to get it transported to the mill, which you do not pay enough attention to.

Narfström: We want more studies on this issue.

Truong [MoLI/Project Director]. The forestry inventory is completed. Mr. Hoe [MoF] will make one more calculations, and that will be the final data for the project.

30 March: on the supply of raw material [cont.]

Tuan [Vice-Minister, MoLI]: . . . You have spent a lot of money and effort [on forest inventory]. So have we - we have never spent so many resources for surveying work as for this project. . . I ask Mr. Michanek whether it is necessary to continue the negotiation, because. . . you now consider all data as valueless.

Michanek [SIDA]. . . I know your worry. Your worry is also ours. We do not want to delay the project. . . [But] we are going to spend SEK 666 million for the mill, so we must be careful

Tuan: I ask you: do you believe in [the present] data? If not, we will report to our two governments that the investigations in the last few years have not brought results. Our governments can decide whether to continue the investigation.

1 April: negotiations between experts on procurement

Nghiep [Ministry of Foreign Trade]: Please let us know the procurement plan, and send us catalogues and price quotations so we can study the orders. We also should inform the engineers early about technical standards.

¹⁵³ Bjereld 1998, p. 26.

Falk [SIDA]: . . . You do not have to buy equipment. You will participate in design and procurement in a later phase.

Toan [MoLI]: We should know about the type of equipment before we go to production, should we not? When we visited Sweden, some friends said: No matter whose money it is, now that it is aid for Vietnam, it is your money and you can choose what you need.

Falk: . . . I do not know if our two governments know and accept what we are discussing.

On having a planning committee during construction

Nghiep, Giong and Toan: We propose deleting the paragraph about a planning unit.

Falk: We do not want to delete it. We have experienced people in planning.

Nghiep: . . . Planning is important, so we do not decline your offer of help. We will send our people to Sweden to study planning. . .

Falk: You mention planning but you do not want it in the Agreement. Why? . . . If there is no plan, there will be no project.

Nghiep: You probably typed incorrectly. It should be that Vietnam does the planning with the assistance of Swedish experts.

Falk: We do not believe Vietnamese experts can do planning. This is a Vietnamese project but we Swedes should do the planning.

Nghiep: This is a Vietnamese project, hence it must be organised and carried out by Vietnam.

Falk: Do not discuss and argue. You cannot change our mind and position. Your Vice-Minister cannot change the mind of Mr. Michanek.

Nghiep: So even when our requests are rational, you will not change your mind either?

Falk: No.

Source: MoLI documents, National archive, Hanoi (Our translation)

Box 2.6: Project Agreement of 1974

Main points of Development Co-operation agreement. Bai Bang Paper Mill Project. Signed in Hanoi, 20 August 1974:

Sweden will provide machinery and equipment, pulp for two years, services and training.

The DRV will guarantee a sufficient supply of raw materials for the mill, including building and construction materials, as well as workers and warehousing, and “promptly provide unloading” in Haiphong harbour.

Construction will be stepwise with no specific dates for installation of the second paper machine and the pulp mill. These will be installed when “both parties are convinced that a sufficient supply of raw material is guaranteed for the operation of the pulp mill at full capacity”.

Sweden “shall be responsible” for international procurement, the DRV for local materials.

A planning committee is to be established, “consisting of Swedish engineers working in collaboration with Vietnamese engineers.” The unit shall work out the planning documents for the project.

An addendum to the agreement includes a list of districts that would serve as supply areas for fibrous raw material.

Chapter 3

Building the mill – stepwise into the unknown

The expression stepwise characterises in many ways the years from 1975 to 1983 during which the mill was constructed. The term was used in the planning documents to describe both the design and construction process, but more important is the fact that, at the time of project approval, great uncertainty still existed on how to implement the work. The basic parameters with respect to size of the mill and major components had been agreed upon, but the modus operandi was only expressed in terms of a loose organisational framework, a list of equipment, and good intentions. It was indeed a bold step into the unknown – a leap of faith for all parties involved.

The Vietnamese contractors had never built anything like this before. SIDA had never before managed a project as large and complex. The Swedish project consultant – WP-System – had not worked in Vietnam before and had no prior experience with processing industry. The Vietnamese Ministry of Light Industry (MoLI) was designated the lead agency to co-ordinate the construction work – this organisational model had never before been tried in North Vietnam.

The work started with the arrival of the first load of equipment in December 1974, when the war was still not fully over. Construction work went ahead throughout the hardships caused by national reunification, regional conflicts, famine, and economic crises. Bai Bang is indeed a tale of “construction-against-all-odds”.

At the time the process was severely criticised in Sweden: it was taking too long and was too costly. Indeed, the last part to be finished, the pulp mill, did not

become operational until the end of 1982, not April 1979, as planned – having taken 8 years to complete rather than the projected 4. The final cost turned out to be twice the amount approved in 1974. Although delays and cost overruns of this magnitude probably happen in development projects under far more favourable conditions, many observers were inclined to label Bai Bang a failure.

This chapter differs from the historical narrative of the previous chapters. The question of most interest today is not primarily how the mill was built, but why the problems of delays and cost overruns occurred, and how they were handled. Why did costs escalate? Why were the original timetables not met? How much was the result of poor planning, poor implementations, or problems and constraints over which the project managers had no control?

In retrospect it is evident that costs increased first and foremost because of the period of rapid inflation that set in during the second half of the 1970s. Two other factors also came into play: the extension of implementation time, which, of course, directly added to the costs, and a broadening of Sweden's role. The construction process took a different path than had been anticipated in 1974. There were unanticipated problems related to defining the roles and responsibilities of the two parties, to severe capacity constraints in Vietnam due to continued war and economic crises, as well as bottlenecks in Sweden. Structural restraints in Vietnam's central planning system relating to supplies and administration played a part. There was political interference and lack of communication in a physical, as well as a cultural, sense. The construction site was, above all, a meeting place of two very different systems with little mutual experience, much mutual suspicion, and with completely different organisational cultures.

Delays and cost overruns: Poor planning or poor execution?

During the construction period, critics of the project in Sweden as well as in Vietnam, tended to blame either the planners or the implementers. Some said that the 1974 agreement was unrealistic. Many critics, implicitly or explicitly, said that the project should never have started. This latter issue will not be discussed here – we take the project as a given – but we do argue that the 1974 agreement overlooked, to some extent, deliberately, many of the obstacles looming in the way of smooth co-operation. In that sense, there was an element of poor planning. But it is also a story of inadequate response to the obstacles that did crop up, relying, to a large extent, on solutions imported

from Sweden in a situation which required Vietnamese responses. Moreover, the story also contains several examples of an overly technological bias in the approach to problem solving, at the expense of a more social and economic approach. In this sense, implementation was bad as well. Most importantly, the two parties have to share the blame for the mistakes that were made, just as credit is due to both countries for the achievements. Much of the Swedish debate wrongly portrayed Bai Bang as a Swedish venture, apparently assuming that it was within the power of Sweden to create success provided “the right” Swedish-made plans and implementation strategies were adopted.

The word *delay* is a relative term. It all depends on what we compare it with: the project’s initial timetable, which is the common yardstick, of course; similar projects elsewhere; or what was realistic under the given circumstances. The time frame of five years for the building of the mill (1974–1979) was established already in 1973. It was a politically negotiated compromise between Swedish experts arguing for a long-term project to secure wood supplies and Vietnamese and Swedish political leaders wanting a time-bound project contained within a foreseeable future.¹⁵⁴ Part of the compromise was acceptance of the recommendation by the Swedish consultant who had assessed the project during the previous planning phase, Jaakko Pöyry & Co, to build the plant in a stepwise manner (see Chapter 2). Vietnam had initially wanted an integrated pulp and paper mill to be commissioned in one go, but, in 1973, the parties agreed to have two paper machines instead of one, installing one (PM1) before the other, along with all the necessary accoutrements such as water supply, power, and transport, and start operations with imported pulp. A year and a half later, the second machine (PM2) would be installed, and the pulp mill would be complete. This would give more time to develop the supply of raw materials, and the number of foreigners needed at the site at any one time would be less.

Few expressed any doubts that the five years set aside for constructing the mill seemed overoptimistic. SIDA did question Vietnamese capacity to manage the construction work, but did not argue for a longer project schedule. Instead, and as an alternative, there was a gradual process of increasing the Swedish share of the financing. When Vietnam officially endorsed Jaakko Pöyry’s report of 1972, it had accepted a local contribution at an estimated value of about SEK 150 million. By the end of 1973, SIDA’s Country Department presented a budget estimate based on a total figure of SEK 600 million, of which the local contribution was set at 21 per cent (SEK 125 million).¹⁵⁵ The major part of this was community infrastructure and raw materials for the initial operation. For the mill as such, the contribution would drop to 13 per cent.¹⁵⁶ The draft project agreement of May 1974 valued the local contribution at SEK 60 million, or 9 per cent of the total.¹⁵⁷ The underlying assumption seems to

¹⁵⁴ Some (e.g., Sköldqvist, interview, Märstad, August 1998) argue that SIDA could not exceed a period of 5 years for project contracts. We found no references to this in the archival material we consulted.

¹⁵⁵ Budget proposal submitted by WP-System on 31 October 1973. Sida archive.

¹⁵⁶ SIDA memo, from Country Department/Ekengren, 10 December 1973. Sida archive.

¹⁵⁷ The total budget amounted to SEK 680 million, of which the Swedish contribution was SEK 620 million. On top of this Sweden added another SEK 150 million for inflation and contingencies.

have been that increased Swedish involvement would guarantee construction completion within the stipulated time frame. This assumption turned out to be wrong. As we shall see below, although the original time frame was undoubtedly unrealistic, we are also convinced that it would have been within the power of the parties to finish more quickly.

With regard to the overall *costs*, opinions are as varied as they are intense. Some claim it should have been possible to build the mill with half the amount, others say that the project was cheap given the circumstances. The problem with such statements is that the points of reference are rarely made explicit. For instance, is comparison being made with the paper industry in Sweden or in developing countries, and which cost elements are included?

A number of additional components were required at Bai Bang which are not required when building a paper mill in Sweden. Bai Bang was a typical “greenfield” project: the site lacked a basic economic infrastructure, such as water supply, electricity, proper transport facilities, and market access, as well as a community infrastructure to support the new work force. In Box 3.1 the major “add-ons” are listed. When debating costs, we have not come across any specific calculation of the costs of the industrial plant itself – comparable to a Swedish situation.

Added to the problem of assessing the final price tag for building the Bai Bang mill, is the lack of reliable information on the value of the Vietnamese contribution, at least in the Swedish files. Estimating the value is at any rate made difficult because of the artificial exchange rate of the Vietnamese currency, the dong. Swedish estimates of Vietnam’s contribution range from 10 to 25 per cent of the total costs – and this includes costs ancillary to the construction of the plant itself, such as community infrastructure.¹⁵⁸ It is difficult therefore to isolate the construction costs proper.

The project investments consisted of an industrial component and a forestry component. In organisational terms the two were easily distinguishable on the Vietnamese side, with the Ministry of Light Industry (MoLI) and the Ministry of Forestry (MoF) in charge of a component each.¹⁵⁹ On the Swedish side, however, the overall management of both the components was in the hands of one body, namely the designated project consultants of the construction phase – WP-System and, in time, Scanmanagement (see Chapter 4). Hence, expatriate costs and administrative overheads were not split between the industrial and the forestry components. When WP-System presented its final summary of costs, the project was presented as an entity.¹⁶⁰ In the first project agreement (lasting from 1974 to 1980) all Swedish-financed equipment and material for forestry officially belonged to MoLI, from whence it was reallocated to MoF.¹⁶¹ The proportions are difficult to trace, partly because both parties shared some of the same machinery and vehicles.

¹⁵⁸ Scanmanagement, *Facts. Hur mycket kostar Bai Bang*. Newsletter. Not dated, but probably 1983. Sandgren 1990a refers to the same level.

¹⁵⁹ Before becoming the Ministry of Forestry this body was known as the Directorate of Forests.

¹⁶⁰ WP-System 1983.

¹⁶¹ This changed in 1980, when Ministry of Forestry became a signatory to the project agreement together with MoLI.

Box 3.1: Building in the bush

The term "Greenfield" is used for industrial projects located in areas where very little exists in terms of modern infrastructure. Bai Bang is such a case. The project included a number of components that would not have been needed in an industrialised country. For the construction work itself the following was set up:

Stone crusher

Concrete plant

Concrete moulding plant

Workshop for maintenance of vehicles and construction equipment

Metal workshop

Acetylene plant producing gas for welding

Exceptionally large and air-conditioned storage building

For the industrial plant itself the following additions are important:

Power plant

Water supply and purification plant

Chemical plant

Extraordinary large maintenance capacity in the form of stores and workshops

The distinction between investment costs and operational costs is a difficult nut to crack as well. There was a gradual transition between the two phases. Training of operators and managers for the mill started already in the planning phase, and continued in various forms throughout the construction period, thus adding to the investment costs. The import of pulp to run the first paper machine was also accounted for as an investment cost. There are many more examples of such intermixes. The most difficult part is to assess the cost of Scanmanagement's organisation from 1980 to mid-1983. This was a period of overlap between the starting of operations and completion of the investment phase. WP-System continued as a subcontractor to Scanmanagement, with responsibility for completing the construction. WP-System's figures do not include costs incurred by Scanmanagement.

By the end of construction, SIDA had spent through WP-System a total of SEK 1,465 million, compared with the original Swedish budget of SEK 770 million (see Box 3.2).¹⁶² According to WP-System, 70 per cent of this cost overrun could be laid at the door of increased inflation.¹⁶³ This means that the extras that were added to the project – the acetylene plant, equipment for the Haiphong harbour, and a lime kiln, to mention some of the larger additions, plus more training and additional manpower (both in the number of positions and duration of stay), only resulted in a 30 per cent increase in fixed prices.¹⁶⁴ With respect to the mill machinery (i.e. the process equipment) WP-

¹⁶² WP-System 1983.

¹⁶³ In the first budget, SEK 120 million was set aside for price adjustment, based on 5 per cent annual inflation. The actual inflation came to about 10 per cent p.a. According to our sources Finance Minister Gunnar Sträng recommended in 1974 using a rate of 10 per cent. Could it be that the low rate of 5 per cent was politically motivated to keep the budget within reasonable limits?

¹⁶⁴ At the end of 1976 WP-System reports a cost increase estimated at SEK 285 million: 78 per cent is inflation, 17 per cent is for additional personnel, and the rest is mainly attributable to the extension of the Camp for expatriate workers.

System argued that they actually saved money for SIDA through effective international procurement.¹⁶⁵

If we adjust for inflation, the cost of expatriate personnel in Sweden and Vietnam about doubled, according to WP-System.¹⁶⁶ The initial manning plan envisaged about 200 expatriates during the peak construction period in Vietnam and an implementation time of about 4 years. The actual peak was 300, and it stayed almost at that level for 4 years. In addition came the unanticipated doubling of the construction time. WP-System calculated total personnel costs in the investment phase to be 27 per cent of project cost. In comparison, a later study written for the Swedish Ministry for Foreign Affairs by an independent consultant, estimated personnel and management costs to be 38 per cent of all Swedish contributions to Bai Bang by 1990.¹⁶⁷ With the relatively higher share of technical assistance in the later period, the two figures seem to tally. In comparison, the budget proposal in 1973 had 20 per cent for expatriate manpower – which is not that far off.¹⁶⁸

Two trends emerge from this brief analysis of project costs in the construction phase. First, although inflation accounted for 70 per cent of the cost overruns, most of this was caused not only by the extension of the time period, which added to the inflationary factor, but also the increased administration and expatriate costs. Secondly, additions to the project also played a role, namely the form of a greater number of expatriate positions than could be attributed to the extension of construction time or the incorporation of unforeseen physical investments. To throw light on the prolongation and the unforeseen expenses, we shall examine five areas: (1) problems of responsibility; (2) scarcities in Vietnam; (3) capacity constraints on the Swedish side; (4) political interference; and (5) lack of communication.

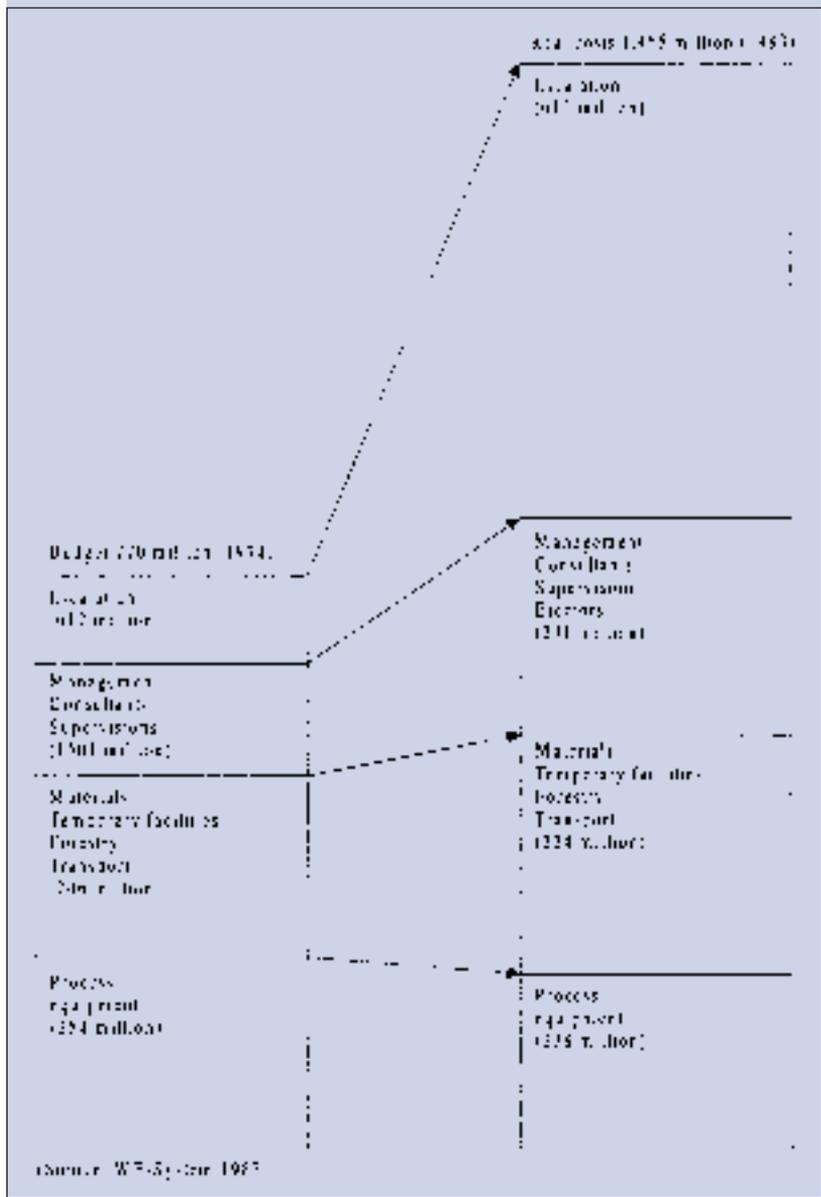
¹⁶⁵ Box 3.2 shows that the actual cost of process equipment in fixed 1973 prices was less than budgeted.

¹⁶⁶ In fixed prices (as of December 1973) the increase is 94 per cent.

¹⁶⁷ Sandgren 1990a.

¹⁶⁸ The figure is based on a project status report (in Swedish) of 31 January 1974 prepared by WP-System. Sida archive.

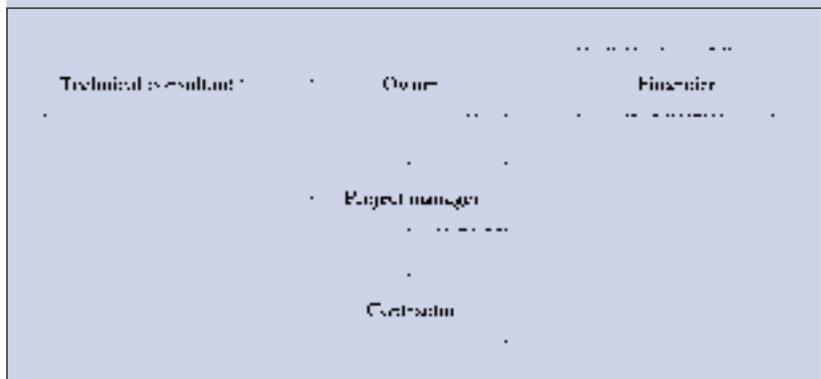
Box 3.2: Costs of the mill – planned and actual



Who was responsible?

It is clear that the project agreement of 1974 failed to establish an organisational set-up for the project that properly defined roles and responsibilities. In the construction phase of any industrial or infrastructural project it is usual to distinguish between the following roles: the ultimate owner, the financier, the technical consultant and the contractor. There are cases where one and the same institution has more than one role – e.g. owner and financier, or owner and technical consultant. Between the owner and financier an agreement must be reached as to who shall take on the role as project manager. This could be a special task force established by either one, or a management consultant on a commercial contract. The objective is to have a set of contractual relationships that balance the need for financial and technical control, with proper incentives towards efficiency. The project manager must have clear executive powers. The structure is presented in Box 3.3.

Box 3.3: Project organisation by the textbook



In most development aid projects, the recipient is the owner, and the development agency is the financier. Contractors and consultants are normally selected through competitive bidding, as is, in some cases, even the project manager. This is considered an ideal model, but in practice it often gets muddled. The reasons are typically two: the donor wants more control, and the recipient insists on being the project manager although it lacks both the experience and the organisation to do it well. The result is that responsibility is diluted, and efficiency reduced. Moreover, if the manager lacks experience and organisation to do the job, efficiency will be reduced even though lines of responsibility may be clear. The story of Bai Bang is a typical case in point.

During the last months of the planning phase SIDA's perception of the nature of the Swedish involvement changed markedly. Initially, there had been a clear vision of a joint Vietnamese–Swedish *industrial* project for the purpose of producing paper. This implied Swedish assistance in the transfer of technology and know-how for the construction as well as the operation of the mill. As late as January 1974 SIDA documents are speaking of the need for a

management contract to assist the transition to an entirely Vietnamese operation, i.e. there was no sense of an imminent Swedish departure once the factory was constructed.¹⁶⁹ However, between this point of time and the signing of the project agreement, SIDA narrowed its perception of the Swedish role in the project to *construction* mainly. The agreement signed in 1974 was for building a mill, with some minor assistance to training and development of forestry. The vision of a long-term paper industry project had been dropped, only to resurface again later.

The original Swedish vision of a joint industrial venture, rather than just a construction project, had consequences for the organisational arrangement. It prompted SIDA to try to convince their Vietnamese counterparts of the necessity to involve the Ministry of Light Industry as an owner-cum-manager of the project from the beginning, as was the normal practice in similar industrial projects in Sweden. Vietnam accepted the idea, even though, for MoLI, this was a new role for which it was totally unprepared. Another element of the “industrial” vision on the part of SIDA, was the need to bring in a strong partner from the Swedish forestry industry, e.g. a consultant like Jaakko Pöyry or a paper producing company. When the “industrial” vision later faded, SIDA no longer considered this vital. It is also part of the story that it turned out to be virtually impossible to find a Swedish company willing to engage itself in a long-term contract involving operational responsibility.¹⁷⁰ As a consequence the construction of Bai Bang started with a project manager, that is, MoLI, which lacked experience from construction, and no technical consultant or partner was forthcoming from the Swedish forestry industry. SIDA had been striving throughout the planning phase to achieve a project organisation based on *joint management*, involving Swedish forest industry consultants working directly for MoLI. Instead, they ended up with a building consultant – WP-System – working under a contract with SIDA. In the following we shall look at the problems faced by MoLI as project manager, SIDA as a financier, and the role of the Swedish consultant.

Project Manager: A new role for MoLI

Previously, for all major capital construction projects in Vietnam, including aid projects, a turnkey model had been used. According to this model, the Ministry of Foreign Trade was responsible for negotiations and the procurement of equipment and machinery, while the Ministry of Construction (MoC) was responsible for construction and installation. Only when the construction was completed, did the line ministry that had been assigned to run the project take over. In this model, ministries like MoLI had very little say during the construction phase.

For Bai Bang, this turnkey model was not adopted. Instead, the government assigned MoLI to be the lead agency to take care of the whole project from

¹⁶⁹ Document cited in Rimér 1979, p. 7.

¹⁷⁰ Interview with Narfström, Stockholm, October 1987.

the beginning. The Ministries of Foreign Trade and Construction were more or less “sub-contractors” or “suppliers” to MoLI. Not surprisingly, this was opposed by the ministries involved, particularly the Ministry of Foreign Trade. At the highest level in government, however, there was a conviction that this project required a new way of operating. Prime Minister Pham Van Dong wanted to experiment with “the Swedish model” and issued a special Government Decision to pave the way.

A major difference between the two models is that, while in the turnkey model there was a “Project Construction Board” responsible only for the construction phase, the new model involved the establishment of a “Project Management Board” responsible for the whole project cycle. The advantage – at least in theory – was that the ultimate owner and operator of the project would be preparing for the operations stage already during the construction phase.

The new model also implied that central planning had to give way to a “contractual system” in which other ministries involved, e.g. the Ministry of Transport or Ministry of Forestry, had to “report” directly to MoLI rather than to the government. In the previous model the various ministries reported directly to the government in accordance with the principle of the central planning, where horizontal co-operation between line ministries was minimal. The change in reporting was not easily accepted, however, especially not by officials at the middle level who executed decisions. In several cases, official decisions were reluctantly followed, and MoLI and Bai Bang staff had to try to reach top leaders to put pressure on the other ministries. For example, Prime Minister Pham Van Dong wrote several letters regarding Bai Bang during the construction stage that were copied and widely circulated by the Bai Bang Project Management Board.

More than any other projects at the time, the sheer size and complexity of Bai Bang made it inevitable that the limitations of Vietnam’s central planning system would be exposed, thus opening the way for changes. However, change came slowly. During the construction period a constant turf battle was ongoing between MoLI and the other ministries, often with MoLI as the losing party. There was no co-ordinating mechanism below the level of Councils of Ministers. The Project Management Board consisted only of MoLI staff. In later interviews Swedish as well as Vietnamese personnel associated with the construction period recall a small and weak MoLI confronted by the much larger and more influential Ministry of Construction.

The relationship to the Swedish side was also a problem. The Management Board had no formal role *vis-à-vis* the Swedish consultant, WP-System (WP), that managed the construction from the Swedish side, since its contract was with SIDA and there was no agreement on a joint management or counterpart arrangement. Formally, the Vietnamese Project Management Board was the overall manager and, as such, superior to WP, but WP, as the extended arm of SIDA, had a more powerful position. In practice, the Board had little influence over the day-to-day construction activities on the site. The Board was the immediate Vietnamese partner to WP, but was mainly involved in

major tender issues. “In several cases we disagreed with WP, and even sent our people to inspect the equipment at the supplier”, as Ngo Dinh Truong, the Project Manager of MoLI from 1974 to 1977, put it.¹⁷¹ MoLI’s main concern, he said, was with getting the best technology – not the cost, nor the practical matters of construction. Therefore, it is an oddity in the organisational arrangement that MoLI was not represented in the Procurement Group which worked out of Stockholm and had to approve all procurements as specified in the 1974 project agreement. The Vietnamese were represented in the Group through the commercial attaché at the Vietnamese Embassy, who represented Technoimport, a subsidiary of Ministry of Foreign Trade. He had little opportunity to confer with Hanoi, not to mention officials at the project site. The other members of the Group were Swedish – officials from SIDA and WP-System, with SIDA having the final say.

It is also typical of the limited role of the Vietnamese Project Management Board that it was only occasionally consulted on the recruitment of Swedish manpower. “We never said no”, Truong conceded, even though they did in at least one case when they initially refused to accept WP’s candidate, Ulf Erlandsson, as a replacement for first resident Project Director (Ingmar Hildebrand 1974–1977). MoLI argued that Erlandsson was not qualified as a process engineer. SIDA had to intervene and assist WP-System to convince the Board.

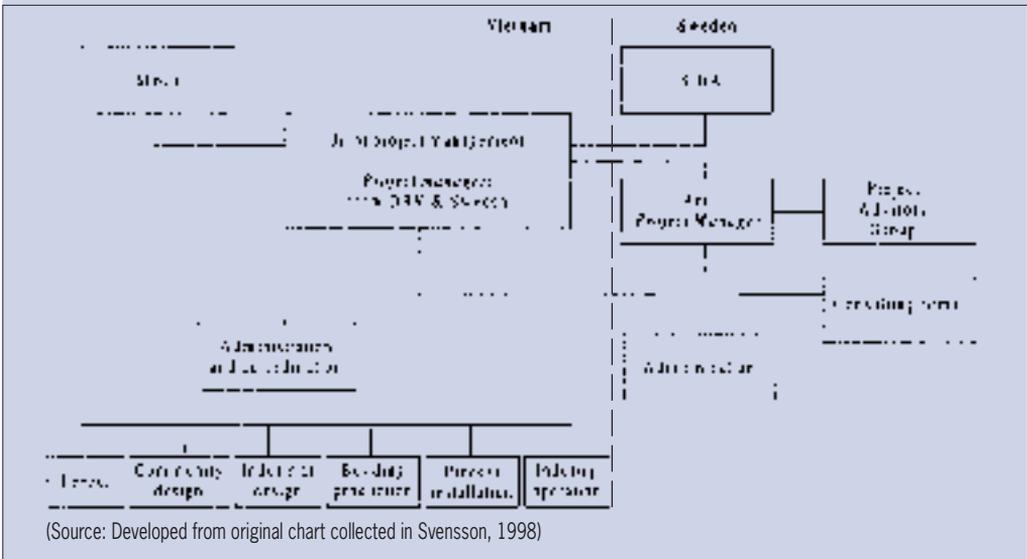
Financier or project manager: SIDA’s double role and the role of WP-System

When MoLI in early 1974 presented its proposal for a project organisation, SIDA officials noticed that while it was not what they had envisaged as a joint management organisation, nevertheless “it represented a good starting point for the construction period”.¹⁷² Although the concept of an industrial project, in the sense of something more than aid to construction, was fading, SIDA did not easily give up the idea of joint management. This was perceived as the best way to ensure both the effective transfer of knowledge, as well as Swedish control when necessary. It is evident that SIDA did not trust the ability of MoLI to co-ordinate the various inputs on the Vietnamese side, as well as those from Sweden. For several years, both SIDA and the consultant, Jaakko Pöyry & Co, had hammered at the need for a strong project manager with executive powers. SIDA continued its efforts to enhance Swedish influence in the day-to-day activities during the construction phase after the project agreement was signed in August 1974. A series of meetings were held in late 1974 and early 1975 to discuss the matter. Specifically, SIDA wanted a MoLI man and a WP man as a twin Project President (see Box 3.4). This was never realised, however, and gradually two separate and not formally integrated organisations developed (see Box 3.5).

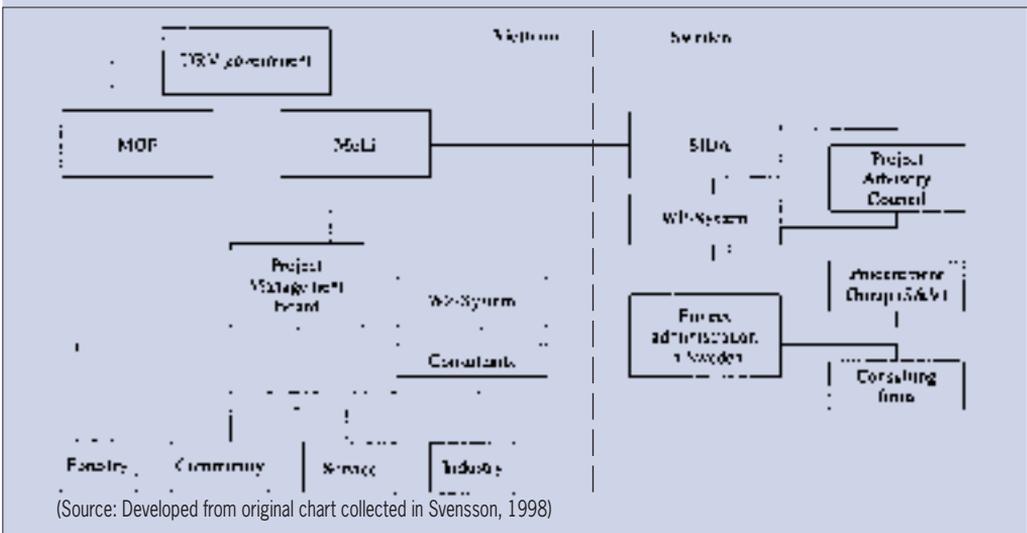
¹⁷¹ Interview, Hanoi, March 1998.

¹⁷² SIDA memo, from J. Cedergren. WP archive.

Box 3.4: Organisational chart proposed autumn 1974, but not implemented



Box 3.5: Bai Bang paper mill project organisation as implemented in 1975



SIDA's problem in these early years was to find its proper role in the project. The idea of a project manager recruited by SIDA had been dropped due to Vietnamese objections and the failure to find a suitable Swedish candidate, but there remained in SIDA a strong belief that hands-on control was necessary. Confidence in MoLI dried up, while, at the same time, SIDA was of the opinion that a lack of an efficient project organisation was a major risk factor.¹⁷³

¹⁷³ SIDA memo, *Insatspromemoria*, 24 January 1974. Sida archive.

SIDA had already in 1973 engaged WP-System to co-ordinate the planning process. While Jaakko Pöyry concentrated on completing the feasibility study, WP gradually filled the role as SIDA's extended arm in the project – first and foremost as a co-ordinator in pre-tendering and other practical matters. This role was further confirmed in October 1974 when WP-System signed a new contract with SIDA, this time as “project manager” for the whole of the project agreement period. It was not, however, project management in the full meaning of the term. The contract covered only the Swedish part of the co-operation agreement, moreover, SIDA had in fact delegated little formal authority to WP.

One important aspect was that WP-System did not have a contractual responsibility to manage within a fixed budget. With respect to overall costs, its role was to assist SIDA in keeping to the budget. SIDA controlled all procurements (except small purchases) through the Procurement Group, and it had to approve all expatriate positions in Vietnam. With respect to its own costs, WP had no fixed contract as payment was based on running cost. There was also no penalty mechanism in the contract. The matter was discussed, but it turned out to be impossible to find something to peg it to. The contract did have an incentive mechanism, but it never functioned since it was pegged to the original timetable, and that soon became obsolete.

With the 1974 project agreement and its later contract with WP-System, SIDA had made itself a *de facto* manager of the construction project, although its direct control was limited to the Swedish contribution. To deal with the executive functions that were involved, SIDA established a semi-autonomous task force within the agency – the so-called Vietnam Group (*Vietnam-gruppen*) which reported to SIDA's Industry Division. The head of the group was appropriately called Project Chief. With only 3 1/2 positions in the Vietnam Group, however, the Group's ability to keep on top of the project was, of course, very difficult; as the project progressed its dependence on WP increased steadily.

The over-all result was an organisational set-up with a weak correspondence between the authority and the ability to manage. The Vietnam group had the authority but not the capacity; for WP it was the reverse. On the Vietnamese side the situation was no better: MoLI had the formal authority but little power to control the other ministries.

Who would be likely to benefit from a situation in which responsibility is diluted? Naturally, it would be those with more capacity than authority. They are in a position where they can stretch the limits of the project and its financiers, without any direct repercussions. In Bai Bang, this role fell to the project consultants – WP-System and later Scanmanagement, on the Swedish side, and, on the Vietnamese side, the main contractors.

The Vietnamese Ministry of Construction assigned two companies for the job – generally referred to as the Building Company (BC) and the Erection Company (EC). BC and EC worked on contracts with MoLI, but it was very difficult for the Project Manager – i.e. the Project Management Board staffed

exclusively with MoLI officials – not to mention the Swedish consultant who was a sort of co-manager – to exercise authority.¹⁷⁴

It was indicative of the lack of communication between the Vietnamese and the Swedish side that SIDA's Industry Division complained that it had no knowledge of the contractual arrangements between MoLI and Ministry of Construction. SIDA officials were, in fact, suspicious and worried that BC and EC would be paid in the form of Swedish-financed equipment. If so, it would be very difficult to get this equipment back to MoLI at the end of the construction phase, as stipulated in the 1974 agreement.¹⁷⁵ This actually turned out to be a major problem when EC and BC left the project in 1982 and 1983, taking significant equipment with them.

As for the problems of cost overrun and delays generally, the later General Director of the mill, Nguyen Trong Khanh, summed it up nicely: “We regarded Sweden as responsible for the project, and did not interfere with Swedish decisions. There was no strict control, and SIDA too easily accepted requests from WP-System to prolong or to get new funds. It was also in the interest of EC and BC to prolong. Had it been our money we would not have accepted the prolongation.”¹⁷⁶

As the construction period repeatedly had to be extended and costs escalated, SIDA came to realise that it had to change its awkward role of being a financier and project manager in disguise – Project Chief. SIDA no longer wanted to “lie in bed” with the Swedish consultant, and resumed the fight for an arrangement which would open up for a direct contractual relationship between the consultant and MoLI. SIDA also wanted to have Swedish consultants in formal decision-making positions – i.e. joint management. This way it would be possible for SIDA to take a step back, so to say, and focus on monitoring the work, leaving the job itself to a joint Vietnamese–Swedish project organisation.

Vietnam had no problems accepting the need to reinforce the management, but with respect to joint management, the political obstacles remained. On the other hand, the bargaining position of Vietnam in 1980 had been considerably weakened compared to 1974. The consequences will be traced in subsequent chapters: In Chapter 4 we shall see how SIDA managed to get its requests accepted, at least on paper, when Scanmanagement signed its first contract with Technoimport,¹⁷⁷ and when subsequent contracts were entered into with MoLI and MoF. Chapter 8 will explain how the project, despite these arrangements, continued with two parallel organisations – a Vietnamese and a Swedish one. While SIDA did manage to take a step back from direct project management, the concept of joint management never really got off the ground. A Swedish and a Vietnamese project management co-existed throughout the project, and collaboration between the two improved as time went by.

¹⁷⁴ Interview with Ngo Dinh Truong, Hanoi, March 1998.

¹⁷⁵ SIDA memo, from Industry Division /Rehlen to SIDA's Director-General, 4 April 1978. Sida archive.

¹⁷⁶ Interview in Hanoi, March 1998.

¹⁷⁷ Terms and conditions of remuneration were negotiated directly with SIDA, with no Vietnamese involvement.

The technical consultant: The weak link

When SIDA entered into a contract with WP-System in 1973 for the remainder of the feasibility studies phase the intention was not to replace Jaakko Pöyry. SIDA's Industry Division wanted to have two different consultants in the project, both assisting the Vietnamese project manager, which, at the time, was envisaged as MoLI. One consultant would be on the industrial process side, the other on the side of the "establishment". The latter term covered the practical co-ordination of procurement, logistics, and supervision of building contractors.

Although the working relationship between Jaakko Pöyry and SIDA's Industry Division had deteriorated, SIDA had not dropped the idea of having a Swedish forest industry consultant working jointly with MoLI to develop a new state enterprise. At the same time, Jaakko Pöyry & Co clearly retained the ambition to be the main consultant in the project, also during the construction phase, much in the same way as it operated in commercial projects internationally. This would be as a project manager or technical consultant to the owner (cf. Box 3.2), but Vietnam ruled out the arrangement of a Swedish project manager, and now SIDA ruled out the need for a technical consultant. WP, for its part, had already been assured of a continued engagement.¹⁷⁸

During the spring of 1974, when SIDA decided to limit its engagement mainly to the construction of the mill, it was argued that the project only needed a consultant with WP's experience – i.e. international experience in management and co-ordination of large infrastructural works, including procurement, transportation, and other logistics. The technical know-how for detailed engineering and design could be subcontracted to specialist companies. With this as the likely outcome, Jaakko Pöyry informed SIDA that the company would not agree to work under WP.¹⁷⁹ Jaakko Pöyry was concerned with its business image and reputation. It had never before worked for a construction consultant. In other projects the roles were reversed: Jaakko Pöyry was the technical co-ordinator and adviser to the owner and client and had the responsibility to supervise construction. It would send wrong signals in the Swedish market to jeopardise this division of roles.¹⁸⁰

The decision by SIDA to drop the technical consultant had its costs. The biggest problem was the antagonistic attitude of the forestry industry that subsequently developed. Jaakko Pöyry had worked for most of the large companies in Sweden and was well connected. This was one of the reasons why WP had problems recruiting the high calibre experts they sorely needed, having never worked in the sector. Towards the end of the 1970s, WP's lack of industrial experience was used as the main argument for bringing in yet a new consultant (see Chapter 4).

¹⁷⁸ WP's offer to SIDA (revision dated 23 May 1973) was conditioned on "that we can safely see the continuation of our undertaking all through the whole construction period of the project".

¹⁷⁹ Interview with Spangenberg, Stockholm, August 1997.

¹⁸⁰ Interview with Gundersby, Oslo, August 1998. This argument, however, did not apply when Pöyry later joined as the sub-consultant on forestry development.

Vietnam: Not enough of anything

Many Swedish reports refer to the pioneering spirit and optimism that prevailed during the first year of construction after the first shipment arrived in Haiphong harbour on December 1974. In this first year, Stockholm was seen as the main bottleneck. In early 1976, however, reports from the field changed in nature: only 10 per cent of the planned work had been accomplished; concrete casting work had to be redone; 4 tons of nails had disappeared; and there was no fence around the site where material was dumped in heaps.¹⁸¹ The project had come up against a Vietnamese reality – a society with extreme shortages of everything, with a war mentality of strict lines of command and suspicion of outsiders, and a rigid bureaucracy unable to cope with the demands of a modern construction site. The situation can be illustrated by the struggle to get enough skilled labour, to solve the transport problems, and to track the goods that disappeared into a starved Vietnamese society outside the boundaries of prosperous Bai Bang.



Workers from the Building Company of the Ministry of Construction. Shortage of skilled workers was a constant problem throughout the construction phase. Photo: Scanpix

Skilled labour

Swedish documents from this period constantly refer to the shortage of skilled Vietnamese, while Vietnamese sources seem to downplay this. Vietnam recognised that it did not have some of the specialist workforce required for the project, which necessitated considerable training. But the overall problem was seen by the Vietnamese as lack of co-ordination rather than lack of

¹⁸¹ WP-System memo, minutes from project meeting, dated 23 February 1976. WP archive.

manpower. For instance, The Building Company (BC) and the Erection Company (EC) often had to reschedule their work because Sweden apparently was late on the delivery of needed equipment. This explained many shortages, a Vietnamese official closely associated with the project later claimed.¹⁸²

The former Director of the Ministry of Construction's Erection Company, Nguyen Ba Hoc, maintains that his company never had problems getting manpower for the project. Bai Bang was a popular place to work, and salaries were better than at most other projects. The contract with MoLI was good, and EC paid piecework rates and bonus for punctuality. Accommodation was also good, and the company even provided evening entertainment for the workers. When war erupted in Cambodia and with China (1978–79) the company did not lose any workers to the army because the project was protected by the Prime Minister. Ba Hoc also says that skilled workers were not transferred from Bai Bang to other projects unless the work had been completed. The main cause of the delays, according to Nguyen Ba Hoc, was that they always had to wait for materials and equipment. What is more, many of the foreign experts arrived late.¹⁸³

This view differs from that of some Swedish officials and consultants involved in the project, who claim that the shortages of skilled workers, in particular, delayed the construction. The Swedish official who first headed SIDA's Vietnam Group maintained that the project fell victim to Vietnam's planning system: "I can remember complaining about the lack of Vietnamese labour on the work site when the first Swedes moved there in early 1975 and getting the sour reply that 'we had 1,000 men mobilised here last November as per annual plan, but they have gone off to other work sites now!'"¹⁸⁴

In reality, both sides were probably correct. The relative weight of different problems shifted throughout the project. It appears that the labour shortage was bigger in the beginning with the Building Company than at the end with the Erection Company.

The lack of skilled labour and managers had been recognised early in the planning, in particular with regard to MoLI personnel who later would manage and operate the mill. This was one of the reasons for having MoLI as project manager from the start. Efforts to address the problem started already in 1972, when the first 11 engineers went to Sweden. Surprisingly, in the 1974 agreement training does not figure prominently. The agreement has only a brief reference to training and WP's contract with SIDA mentions training of Swedish personnel only. Nevertheless, training of Vietnamese became a major part of WP's work as the project evolved, although more of necessity than by design, and the emphasis shifted from training relevant for operation to skills needed in construction. The availability of skilled construction and erection workers had been greatly underestimated.

¹⁸² Interview with Nguyen Trong Khanh, Hanoi, March 1998.

¹⁸³ Interview with Nguyen Ba Hoc, Hanoi, March 1998.

¹⁸⁴ Westring 1983, p. 29.

Already in late 1975 there were internal discussions at WP-System on the need to develop a vocational training centre for construction and installation workers.¹⁸⁵ A list was circulated stipulating that the project would have to train 335 welders, 115 mechanics, 30 transport operators and 65 other workers in special skills. In addition, an unspecified number of electricians was needed. But it took WP-System until late 1976 to develop a training strategy.¹⁸⁶ The target group for the WP training programme comprised personnel needed for both the construction and the operation of the mill – a total of 1,020 workers.

It is surprising that the Swedish consultant's new training strategy does not mention the co-operation problems between MoLI and the Ministry of Construction (MoC) under which the two construction companies worked. The strategy appears to assume that workers trained in installation work and employed by MoC later could be used in the operation and maintenance of the same machinery, at which time they would be employed by MoLI which had the responsibility for the management of the mill. While this might have been a reasonable assumption in another economic system, in Vietnam it turned out to be wrong. It appears that WP-System in 1976 was unaware of this problem, or could it be that they had started believing that Sweden could persuade the Vietnamese to change their system in this matter? Towards the end of the construction period, SIDA and Scanmanagement pushed hard, but mostly unsuccessfully, for the transfer of personnel from MoC to MoLI.

Despite the massive training requirements, a permanent educational facility was never established. There were plans for a vocational school building on the project site, but they were never realised – although a vocational school was later built near the factory. This was an issue that seemed to fall between two stools. WP asked MoLI for classrooms, but the ministry did not seem to have a training policy.¹⁸⁷ Clay Norrbin, the “father” of the vocational school which opened in 1986, argues that this was the biggest mistake that was made in the early phase.¹⁸⁸ In fact, however, and although there was no investment in basic technical education, Bai Bang developed into a large informal on-the-job training facility. The value of this is well recognised by the Vietnamese today. Nguyen Ba Hoc calls Bai Bang the best project he has worked on. “We learned modern project organisation and the use of new tools and equipment”, he says.¹⁸⁹ Numerous workers who received on-the-job training at Bai Bang later spread out to work elsewhere in the economy. For instance, workers from the Erection Company later did excellent work on oilrigs in the South China Sea.

The shortage of skilled workers on the project created pressure for more Swedish recruitment. The WP office at Bai Bang wanted Swedish carpenters

¹⁸⁵ In project documents the term *erectors* is commonly used for installation workers.

¹⁸⁶ This strategy was presented by the head of the training section, Gunnar Thunblad, at a project meeting, 3 August 1976. WP-System memo, minutes of meeting WP archive.

¹⁸⁷ WP-System memo, minutes from project meeting, 27 December 1976. WP archive.

¹⁸⁸ Interview, Stockholm, August, 1998.

¹⁸⁹ Interview with Nguyen Ba Hoc, erstwhile Director of the Erection Company from 1976 to 1981. Hanoi, March 1998.

to finish building expatriate housing, and SIDA accepted. When the other Swedish consultant, Scanmanagement, took over in 1980 as the Swedish project manager, the motto “Finish at any cost” had been accepted on both sides, and WP brought in a team of Swedish skilled workers employed directly in the construction work. There was no time to employ Swedish instructors and supervisors exclusively to train the Vietnamese. The extra bill was SEK 55 million.

Shortages of unskilled workers also represented a problem. WP-System reported in 1976 that only 500 of the estimated 3,000 workers required on the site had been mobilised by the Building Company (BC) and EC. The war in Vietnam had ended the previous year, but conscription continued and limited the availability of men to the civilian workforce. Had it not been for the Vietnamese women, it is commonly said, Bai Bang would never have been built. Women constituted 60 per cent of the work force on the project. The female workers in Bai Bang, as elsewhere, were also responsible for household chores. When, in addition, it is realised that wages paid by BC and EC were far below subsistence levels, it was completely unrealistic to assume rapid progress under such circumstances.

With the benefit of hindsight, it is difficult to understand why the well-trained and well-informed Vietnamese and Swedish planners believed that Bai Bang could be built in five years. Yet there are no indications that they questioned this assumption. Possibly, the military achievements, the determination, and self-confidence of the Vietnamese impressed the Swedes so much that they believed that Vietnam was close to Western efficiency, just as these factors may have contributed to a certain amount of self-deception on the Vietnamese side.

Transportation problems

Vietnam over-extended itself when it agreed in 1974 to take care of all aspects of the transportation of project equipment from the harbour to Bai Bang. Already in mid-1975, MoLI told WP-System that they were unable to guarantee the transport any longer. The imported equipment had already sustained instances of serious damage, for which MoLI had been severely criticised. The result was that WP took over the transport of all imported goods from Haiphong harbour to the project site some 100 km inland, while BC and EC saw to the transport of local materials. Understandably, this necessitated the shipping of more trucks from Sweden, thus further adding to costs.

Virtually all equipment and materials to the project in the first years entered through Haiphong. The story of this harbour vividly exemplifies the almost innumerable problems encountered by the project, as well as the politics involved in solving them, which pointed to the privileged status enjoyed by the Bai Bang project.

The harbour became a major bottleneck from day one. The first boats had to wait five to six weeks to unload and later there are reports of delays lasting

one hundred days.¹⁹⁰ Goods were damaged, lost, or delayed for months before they were cleared. In May 1977 the harbour was closed for all goods except food relief. There was famine in many parts of the country and serious food shortages. The Swedish Embassy intervened and managed to obtain an exception for goods to Swedish projects. A further incident relates to the new loading equipment provided by Sweden to the port authority to speed up the work of unloading the ships. The port authority declined to use it. SIDA was informed that if ownership were transferred from MoLI to the port authority, the problem would be solved. The port authority had probably been unwilling to pay the rent that MoLI had demanded. In 1977, Sweden also negotiated an arrangement to place two expatriates in the port to speed up the clearing of goods for the project. When MoLI insisted that they should stay in the Camp at Bai Bang, the ambassador, as on several other occasions, went directly to the Prime Minister's Office. At that level a more "pragmatic solution" was worked out, i.e. one that served the interests of the project.

Theft

The stories and rumours about stolen goods were legion. A newspaper in Sweden cited rumours that equipment for SEK 50 million had been stolen. "It is only 5 million", the Minister for Development Co-operation told the press later.¹⁹¹ It is said that the new police station in Bai Bang was equipped with Swedish-made electrical fittings, and that Swedish welding machines operated in backyard workshops in Hanoi. While this had a rational explanation, the Swedes could not understand why special parts meant for the paper machine from Karlstad, seemingly with no other functional usage, should also disappear. The number of express purchase orders rose rapidly, and so did the use of airfreight.

Christina Rehlen in SIDA's Vietnam Group reported to the Director General, Ernst Michanek, in 1978 that theft was one of the biggest problems in the project, not because of the costs but because of the time it took to replace what she calls "souvenirs" – such as plastic buttons on instrument panels.¹⁹² Cost did matter, however. Scanmanagement reported in 1982 that goods valued at SEK 700,000 had disappeared in one month. This was an all-time record, and made SIDA finally agree to finance a brick wall around the site.¹⁹³

How much of this should be considered criminal offences perpetrated by people acting on their own behalf, how much represented a breach of contract between two states, and how much considered as simple misunderstandings, is, at times, difficult to say. All goods that landed in Haiphong harbour or at the airport became instantly the property of the Ministry of Foreign Trade, whose responsibility it was to further allocate resources to the respective ministries according to national plans. Bai Bang was no exception. In Vietnam,

¹⁹⁰ WP-System memo, minutes from project meeting, 18 November 1975. WP archive.

¹⁹¹ Frühling, 1978, p. 12.

¹⁹² SIDA memo, from Industry Division/Rehlen to SIDA's Director-General, 4 April 1978. Sida archive.

¹⁹³ Interview with Ehnemark, Stockholm, August 1998.

there was desperate poverty and a shortage of everything; in contrast, Bai Bang represented seemingly boundless prosperity. The temptation seemed too great for public corporations as well as for the poor local people. Theft and “re-allocations” never amounted to a financial problem to Bai Bang in the sense that funding ran dry. The problem was time: with a delivery time of several months, major delays were unavoidable.¹⁹⁴ And time, as we have seen, was a very expensive item.

Sweden: Capacity also a constraint

WP System in Stockholm

In as much as capacity constraints in Vietnam had been overlooked, the demand for backstopping from Stockholm was also underestimated in the early plans. As noted above, SIDA did recognise that Bai Bang required special measures, and, with this in mind, established a project task force with special authority – the Vietnam Group. The group, however, was short on manpower having only three and a half positions, so it was up to WP-System to cope with the practical matters. WP soon realised that its office in Stockholm could become a bottleneck in implementation. The Project Director in Bai Bang, Ingmar Hildebrand, voiced his concerns after only five months on the site. “The project cannot continue in this euphoria. The situation is unacceptable with respect to time, budget, as well as personnel”, he wrote in June 1975.¹⁹⁵ Whereas WP had a flexible contract for the work in Bai Bang – i.e. paid according to a fixed rate for each person-month agreed with SIDA, it had agreed to a lump sum payment for the work performed by its Stockholm office.¹⁹⁶ This was probably the main reason why WP was reluctant to increase the staff in Stockholm. SIDA later agreed to raise the contract amount.

The most demanding task in the beginning was not to service the people in the field, but to co-ordinate the five companies doing engineering and design in Sweden. By the end of 1975, 160 engineers and technicians had been involved in this work. WP recruited a man from the forestry industry to be Project Director at the HQ in Stockholm – Hans Sköldqvist – because planning and building a paper mill was new territory for the company. Besides the shortage of manpower and relevant experience, WP also had to adjust to new challenges of decision-making. The Project Director demanded more authority, particularly in technical matters. The top management of WP-System, he argued, had primarily experience in infrastructure projects, not in the forestry industry, and should intervene only in contractual matters with SIDA.¹⁹⁷ The relationship between Bai Bang and headquarters was often tense as well. “Who should be the boss?” – “Who knows best, Hildebrand in Bai Bang or Sköldqvist in Stockholm?” – “Is it one or two projects?”, as somebody put it.

¹⁹⁴ It should be noted that goods to Bai Bang during the first years in reality were never insured. WP-System had a policy with Baoviet – the government insurance company – for transport to port of entry in Vietnam. When, by 1977, however, Baoviet had only paid SEK 50,000 million of a total claim of SEK 3.5 million, WP cancelled the policy and contracted an international company. Inside Vietnam, it was in principle the government’s responsibility to replace imported goods lost or damaged. This never happened, of course.

It is surprising that no analysis seems to have been done by SIDA or WP-System to find out what the Swedish side could have done differently. Obviously, the Swedish problems were soon overshadowed by the problems on the Vietnamese side. In reports both from SIDA and WP in this period, a general consensus emerges that the Vietnamese party and the general conditions in Vietnam are to be blamed for the delays and added costs. The only element of self-criticism noted is the acknowledgement that Sweden overestimated Vietnam's resources and capacity, and underestimated the problems of the Vietnamese bureaucracy, the language barrier etc., as Erik Diedrichs, a member of SIDA's project advisory group, concluded. His assessment of the Swedes, at home and in Vietnam, is nevertheless that "they have done a good job".¹⁹⁸

It is beyond the scope of this study to assess the technical quality of the work done in Bai Bang. We note that later observers tend to agree with Diedrichs' assessment that the technical quality of the work is good.¹⁹⁹ The interesting question for this study is whether a quality output could have been achieved in a different, and possibly cheaper and less time-consuming, way.

The quality of development assistance is not only to be measured in terms of technical criteria for output efficiency. Equally important is the process of institutional co-operation and "development" as broadly understood in terms of transfer of knowledge and improvement of living standards. In 1977 SIDA had no guarantee that the technology put on the ground in Bai Bang would actually work as part of a functional industrial organisation some years later. As a matter of fact, at that time, many of SIDA's staff raised that question. Even so, the job was marked "well done" by the Industry Division.

Another area where criticism is warranted is in the inability of the Swedish side to understand and – to the extent permitted by the Vietnamese authorities – get closer to Vietnamese society. The approach was narrowly focused on the technical challenges of building the mill – although Vietnamese restrictions on access to information, authorities, persons and communities, did not make other approaches easy. They were worlds apart in Bai Bang – literally and figuratively. The Swedes were housed in the Swedish Camp, and the authorities in this period did not permit social contact with the Vietnamese. The conditions have been colourfully described by many of the involved and even inspired the writing of a Swedish novel by someone who lived in the Swedish Camp for several years.²⁰⁰ Not only did this situation reduce the ability of the Swedes

¹⁹⁵ WP-System memo, minutes from project meeting, 6 June 1975. WP archive.

¹⁹⁶ Cf. agreement between SIDA and WP, signed on 18 October 1974, SIDA archive. The agreement distinguishes between three forms of remuneration: (1) a fixed monthly rate, fluctuating with the anticipated work load, to cover all work in Sweden not covered by (2) and (3) below – the rate was 110,000 SEK in 1974; (2) a fixed recruitment fee per man-month of personnel working in Bai Bang – the rate was SEK 2,750 in 1974; and (3) reimbursement of actual expenditures, mostly in Vietnam, according to a specified list. The rates were subject to adjustment for inflation.

¹⁹⁷ WP-System memo, minutes from Internal Information Meeting, 23 June 1975. WP archive.

¹⁹⁸ SIDA memo, from Industry Division /Diedrichs, 5 October 1977. Sida archive.

¹⁹⁹ E.g. Arnesjö, member of several review missions during the eighties (telephone interview, August 1998), and Centre for International Economics 1998.

²⁰⁰ Eriksson 1988.

to understand Vietnam, it also fostered a kind of self-protection mechanism at all levels, especially among all those who did not stay for long – from the sophisticated SIDA negotiator: “the Vietnamese bureaucracy is still the biggest obstacle for performance work”,²⁰¹ to the fictionalised Swedish construction worker who complains, pool-side in the Camp: “I hate these yellow pigs.”²⁰²

Among those who stayed for a while, a different and more reflective attitude developed. At the end of his term in Bai Bang, Hildebrand sent home a confidential letter to Stockholm. “We have to put our own house in order before we try to base a schedule entirely on SRVN [Vietnam] resources and actions, as they, to the largest extent, are dependent on us as their technical advisers and suppliers.”²⁰³ The letter gave several examples (21 in all) where “we have not reached an acceptable level of service”, and concluded that “[I]f we can improve our performance I am convinced that the Vietnamese will follow suit and then we’ll have a different level of production.”

In her novel, Elina Eriksson may have captured many of the mixed and conflicting sentiments that prevailed among Swedes in Bai Bang at the end of the construction period. One of her characters, a former FNL-solidarity worker, now disillusioned, says on his way home:

*I really believe that if we’re ever going to get this mill to work, it will not only be the most expensive in the world, but it will have to be run by the Swedes. It’s a never-ending project; one that will swallow resources forever. But it’s our own fault; the people who took the decision were unrealistic. And we demand more from the Vietnamese than from ourselves. These poor women workers can’t take it any more; they’re exhausted. Many of us don’t give a damn about the job; we’re here just for the money.*²⁰⁴

Design

SIDA initially had difficulties getting the State Planning Commission and MoLI to accept conventional Swedish practice on how to build a process industry such as a pulp and paper mill. A stepwise design is different from a blueprint. The technical justification is quite simple. Before one can design buildings and connections between various components in the industrial process, it is necessary to obtain the specifications of the basic machinery to be used. These specifications are themselves an outcome of a tendering process in which the bidders are asked to supply equipment that matches the kind and quality of raw materials to be used. When the suppliers and their equipment have been determined, the second step is to design the buildings and linkages in the production process. It follows from this that drawings, timetables, and budgets are only indicative at the time of project approval.

²⁰¹ SIDA memo, from V. Wanhainen, 28 December 1977 (our translation). Sida archive.

²⁰² The phrase is taken from Eriksson 1988 (p. 44). That this terminology represents no fiction, and no exception, has been confirmed by many who experienced the atmosphere in Valhalla – the home of the gods in Norse mythology – as the Camp was called. The end of the 1970s and the beginning of the 1980s saw the culmination of cultural and social tensions between the two communities in Bai Bang.

²⁰³ WP-System, letter from I. Hildebrand to H. Sköldqvist, 8 May 1977. WP archive.

²⁰⁴ Eriksson 1988, pp. 46–47. Our translation.

As tenders were awarded for Bai Bang, a capacity problem developed in engineering and design. Two of the Swedish companies engaged by WP-System were quite new. Both Celpap and Ola Hellgren Ingenjörbyrå were, in fact, created for this job. This is part of the reason why Celpap was 4.5 months behind schedule as early as in March 1975. Ångpanneföreningen, another sub-consultant and Sweden's leading company in power generation technology, pointed out that since the client – i.e. SIDA/WP – had no technical expertise in pulp and paper-making, this hindered effective decision-making on technical matters. They explicitly requested WP to strengthen its staff with more people with this background. It also added to the delays that the design work done by the forestry consultant, Jaakko Pöyry, as part of the feasibility studies in the early 1970s, was soon to become obsolete. In October 1975 WP-System decided that a new temporary design plan for the plant was needed. At the end of the year all sub-consultants were behind schedule. And in 1976 there were further reports of delays in the design work.²⁰⁵

But the capacity problem in Sweden was not the only factor. It did not make things easier, for instance, that Stockholm had to wait for more than half year for the Vietnamese authorities to send certain basic information for the design of the power plant.²⁰⁶ Finally, WP had to send out construction and mechanical engineers to get more of the detailed design work done on site because the problems of shuttling technical information and drawings between Bai Bang and Stockholm turned out to be insurmountable. This decision clearly could and should have been made earlier.

Recruitment

How many expatriates were needed? The figure kept rising as the project progressed. WP-System indicated in 1973 that Jaakko Pöyry's estimate of 250 Swedes was far too high, but in fact WP itself reached that figure, and 4 years later WP and Scanmanagement had added another 100 (see Box 3.6).

The Swedish manning of the project in Bai Bang was a continuous struggle between the ideal and the possible. The ideal, from WP's point of view, was based on the perceived needs to get the job done and the associated profits on recruitment. In October 1975, WP estimated the requirement at 550 persons, which, admittedly, was "far too much".²⁰⁷ The possible was determined by the labour market in Sweden, the negative public image of Bai Bang conveyed by most of the Swedish media, delays in completion of the Swedish Camp on the project site, and budget limits.

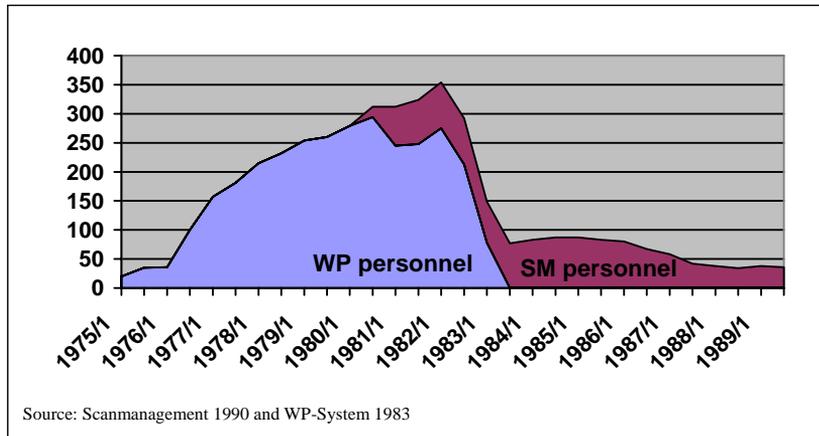
The problems are well illustrated in internal reports of WP-System. In September 1976 it is reported that out of the 118 positions approved, only about half (64) had been filled. It is admitted that WP has not been able to provide sufficient advice at a time when the Ministry of Construction's Building

²⁰⁵ WP-System memo, minutes from project meeting, 6 September 1976. WP archive.

²⁰⁶ WP-System memo, minutes from project meeting, 3 November 1976. WP archive.

²⁰⁷ *Ibid.*

Box 3.6: Expatriate personnel employed in Bai Bang (person-years)



Company was moving ahead with the work more rapidly, and the mood among the expatriates was quite pessimistic.²⁰⁸ Later the same year, 30 new recruits sat in a hotel in Sweden waiting for their visas to be issued, and further recruitment had been put on halt because the Swedish Camp in Bai Bang was full up.²⁰⁹ MoLI had problems convincing the provincial authorities to allocate more land for expatriate housing. At the same time the parties had just agreed to a revised timetable (called Master Time Schedule 76 or MTS 76) which, in fact, required an increase in the Swedish workforce.

Procurement

Procurement is, in many respects, the Achilles' heel of complex construction projects; it directly influences quality, costs, and speed of implementation. All these aspects played a part in Bai Bang. There is no indication of serious problems, but many smaller ones added to the costs and delays.

The first important issue was the bidding process, especially whether WP-System should go for full international bidding or not. A decision was made to invite international tenders, but only after some political wrangling over this issue at the highest level in SIDA.²¹⁰ WP had argued strongly in 1973 in favour of an international tender, and later found that Swedish suppliers cut their offer by 20 per cent across the table when they were told of the bidding terms and knew they would be facing international competition.²¹¹ The first letters of invitation to submit tender were sent out as early as in the autumn of 1973 to 104 companies, of which only 34 were Swedish. Ironically, it was difficult to convince the foreign companies that the aid was not, in fact, tied;

²⁰⁸ WP-System memo, minutes from internal information meeting, 3 November 1976. WP archive.

²⁰⁹ WP-System memo, minutes from project meeting, 3 November 1976. WP archive.

²¹⁰ According to Forsse, the Finance Minister Gunnar Strång did argue for tying the aid. Interview, Stockholm, August 1997.

²¹¹ Interview with Hermansson, Stockholm, August 1987.

that the tender program was based on real competition and not just a political charade. WP-System's argument was that for much of the equipment there would have been only a single supplier in Sweden, which would have placed SIDA in a difficult position. In the end, the bulk of the equipment was supplied by Swedish companies, with some important exceptions.²¹² It is recognised that political consideration did play a part, and on many occasions SIDA was quite up-front in documenting the high share of the Swedish funding that returned home – approximately 80 per cent. This was seen as an important political aspect of the project, and was understood by many at the time to have the effect of calming the conservative political opposition. Nevertheless, the important effect of the international tendering process was that prices were cut.

Bai Bang was based on off-the-shelf technology of the 1970s. The Ministry of Light Industry insisted on having modern Western technology, and WP procured it.²¹³ Vietnam could hardly obtain such technology from its socialist trading partners in the Comecon association. Procurement from Sweden remained therefore an important operation throughout. Because of the lack of Vietnamese experience, it was also the last part of the project to be transferred to Vietnamese management. Despite several attempts to effect the transfer earlier, as we shall see in chapters 7 and 8, there was no realistic alternative to the procurement office managed by Swedish consultants in Stockholm. This was a costly and time-consuming arrangement, but, for political reasons, procurement through cheaper arrangements with trading houses in the region was not a realistic option, and SIDA did not have the capacity to do it themselves. "We would have had to increase our staff by 200", a former official of the agency's Industry Division staff commented.²¹⁴

Another delaying factor was the centralised system that had been established for procurement decisions. The SIDA-led Procurement Group in Stockholm had to accommodate pressures from the project for the latest and the best equipment, as well as the need for early delivery. The Procurement Group often overruled recommendations from the engineers, whether Swedish or Vietnamese. On the Swedish side there was often a conflict between Swedish State regulations for procurement – to accept the lowest offer – and technical considerations. A case in point was the procurement of the paper machines. According to Hans Skjöldqvist, WP-System's project director in Sweden, the project saved money on the bid, but the quality of follow-up and service included in the offer was poor.²¹⁵ The tendency to go for the cheapest offer also led to a great number of different suppliers, even for equipment and parts that should have been standardised. The project suffered from the lack of an industrial design standard (this should have been WP's responsibility),

²¹² A French company supplied the boiler for the power plant; the pulp mill and chemical plant received components from Japan, West-Germany, and Italy; and in the paper mill and processing unit there are Finnish, Swiss, Italian, and West German components.

²¹³ The only thing that was avoided were computers, which were in the process of being introduced into Swedish mills.

²¹⁴ Interview with Elding, Stockholm, October 1987.

²¹⁵ Interview, Mårstad, August 1987.

which is a normal feature of complex industrial technical projects and serves to prevent proliferation of the number of components. The consultant to succeed WP, Scanmanagement, later had the huge task of trying to reduce the number of items to be stored as spare parts.

The public image

The debate on Bai Bang in the Swedish mass media continued throughout the 1970s and was overwhelmingly negative. The entire conservative and liberal press, which dominated the Swedish market in terms of readership, attacked the project, focusing first and foremost on the escalating costs and delays. Pierre Frühling – a consultant commissioned by SIDA to analyse the debate – points to the generally poor quality of journalism in the coverage of Bai Bang.²¹⁶ Most journalists, he argues, viewed the project through ideological lenses, apparently unable and unwilling to consider it in a more objective or balanced manner. There were anecdotal references to theft, bureaucracy, lazy workers, and inefficient Swedish experts, but no analysis of any of the causes. The fact that WP-System had no previous experience from process industry, was the subject of many a piece.

Generally speaking, the media reports gave an incomplete picture of Bai Bang. A form of reductionism appeared on two levels. Firstly, the focus was on the industry, with only scant references to forest development, and a total omission of talk of community infrastructure. The latter was entirely a Vietnamese responsibility, a point which relates to the second level. The project was never placed in a broader development perspective. SIDA should have told the public, Frühling argues, that Bai Bang was more than a factory – it was the creation of a whole new community and the development of a region. Why did SIDA not do this? The agency, it seems, simply did not see the project in this broader development perspective. “We were committed to inputs enumerated in the 1974 agreement, no more”, Anders Forsse recalls.²¹⁷ Although ‘integrated rural development’ in the mid-1970s had become fashionable in the aid discourse, it took until the early 1980s before it made an impact on Bai Bang.

SIDA’s response to the media criticism appeared defensive, in a “we-know-better” manner. The problems were presented as “natural” for a developing country and part of a learning process. With this approach, SIDA probably lost the opportunity to shape the public debate already from the start. It did not make the situation any better that its own planning documents and the project agreement were not declassified until 1976; moreover, WP was, in the beginning, instructed by SIDA not to talk to the press.²¹⁸ Even Swedish experts on home leave were told to avoid discussions of the project.

The reason why SIDA and its Industry Division never emphasised the regional development perspective was because they did not have one, as Anders Forsse

²¹⁶ Frühling 1984.

²¹⁷ Written comments submitted to the authors, November 1998.

²¹⁸ WP-System memo, minutes from internal information meeting, 11 November 1975. WP archive.

later noted. Bai Bang was from the beginning a political gift which took the form of a paper mill, and was forced upon a reluctant SIDA to implement. There was no enthusiasm for the task at the leadership level in the agency. The sentiment was one of getting the job done. Only later, in the early 1980s, did this change. A broader development perspective took root, and SIDA actively encouraged the use of Bai Bang as a launching pad for new project ideas (see Chapter 4).

The politics of time

Political problems continued unabated into the construction phase. One expression of these problems was the continual wrangling over time schedules.

The first official action plan was called the Main Implementation Schedule (MIS). It was based on the project agreement and the timing specified therein. This document and its various successors (see Box 3.7) were to become politically very sensitive documents. Vietnam regarded these as part of the legal framework of the project, and the State Planning Commission used the project's official Schedule to allocate resources within the central planning mechanism. This was, perhaps, a rational decision given the way the system worked, but it seriously reduced the power of MoLI's Project Director since he could not adjust the plan officially without approval from the Council of Ministers.

SIDA, for its part, wanted to avoid, as far as possible, recourse to high level negotiations to settle what they considered a practical matter of timing. There had been too many of such meetings during the planning period of the project, and they had scarred some of the SIDA officials. SIDA was caught between its Vietnamese counterpart, which was using the negotiated time schedule as a lever to push for the early completion of the factory, and WP-System which was bargaining for more time to deal with frequent delays in the construction. The result was that SIDA officials initially did not want to officially revise the Schedule. Working in the same direction, there was fear in SIDA and the Ministry for Foreign Affairs of providing additional ammunition to the opposition in Sweden.

WP had received the message from the start. SIDA had told them in mid-1975 that "the negative effects of a revision of the MIS [Master Implementation Schedule] would be serious with regard to both project discipline and political consequences."²¹⁹ During the first year of the construction phase WP actually believed that the timetable was realistic, and in internal project meetings stressed the basic business principle of the firm: keeping to specified times and budgets.²²⁰ "There is no compelling reason for delays in the project" WP's project director Hans Skjöldqvist reported in mid-1975 after consultation with Ingemar Hildebrand, the leader – in Bai Bang.²²¹

²¹⁹ WP-System memo, minutes from project meeting (PA-Meeting) (in English), 3 July 75. WP archive.

²²⁰ WP-System memo, minutes from project meeting, 10 November 1975. WP archive.

²²¹ WP-System memo, minutes from internal information meeting, 23 June 1975. WP archive.

Box 3.7: Time Schedules

Time Schedules used by the project	Target dates for completion			Time from planned start (September 1974) to completed mill
	Paper machine 1	Paper machine 2	Pulp mill	
Initial schedule: Master Implementation Schedule (MIS)	October 1977	January 1979	April 1979	4 years, 7 months
First joint revision, 1976: Master Time Schedule (MTS 76)	September 1978	June 1979	August 1979	4 years, 11 months
Swedish unilateral revision, 1978: SW-MTS 78	January 1980	September 1980	April 1981	6 years, 7 months
Schedule agreed with Vietnam, but not adhered to by Sweden: V-MTS 78	December 1979	January 1980	April 1981	6 years, 7 months
Revised Swedish schedule: SW-MTS 78/79	August 1980	May 1981	April 1982	7 years, 7 months
Last Swedish revision: SW-MTS 79	April 1980	January 1981	December 1981	7 years, 3 months
Reality	December 1980	March 1982	September 1982	8 years

Source: Svensson 1998, Table 5.1

It did not take long before the MIS started to falter. In the first place, the decision to start the project had come six months later than stipulated in the schedule. There was also no provision for the time needed on the Vietnamese side for the inevitable bureaucratic delays in getting approvals of engineering and design documents.

It took about one year before the first delay was officially recognised, and SIDA negotiated a six-month extension to the master schedule.²²² WP maintained that this was still insufficient and, in February 1976, made an internal decision to develop their own “realistic” time schedule.²²³ This marked the beginning of a continued story where two timetables – the official Vietnamese and the unofficial Swedish – coexisted.

When, later in 1976, discussions took place on timing, the Ministry of Light Industry asked WP to reconsider its plan, arguing that Bai Bang otherwise would be in danger of losing its status as the “most important industry project”,

²²² The new plan was called AIS (Annual Implementation Schedule) 76.

²²³ WP-System memo, minutes from project meeting, 23 February 1976. WP archive.

and that delays may prompt the two local contractors, i.e. the two building companies of the Ministry of Construction, to transfer workers to other projects. Besides, this was a matter that only the government could decide, MoLI reiterated. When the Vietnamese government objected to any revision, SIDA sent Gösta Westring, the head of its Vietnam Group, to Vietnam to negotiate. He succeeded in this first round and both parties endorsed the new Master Time Schedule plan. Typically, WP was told to follow it before agreement had been reached in Hanoi. But evidently it was already too little too late.

Bargaining on the issue of time for political reasons had overshadowed realities on the ground. According to WP internal documents, the new time schedule (MTS 76) was based on the assumption that within one year the project would be up to the construction capacity initially planned. It is difficult to see what the basis was for this optimism, and within WP there was much doubt.²²⁴ Similar assessments were also made on the project-level on the Vietnamese side. Nguyen Trong Khanh, who later became General Director of the mill, commented that SIDA always leaned towards overoptimism.²²⁵ The same can be said for MoLI, but here the concern was to meet the strictures of the official planning system, not to placate political critics.

By 1978, the Swedish and Vietnamese plans differed by one year. MoLI was requesting equipment to be shipped to Vietnam at a time when things were not ready for installation at the site. This resulted in storage problems, increased the risk of damage and warranties expiring before installation, and generated problems of recruiting experts in time, and so on. On the Vietnamese side there were similar problems in mobilising manpower and material at the appropriate time.²²⁶ There is no information available on the magnitude and cost implication of these problems. It is difficult as well to say how much of the responsibility must be assigned to politics, poor planning, or poor co-ordination by WP and the Vietnamese contractors.

Although the costs kept increasing, neither SIDA nor WP-System experienced funding as a constraint. In fact, as Forsse later points out, Bai Bang represented a saving grace to SIDA in Vietnam: it could consume a large share of the financial ceiling approved by the Swedish government for aid to that country. This was important because SIDA had limited capacity to develop new projects in other sectors in Vietnam.²²⁷

When WP made a revised budget estimate in the first quarter of 1978, it was evident that the (already revised) project budget of SEK 1,055 million that Sweden had approved in 1976 would be insufficient. It is worth noting, however, that WP already at this point projected total costs to be in the range of SEK 1,500–1,600 million, based on a completion date of April 1980.²²⁸

²²⁴ WP-System memo, minutes from internal information meeting, 1 November 1976. WP archive.

²²⁵ Interview with Nguyen Trong Khanh, Hanoi, March 1998.

²²⁶ SIDA memo, from Industry Division/Rehlen, 3 February 1976. Sida archive.

²²⁷ Written comments submitted to the study team, November 1998.

²²⁸ WP-System memo, minutes from project meeting, 19 April 1978. WP archive.



The project site in 1978. Photo: WP-System archive

While WP's budget-padding may have reflected past experience of cost overruns, there was probably also insufficient cost-consciousness, fostered by the lack of cost-control mechanisms in the implementation process.²²⁹ In retrospect, it is difficult to see the justification for WP-System's 1978 estimate: in fact, construction costs stopped at about SEK 1,500 million even after more than 2 years of further delay.

That deadlines were a serious matter in Vietnam was amply demonstrated when the time for ordering the shipment of the first paper machine approached. Hildebrand, the WP director on the site, had told Nguyen Van Giong, his contact at the Ministry of Light Industry, that 13 specific tasks had to be accomplished on the project site before WP would call for Paper Machine One (PM1).²³⁰ In May 1977 this had not yet been achieved, but Giong pressured Hildebrand to go ahead with the construction tasks, arguing that the time schedule agreed to must be upheld as a matter of legal obligation. Hildebrand explained in a private letter to the head of the WP company in Stockholm why he decided to give in, and added:

When I agreed to this, there was a tremendous change among the Vietnamese. The secretary had difficulties during the last hour of the meeting to keep his eyes dry. Messrs Giong and Long showed up a real relaxed attitude. I got the feeling that I made the right decision as I deem it essential to keep the present local people in their positions without bad feelings or criticism from their supervisors. I think the co-operation will improve between the Vietnamese and Swedes.²³¹

²²⁹ Westring 1978, pp. 463–473.

²³⁰ Head of the Construction and Production Preparation Board of MoLI. He was second-in-line to Ngo Dinh Truong, the Project Manager.

²³¹ WP-System, letter from Hildebrand, Project Manager Bai Bang to Hallenius, General Director WP-System (in English), 6 May 1977. WP archive.

A different kind of problem was the relationship between design and procurement. WP-System in Bai Bang started to complain relatively early on that drawings were turned over prematurely and had to be modified later when procurements were completed. Why this pressure to finish drawings when the design consultants in Sweden had their hands full? The pressure came not only from MoLI, but also from SIDA. Drawings were a major item in the Swedish deliveries to the project, and the timing of specific drawings was a key element of the time schedules. It was incumbent upon SIDA that Sweden was not seen to be lagging behind. The head of the Vietnam Group in SIDA, Westring, confirmed that the agency was under political pressure to finish the project as soon as possible. It was a pressure that, at times, led to irrational decisions, however. The project suffered. The former Project Director of WP-System at HQ later summed it up: “I got tired of the project in the end. It was very frustrating to work with unrealistic time schedules, and to be allowed to make deliberate mistakes.”²³²

We don't communicate

Between Vietnamese and Swedes

*The relations between them and us were quite problematic due to different language and culture. On the other hand, our awareness about them as capitalists made us behave not nicely towards them. The above problems led to antipathy and even to misunderstanding. Therefore, the co-operation during the first period was inefficient and not openhearted, giving bad impact on work.*²³³

Amidst heroic efforts by Vietnamese and Swedes to move and install equipment under very difficult circumstances, there is one area that both parties almost totally neglected, namely to invest in improving cross-cultural communication. At the time, Vietnamese authorities prohibited social interaction between the Swedes and the local population, and carefully regulated communication even during work hours. These general strictures on interaction naturally made cross-cultural communication difficult. Even within these restraints, however, more could have been done to facilitate communication. For instance, the 1974 project agreement only committed Vietnam to provide interpreters. It was not until the early 1980s that SIDA decided to finance the training of Swedes to learn Vietnamese. The situation became almost absurd, considering that this project was founded on a vision of a transfer of knowledge. In September 1976, at a time when about 70 Swedes were stationed in Bai Bang working with several hundred Vietnamese, there were reportedly only 4 interpreters on the site.

During the project consultations in September 1977, Petter Narfström, Chief Engineer of SIDA, had this issue placed highest on the agenda. “The number

²³² Interview with Sköldqvist, Märstad, 1998.

²³³ Quote from the history book commissioned by the Bai Bang Paper Company, Dao Nguyen and Quang Khai (eds.) 1997, p. 31. (Quote from official English translation.)



“Translating” technical drawings was one of the most difficult tasks for both Vietnamese and Swedes. Photo: WP-System archive

of drawings, work instructions etc. increases continuously. Every word is translated to Vietnamese. What the result is we do not know. Judging from the quality of the interpreters working at the site and in meetings, qualifications in English are deficient and cause many misunderstandings.”²³⁴ On several occasions the training of Vietnamese abroad had to be delayed or cancelled because they did not have sufficient English, which was the official project language.

MoLI’s failure to come forward in this respect appears to have been a policy clearly driven by the anxiety of too much intermingling with the “capitalists” from Sweden; neither WP nor SIDA tried to compensate by recruiting types of Swedish specialists that probably could have helped relieving some of the tension that developed. Olle Rimér in a management study of the project completed in 1979, commented that

*There are three categories of specialists, which have never been employed in the Swedish project organisation: interpreters, a personnel manager in Bai Bang and/or employee counsellor and an anthropologist.*²³⁵

The need for such specialists is further underlined by the fact that eight out of ten Swedes working in Bai Bang were on their first developing-country assignment. Many of them had poor command of English as a working language. There is a contradiction between the constant demand from the Swedish consultants, and, for a period from SIDA as well, that the Swedes be given executive positions, on the one hand, and their limited ability to work in

²³⁴ SIDA memo, from Industry Division/Rehlen to Director-General Michanek, 4 April 1978 (our translation). Sida archive.

²³⁵ Rimér 1979, p. 34.

a Vietnamese context on the other. SIDA's Westring later commented on this: "For those who wanted the Swedes to be "in command", that is to say, in executive positions, the language problem constituted the first and almost insurmountable obstacle."²³⁶

It is acknowledged today that much recruitment was unsuccessful in the sense that people could not cope with the difficult working environment, but it must also be recognised that WP had no easy task.²³⁷ The organisation in Vietnam increased from 50 in June 1976 to 244 in December 1978. In a tight Swedish labour market, and with very few Swedes with a professional background from Asia, WP could not afford to be picky. It was understood, particularly in the beginning, that for political reasons the experts should be Swedes, i.e. from a friendly, distant, and neutral country. Quite a few of those who had worked abroad came with experience from a Swedish mining project in Liberia (LAMCO). Coming from Africa might have been a greater cultural shock than coming from Sweden. This had to do with behaviour towards women and attitudes to racial differences. With sixty per cent of the Vietnamese workforce in Bai Bang being women, and the strong sense of national pride and cultural self-esteem of the Vietnamese, clashes might seem unavoidable. Hundreds of single male foreigners isolated in a camp in a remote Vietnamese rural area was undoubtedly a social pressure cooker. Travel was severely restricted, and only allowed with permits for specific reasons. Drunkenness was a severe problem among the expatriates. Vietnamese authorities at one point refused to issue travel permits for a while after a group of Swedes had gone on a rampage in a hotel in Hanoi. On one occasion, in 1982, the Swedish Project Directorate Bai Bang dismissed 10 employees and doubled the price of spirits in the camp store.

There are also many stories of the opposite kind: of persons trying to break the politically imposed barrier between the two communities; of bonds of friendship lasting until this very day; and of the Swede who managed to get Olof Palme to ask Pham Van Dong for permission to allow his Vietnamese girlfriend to marry him. The couple lives in Sweden today.

Those were the fence-breakers. But we also have to ask what "the fence" itself cost the project in terms of delays and added expenses. Of course, this cannot be quantified. Further, the "fence" and its costs must be seen as a logical consequence of the decision to establish development co-operation between two entirely different political and economic systems. Given these structural restraints on co-operation, nothing much could be done in the short term, at least. But it is quite obvious that there were substantial costs associated with problems of explaining drawings and work instructions, and the hostility at the workplace created by imposed distance, miscommunication, and culturally inappropriate behaviour. There was also a vicious-circle element. The call for more Swedes by WP-System and Scanmanagement was not only motivated by the shortage of Vietnamese manpower. The difficulties in communicating

²³⁶ Westring 1983, p. 32.

²³⁷ Interviews, Sköldqvist, Märstad, August 1998, and Westring, Stockholm, August 1997.

with the Vietnamese workers naturally made it more tempting to get more Swedish staff onboard. This, in turn, made it less important to establish communication across the divide.

Between Bai Bang and Stockholm

Communication between Bai Bang and Stockholm was extremely difficult. There was no telephone or telex connections. All requests for establishing radio communication were turned down until the end of WP's period in the early 1980s. The staff in Bai Bang had to travel 3–4 hours on bad roads to Hanoi to get messages sent home. Naturally, one had to limit the need for communication as much as possible, but the project organisation was not really designed with this in mind.

It took until 1979 for WP to subordinate the Stockholm project office to the Project Director in Bai Bang. Had this been done earlier, it might have reduced the difficulties in co-ordinating the design and engineering work in Sweden with construction and installation in Vietnam. There are reasons to believe that WP could have decentralised decision-making earlier, but the top management of WP-System AB experienced difficulties relinquishing control.²³⁸ Part of this problem was related to the meeting of two different working cultures in WP's own project organisation – between the old guard of “the builders” who founded the company in 1968, and “the industrialists” brought in from the forestry industry. People had different educational backgrounds and different working styles.

The role of SIDA also had a centralising effect. The agency's Vietnam Group wielded significant authority, partly because the head of that Group, Gösta Westring, also chaired the Procurement Group. Westring called himself SIDA's “project co-ordinator”, and became involved in numerous problems at the project level. “I saw myself as WP-System's supporter in the negotiations with the Vietnamese”, he later recalled.²³⁹ This involved solving a wide array of practical matters, often assisted by the Swedish ambassador, such as radio communication, office space, visas, hotel rooms, site for the Swedish Camp, driving licenses, interpreters, access to Haiphong harbour, and so on. This level of involvement on the part of the SIDA administration was not sustainable, and in preparation for the 1980 project agreement, SIDA worked hard to reduce its role in direct project management (see Chapter 4).

The analysis of the communication dimension of this project must also consider the international political level. In Chapter 1 we explained why Bai Bang was so important to Vietnam. It was a demonstration of Sweden's political support in time of war; it was to provide access to modern Western technology; and it sealed a pact with Sweden as an opening to the Western economies. These ideological underpinnings rescued the project time and again, but the flip side of the coin was that Vietnam wanted to make the project as Swedish as possible.

²³⁸ Interview with Sköldqvist, Märstad, August 1998.

²³⁹ Written comments submitted to the authors, November 1998.

For instance, Jaakko Pöyry, as a Finnish company, would probably not have been accepted as project management consultant. Vietnam was adamant on having the latest in technology, but never insisted on international procurement. For many years they wanted recruitment of Swedes only – largely for security reasons – although Finns and Norwegians were accepted under the Nordic label. Swedish proposals for bringing in Filipinos (WP's idea) and Indonesians (Scanmanagement's idea) were politely refused. Only Sweden, and later France, were accepted as countries for overseas training. As a consequence, the training of personnel to install and operate the machines and other equipment made in West Germany and Japan had to take place in Sweden.

This political constraint had important cost implications, which are equally difficult to quantify. It limited the range of choice in terms of personnel and expertise. With implicit political pressure in Sweden in the same direction – in the sense that criticism of the project invited demonstration of positive returns - the result was that 80 per cent of the Swedish contribution returned as payment for Swedish goods and services. There are no explicit suggestion in the document trail on the project that this had direct negative consequences for the quality of equipment. Several sources mentioned that the project was slow in making use of non-Swedish international expertise – to the extent this was permitted by the Vietnamese – especially in tropical forestry and forest industry, outside the realms of Jaakko Pöyry. It took until the mid-1980s before Jaakko Pöyry was permitted to use Brazilian eucalyptus experts, the best in the world.

The construction phase in Bai Bang had been, unusually for an industrial project, an experience of “making the road while you walk”. In that sense, the concept of ‘stepwise design’ was more appropriate than actually envisaged by the planners.

A principal problem of the project, however, was that the decision-makers – Swedish as well as Vietnamese – saw this concept merely in a technical perspective. It took time to realise that the transfer of technology takes more than procurement and construction; it takes the painstaking building of interpersonal relations and cross-cultural communication.

Box 3.8: What a Finnish visitor saw

A refreshing and insightful input to the history of this project is the following quotes from Matti Silaste's travel report. Silaste visited the project in 1980 at the invitation of Scanmanagement.

- Due to the lack of the normal owner's interest the project has developed two main problems, slow advance in implementation and symptoms of the elephantiasis in the project management.
- The integration of Swedish and Vietnamese organisations is noticeably insufficient. Even the secondary tasks are being performed by the wives of the expatriate personnel.
- At the moment planners are only extrapolating the actual bad performance into the future without considering any more improvement possibilities.
- The visitor gets easily an impression of the boy's summer camp rather than serious mill construction. Most of the expatriate personnel are wearing all kind of funny shorts and driving with motorcycles around with an arrogant air. It looks very childish and forms a complete contrast with the local people and disrespect to the local culture and customs. Do we act this way at home also?
- In this project there have been much more time schedules than pipe welding and it doesn't help anything to make more time schedules, if the manpower and productivity problem is not solved.
- It will cause only frustration and loss of money to build up a perfect management system and not to have workers to fulfil the plans.
- The Vietnamese building company (BC) and erection company (BC) are organised as any other construction company but are plagued with rigid bureaucracy.

Source: Silaste, travel report, 4 August 1980. Scanmanagement archive (Original in English).

Chapter 4

The 1980 transition – charting a new course

1980 marks a turning point in the history of Bai Bang. It represents the culmination of a two-year process to put in place institutional mechanisms in preparation for the operational phase. At the same time, another issue came to dominate the planning process. This concerned completing the construction of the mill without further delays. The two issues gradually convinced SIDA that a new type of consultant was needed to manage Swedish assistance, and that a new project agreement had to be concluded.

The transition from construction to operations is a critical point in any industrial project, and one that both Vietnam and Sweden had been looking forward to since the beginning of the project. It was decided at this time that Sweden would stay with the project into the operations phase. The transition from construction to operations was also the period during which the foundation was laid for the subsequent expansion of the project to incorporate elements of the mill's supporting environment – becoming the so-called side-projects.

These three transitions – from building to operations on the mill site; from WP-System to Scanmanagement on the consultancy side; and from industry to regional development in the project as a whole – constitute the main themes of this chapter. The changes were partly caused by factors related to the project itself: in important ways they were also influenced by simultaneous national-political transitions in Vietnam and Sweden, as well as international developments. But although some of these political events had a direct impact on Bai Bang, others – particularly the international isolation of Vietnam after its invasion of Cambodia in late 1978 – surprisingly did not. The importance of the political origins of the project is further confirmed in this period. Bai Bang is shaken by political turmoil, but it is also rescued by its own political significance.

In Vietnam, a political and economic crisis erupted in 1978 with the escalation of the conflict with China and Cambodia. The economy was in a shambles, and the country was undergoing critical food shortages. In response, the Party took the first steps towards economic reforms in mid-1979.

Sweden was the only Western country not to cancel its aid to Vietnam in response to the invasion of Cambodia. This was particularly remarkable because a centre-right coalition had come to power in the last national elections. Breaking the long rule of the Social Democrats – who had been strong supporters of Bai Bang – the incoming government included the Conservative Party, which all along had been a fierce critic of Bai Bang and aid to North Vietnam generally. This notwithstanding, the change of driver had only a modest effect resulting in a paltry SEK 30 million reduction in the total allocation for aid to Vietnam and no cuts to Bai Bang whatsoever. At the same time, this change of government and the Cambodia question revived an older political discussion in Sweden, one which revolved around the relationship between aid and foreign policy. Should short-term foreign policy interests be allowed to influence aid policy? In 1979, the parliamentary majority remained opposed to the idea of withdrawing aid as a means to sanction Vietnam. Ten years later, the mood had changed.

The 1980s also mark a change in aid paradigms, internationally as well as in Sweden. It is more acceptable for the donor community to take an interventionist role, as seen, above all, in the structural reform agenda of the Bretton Woods institutions. The concept of conditionality also entered the vocabulary of project negotiations in Bai Bang. Another international aid paradigm of the 1980s grew from the need to go beyond a narrow project agenda and adopt a broader, multi-sectoral approach to foster development. This trend was also evident in the pattern of problem-solving in Bai Bang.

Transitions in Vietnam and Sweden

Events in the 1977–1979 period complicated the political situation in relation to Sweden’s aid to Vietnam. In Vietnam this was a period of acute political and economic crisis. The transformation of South Vietnam to a socialist society from 1977 and onwards led to struggles and the oppression of the “bourgeois capitalists”. The first major waves of refugees left Vietnam, starting around 1978. The situation was further aggravated by the border war with Cambodia. Fighting had started right after 1975, but were mostly unknown to the international community. Not until 1978 did Vietnam publicly announce that a conflict was taking place, and that Cambodia had attacked Vietnamese territory. The Chinese support for Pol Pot in the Cambodia conflict, and the

decision by Vietnam to join Comecon, led to a break in relations between China and Vietnam in the middle of 1978.

Vietnam finally decided to intervene in Cambodia in December 1978. The purpose was probably not to conquer Cambodia, but rather to occupy the border areas in order to stop the fighting. Already weakened by internal factional fighting and the Pol Pot regime, Cambodia imploded. Vietnamese troops reached Phnom Penh within a few days and had soon conquered most of the country. Many people in the West did not believe that little Cambodia could have been the aggressor in the conflict with its much larger neighbour, and the Vietnamese intervention was immediately and widely condemned. The United States took the lead here, with most other Western countries following suit. This had a severe impact on aid to Vietnam, which, to a large extent, was thus cut or frozen. In much of the West, Vietnam had been perceived as a victim of US aggression. Now Hanoi was itself viewed as an aggressor.

The conflict between two “fraternal socialist countries” came as a shock to many supporters of socialism and the Vietnam solidarity movements during the American War – as it is called in Vietnam. Anti-Vietnamese sentiments began to develop in Sweden, even among earlier supporters. Maoist groups who used to be supporters of Vietnam accused the country of aggression towards Cambodia, while the pro-Vietnam factions scored a point when China attacked Vietnam along the northern border in February 1979 to “teach Vietnam a lesson”. After the invasion of Cambodia, remaining supporters of Vietnam in Sweden were mainly to be found among the Social Democrats and the small Moscow-oriented Communist Party. The Social Democrats were not favourably inclined towards China, and Bai Bang was situated uncomfortably close to the Chinese border. Thus, the very realistic threat from a big hostile neighbour probably helped to maintain some solidarity with Vietnam in Sweden. However, the firm, almost unconditional, popular support for Vietnam of earlier years had evaporated. The Swedish government denounced the Vietnamese intervention in Cambodia, but, as it turned out, this had little actual effect on Swedish aid policy or the preparation for the next phase at Bai Bang.

In Sweden, power changed hands in October 1976, initiating a period of six years of various centre–right governments. The first consisted of a coalition between the Centre Party (*Centerpartiet*), the Conservative Party (*Moderaterna*), and the Liberal Party (*Folkpartiet*), with Torbjörn Fälldin of the Centre Party as Prime Minister. Between October 1978 and October 1979, a minority government under Ola Ullsten of the Liberal Party was in charge until Fälldin again returned. He remained Prime Minister until October 1982, when Olof Palme and the Social Democrats won the popular vote. These were critical years for Bai Bang though it is a paradoxical fact that it was these centre–right governments that approved the biggest, single allocation for the project: in 1980 Parliament endorsed a SEK 2,000 million ceiling for total project expenditures.

Although Swedish foreign policy had generally enjoyed a broad consensus in matters of national security, there had been significant differences of opinion on international issues and development aid in particular.²⁴⁰ The thinking about development underwent profound changes in the 1970s and the 1980s, coming, seemingly, full circle.²⁴¹ In the 1960s, solidarity with developing countries was emphasised by social democrats and socialists. The basic assumption was that Third World countries were subject to exploitation by an imperialist world order. Solidarity in political and economic terms was seen as a means to improve the situation, and one logical consequence was the principle of a “recipient-oriented policy” in which the donor and recipient were equal partners. The policy implied that the donor had to trust the recipient, which, in the Swedish political world, meant that the choice of recipient country became the central issue of discussion. The most optimistic socialists thought that the choice of the ‘ideal’ recipient country would make it unnecessary for the donor to intervene in setting development policies and priorities. Vietnam was, for many, such an ideal country. Liberals preferred to look instead to countries oriented towards the West that had a market economy and western type of political system.

The New Economic Order aspirations of the 1970s never materialised. On the contrary, during the 1980s the free market philosophy started to gain ascendancy in Swedish thinking on development co-operation. It led to greater acceptance of interventionist practices such as the structural adjustment programmes of the IMF and the World Bank. Besides this neo-classical economic perspective on development, two related issues were important in the Swedish debate: the role of democracy and human rights, and the use of aid as an instrument in foreign policy.

Bai Bang had been severely criticised in the conservative and liberal press during the early years of construction, and there was clearly no enthusiasm in the new coalition government for the project. The costs were already seen as too high,²⁴² and the Conservative Party in the mid-1970s wanted to reduce the total aid allocation to Vietnam by a half. After the Cambodia invasion, the Conservatives grasped the opportunity to make an explicit link between development aid and foreign policy and demanded that Sweden take no new steps on the aid programme until Vietnam had withdrawn from Cambodia. They also suggested that Swedish assistance to operate the mill in the future should be financed commercially.

The Liberal Party, however, disagreed with its coalition partner. The party did not go along with the proposal to separate aid and foreign policy thus breaking with the previous consensus in Parliament. As for the Centre Party, the position was somewhere in between those of its two coalition partners. Although there were strong anti-Vietnam sentiments in the party, the leader of the Centre Party, Torbjörn Fällidin, himself was strongly committed to the principle of

²⁴⁰ Hveem and McNeill 1994, p. 7; Bjereld and Demker 1995, Chapter 1 and pp. 277–78, 304–5.

²⁴¹ Hveem and McNeill 1994, p. 8–9.

²⁴² Interview with Edgren, Stockholm, June 1997.

foreign aid on moral grounds. His many long conversations with Jean-Christophe Öberg, the former Swedish ambassador to Vietnam, had also brought him closer to the humanitarian aspects of the problems of Vietnam.²⁴³

It was important for the three parties (two for an interim period), to maintain consensus, and the prickly issue of aid to Vietnam was played down within the government. The Liberal Party played an important role in policy formulation, as it had been closer to the Social Democrats on issues related to development aid and international relations since the 1960s. It is of significance too, that, at the height of the crisis in Vietnam, the coalition government became a minority government (reduced from a three-party to a two-party coalition in October 1978); in any case, it was not in a position to change Swedish foreign policy on matters of any weight.

At a time when most Western countries froze diplomatic relations and cancelling development aid to Vietnam, Sweden maintained an independent foreign policy. It was, in a sense, a continuation of the independent Swedish line on Vietnam that the Palme government had charted in the 1960s. Ten years later, the Minister of Foreign Affairs, Hans Blix, explained the position of the Liberal Party government:

Sweden has criticised the intervention in Kampuchea, just as we have turned firmly against China's armed attacks on Vietnam. However, the wars have not changed the basic preconditions for [our] development co-operation with Vietnam. I don't think it is just to use development aid as a means of sanctions. We must be tolerant. Poor people do not lose their need for support because their country is involved in external or internal conflicts.²⁴⁴

When a three-party coalition government returned to power in October 1979, this coincided with SIDA's request for renewed support to Bai Bang. In Vietnam, the economic situation was, perhaps, at its most difficult since the height of the American War. An important argument in SIDA's justification for continued aid was that flooding and harvest failure had come on the top of all the other problems. It was argued that the low level of food production and consumption was the direct cause for the slow implementation of the project; people simply did not have enough to eat.²⁴⁵ Another argument for continued support was that after many countries had stopped development aid to Vietnam, the country was becoming increasingly dependent on the USSR. Support from other sources was therefore even more critical.

The centre-right government would not accept the full aid package proposed by SIDA for Bai Bang, i.e. SEK 500 mill over a period of five years from 1980.²⁴⁶ It cut back on the period for support, and in the fall of 1979 approved

²⁴³ Interview Öberg, Stockholm, August 1998. The holiday homes of the Fällidin and Öberg families are adjacent, making them next-door neighbours during the summer months. See also Öberg, *Manuscript*.

²⁴⁴ Speech by the Minister of Foreign Affairs (also responsible for development aid), excerpts from the development debate in Parliament, 7 May 1979. MFA archive.

²⁴⁵ SIDA memo, *Utvecklingsamarbetet med Vietnam*, May 1980, p. 6. Sida archive.

²⁴⁶ SIDA memo, *Idépromemoria. Svenskt stöd till driften av Bai Bang-Projektet*, 16 August 1979, p. 1; and SIDA memo, *Insatspromemoria, driftstöd till Bai Bang-projektet*, prepared by B. Elding, May 1980, p. 23. Sida archive.

only three more years. The amount committed, however (SEK 400 million), averaged out at more per annum than SIDA had originally proposed. One reason for the government's acceptance of continued support was that SIDA had included a proposal for SEK 35 million to be tied to commercial goods from Sweden in the first year of the new project term. SIDA could also report that the proceeds for Sweden from the project so far were as high as 80 per cent. These arguments had an impact on the liberal parties. There was also another dynamic at work. The government was concerned to finish the Swedish commitment to Bai Bang as soon as possible, and had signalled it was willing to spend whatever proved necessary for this purpose.

Although Bai Bang survived the change in government in Stockholm, the criticism did have a bearing upon SIDA's plans for the immediate future. Some of the points made by the critics were also shared within SIDA, notably concerning delays and cost overruns in the construction so far. The result was an effort by SIDA to change the pace and pattern of implementation and to use the new project agreement scheduled for 1980 as a means to this end. There was a general sense that with the period of solidarity now over, the question was how to make the Vietnamese government fully comply with the responsibilities it had assumed under the 1974 agreement – e.g. project management, manpower, construction materials etc. This shift in attitude was accompanied by a change in terminology in SIDA. "Concerned participation" became the new key word. The principle explicitly recognised that a project would require more active donor intervention in order to help and coerce the recipient to take responsibility. This differed from the old position of "recipient responsibility", which tended to assume that the recipient was an equal partner capable of managing the aid input.²⁴⁷ The application of the new strategy of "concerned participation" had started already in the late 1970s in preparation for a new phase in the project. For more than two years, key people in SIDA, with the then Deputy Director-General Anders Forsse taking the lead, had been working to change the management structure of the project. The issues were (i) the role of SIDA if Swedish aid continued with support in the operation phase, and (ii) the role of the consultant in the implementation of the project.

Sweden decides to support operations

At the end of 1977, Vietnam's Ministry of Light Industry (MoLI) had informally told SIDA that it wanted Swedish support beyond the short period that had been envisaged in the 1974 agreement. As a result, SIDA established in January 1978 a mixed Swedish-Vietnamese expert group to outline a proposal for management of operations.²⁴⁸ SIDA's Industry Division had apparently come to realise that MoLI would not be ready to take over as soon

²⁴⁷ Interview with Forsse, Stockholm, August 1998. The term 'concerned participation' was invented in relation to aid to African countries, but it was in fact basically the same idea applied in Vietnam.

²⁴⁸ The group consisted to two specialists from Holmens Bruk AB in Sweden, the training co-ordinator from WP-System, and two department chiefs and the future director of the enterprise from MoLI. It took a year to finish the work.

as the first test-runs were done. Besides, SIDA was encouraged to pursue co-operation beyond the original phase when MoLI indicated that it viewed Bai Bang as a model for other companies in Vietnam and was prepared to consider new ideas in technology as well as management.²⁴⁹ SIDA's main concern at the time was reflected in the mandate given to the expert group: to develop a model for a unified organisation, in other words, to get Vietnamese and expatriates to work within the same organisation.

As early as in 1975, the head of the "Vietnam Group" who managed Bai Bang within SIDA, Gösta Westring, had questioned the agreement between SIDA and WP-System for the construction phase.²⁵⁰ The agreement had no time limit and, accordingly, no budget limit for the consultant. He saw the agreement as an open tap of money from SIDA to Bai Bang and the consultant.²⁵¹ Similarly, when V. Wanhainen from SIDA/Stockholm visited Vietnam in December 1977, he emphasised the need for changes in the management organisation.²⁵²

The most important event in the process thereafter was the project visit in November 1978 of the Project Advisory Council to SIDA – a group of four experts and representatives from the forestry industry in Sweden. The purpose was to look at the timing of the construction phase and, in particular, the step-wise links between construction and operations.²⁵³ From SIDA, Anders Forsse and Christina Rehlen, the new head of the Vietnam Group, were also in Vietnam at the time, probably not by coincidence.

In its report, the Council members stressed the necessity for thorough preparations for the start-up period. They concluded that the existing model with MoLI as the overseer of the project was working well, and concluded that "the Swedish contribution will mainly be training and control".²⁵⁴ More importantly, the Swedish industry representatives suggested that the operations phase could be organised in one of two ways: either the present consultant, WP-System, could organise a start-up crew and a total start-up programme, or the start-up should be done by a special team formed by a number of Swedish pulp and paper companies to ensure the recruitment of qualified personnel at every level. The group preferred the second solution.

In subsequent discussions in November 1978 between SIDA and Vu Tuan, Vice-Minister of MoLI, SIDA stated that it was ready to recommend that the Swedish government finance personnel who could work for MoLI as advisors

²⁴⁹ SIDA memo, *Stöd till Bai Bang-Projektets driftskede*, 22 January 1979, pp. 4–5; SIDA memo, *Planering av svenskt stöd till Vietnam, främst driften av Bai Bang-Projektet*, 6 March 1979, p. 6. Sida archive.

²⁵⁰ Westring left SIDA in 1977 to become a private lawyer, but continued as advisor to SIDA during the period of negotiations for a new consultant.

²⁵¹ SIDA memo, *Möjligheter till överföring av kunskaper från Sverige till u-länderna inom två speciella sektorer*, prepared by Westring, 3 June 1975. Sida archive.

²⁵² SIDA memo, *Minnesanteckningar från besök i Vietnam 5/12-17/12 1977*, by V. Wanhainen, pp. 2, 5–6. Sida archive.

²⁵³ SIDA memo, *Terms of Reference: Visit to Bai Bang Paper Mill Project by SIDA's Project Advisory Council*, Industry Division, 23 October 1978. Sida archive.

²⁵⁴ SIDA memo, *Projektrådets besök i Vietnam 27 Okt–4 Nov 1978*, p. 3. Sida archive.

at various levels during operations.²⁵⁵ A mixed Swedish-Vietnamese expert-group of MoLI and WP personnel also favoured a joint model. The group concluded that under certain conditions it would be possible to create a rational organisation model that merged Vietnamese and Western management and administration systems. Two important preconditions were mentioned: that MoLI would direct and control all units in the factory, and that decision-making channels would be shortened through decentralisation.²⁵⁶

With this advice in hand, it was clear at the end of 1978 that SIDA would provide support during the operations of the mill at least in the form of advisory assistance to MoLI. As we have seen, the idea of changing to a new type of consultant had been aired as well. Shortly after the November talks between SIDA and Vu Tuan, the Ministry of Foreign Trade officially requested the Swedish government to provide support to the operation of the paper mill and to forest operations that supplied raw materials for the factory.²⁵⁷

SIDA developed (in December) a timetable of the steps required to prepare for going into operations support. This included a revised Mill Operation Plan (MOP II) to be developed by WP, discussions within SIDA on new models for project management, and a determination by the Ministry for Foreign Affairs of whether a new project agreement indeed was needed.²⁵⁸

The MOP II proposal, which was ready by mid-1979, had a very large budget for operational support: between 545 and 785 MSEK over a five-year period. The planned number of foreign advisors reached 150 in the most intensive period. The plan was received with great reservation from many sides. One member of SIDA's Project Advisory Council, Einar Klinga, was shocked and found it totally unrealistic.

Reviewing the MOP II proposal, the Ministry for Foreign Affairs likewise found it too expensive. The proposed budget, it warned, was too large to be confirmed by the Parliament. The Ministry also recommended that the new agreement for support should have a strict time limit, so that the Vietnamese would be encouraged to take over the project quickly.²⁵⁹

In early 1979, Industry Division (ID) of SIDA took stock of the management situation in an internal report.²⁶⁰ It was noted that SIDA was much more involved in Bai Bang than would have been the case in a commercial industrial project, where the parent company would limit its control to results, costs, and timetables. The report acknowledged the argument from Gösta Westring and others to the effect that SIDA needed to have a control function that

²⁵⁵ SIDA memo, *Sammanfattning av frågor att ta upp med minister Vu Tuan 8 January 1978*, pp. 3–4. Sida archive.

²⁵⁶ SIDA memo, *Stöd till Bai Bang-Projektets driftskede*, 22 January 1979, pp. 4–5. Sida archive.

²⁵⁷ Letter from Minister of Foreign Trade, Nguyen Van Dao, to E. Michanek, Director-General of SIDA, and T. Tscherning, Ambassador of Sweden, 21 November 1978. Sida archive.

²⁵⁸ SIDA memo, *Sammanfattning av diskussion på SIDA 20 December 1978 angående Bai Bang-Projektet*, prepared by C. Rehlen (confidential memo). Sida archive.

²⁵⁹ MFA memo, *Driftsfasen på Vietnamprojektet, prepared by A. Jansson, 14 February 1979; and MFA memo, Driftstöd till Vietnamprojektet*, 13 March 1979. MFA archive.

²⁶⁰ SIDA memo, *Projektledningsfrågor i Vietnam*, prepared by V. Wanhainen, February 1979, p. 7–8. Sida archive.

could not be left to a consultant. However, the roles and division of labour between SIDA and the consultant, and between SIDA-Stockholm and the SIDA office in Vietnam, must be clarified with respect to authority. Westring had further argued that a demanding project like Bai Bang needed much more personnel resources in SIDA than was the case in the mid-1970s, and ID's report recommended strengthening both the Vietnam Group and the SIDA office in Hanoi. Moreover, the Vietnam Group needed a high-level person with industrial competence. Four years of co-operation with WP-System had shown that the consultant lacked the expertise in forestry industry that SIDA required, the report noted.

Based on the Mill Operation Plan, SIDA stressed the necessity of a uniform organisation managed by MoLI, with one common budget. Furthermore, the foreign personnel must be included within MoLI's organisational set-up, it was argued. The Vietnamese personnel would receive on-the-job training, while the foreign personnel must have authority to act in an executive capacity. SIDA also stressed the need to keep the number of expatriates down.²⁶¹ It was an organisational model that would give significant power to the Swedish advisors.

Changing consultant

From the beginning of 1979 SIDA's Industry Division took concrete steps to enlist more active support from the Swedish forestry industry in the project. Forsse, Westring, and Rehlen met representatives of various forestry companies and the Association of Forest Industries (*Skogsindustriförbundet*). The purpose was to investigate the possibilities for setting up a consortium.

SIDA also invited a group of industrial forestry experts to Vietnam in June 1979. One of the participants, Per Gundersby from Jaakko Pöyry, had recently returned to Sweden after several years on a paper project in Brazil, and pursued the idea of forming a consortium that could serve as a new consultant for SIDA on Bai Bang. He realised that SIDA wanted to change consultant, and that there were prospects for an economically favourable contract. During the summer, Gundersby worked to set up a consortium that included two of the sub-consultants to WP-System, Celpap and Ångpanneföreningen (ÅF), and an additional party from the forest industry – Södra Skogsägarna.²⁶² This was a perfect match, according to Gundersby. Competition was eliminated by including the two regular competitors of Jaakko Pöyry in the Swedish market – Celpap and ÅF. Södra Skogsägarna could act as a mediator, and, at the same time, provide direct access to industry people.²⁶³ The consortium was given the name Scanmanagement (SM).

²⁶¹ *Agreed minutes from the discussions SIDA–MoLI*, 21 May 1979, Sida archive. SIDA was represented by Birgitta Johansson, SIDA's representative in Hanoi, and Christina Rehlen, head of Vietnam Group.

²⁶² Södra Skogsägarna had a difficult period around 1980, which facilitated its participation in SM. It left SM early in 1985, as it did not find any advantages from being part of the group. Interview with Ehnemark, Stockholm, August 1998, and Hamilton, Stockholm, August 1998. Later on, SM and Södra competed for qualified people and Södra was quite annoyed with SM.

²⁶³ Interview with Gundersby, Oslo, August 1998.

SIDA had no intention of bypassing WP but wanted to call for open tender among Swedish companies. Soon after the study tour of the forest industry, SIDA started drafting tender documents. For the first time the idea that SIDA should take the role of financier of the project was explicitly formulated. The draft tender stated that SIDA had to investigate the possibilities of an independent management group with representatives from the forestry industry to implement part of SIDA's responsibilities connected with the project as financier. The term "financier" is used for SIDA's role in all subsequent policy documents, although it is unclear what it implied beyond what had been the arrangement all along: i.e. Vietnam's Ministry of Light Industry was the project manager, and SIDA financed a large part of the costs. Apparently the term had more to do with SIDA's relationship to the consultant than to MoLI, which is why it is first mentioned in the tender documents in 1979.²⁶⁴

A predictable tender

The final tender was announced on 27 July 1979 with less than a month deadline. The invitation pointed out that WP-System's assignment would be terminated with the construction phase. The prospective bidders were asked to assist the Vietnamese project management with

- Co-ordination of the various parts of the project: construction, operation, training, and forestry;
- Preparation and follow-up of budgets and plans;
- Recruitment of Swedish personnel to the project;
- Procurement of goods and services;
- Design and implementation of a training programme;
- Co-ordination of any undertakings outside the project (railway, roads, river transport, energy production, and provisions of raw materials like wood, coal, etc.)²⁶⁵

SIDA also wanted bidders to present their views on the future organisation of the project. SIDA estimated that 50–60 persons would suffice to carry out these tasks. Not surprisingly, only three consultant firms responded to the invitation: WP; the new consortium, Scanmanagement; and a third firm, HIFAB. The deadline was short and most of the Swedish consultants in the field were already involved in the project through WP-System or the newly established Scanmanagement. Only HIFAB, a company working for SIDA in the two hospital projects in Vietnam, came in as an outsider. The three proposals differed quite substantially in scope and the extent to which they responded to SIDA's call for new ideas.

²⁶⁴ SIDA memo, *Utkast anbudsunderlag för projektledningsfunktionen*, prepared by B. Johansson SIDA/Hanoi, 10 July 1979. Sida archive.

²⁶⁵ SIDA memo, *Projektledningsuppdrag Bai Bang*, prepared by B. Johansson, 27 July 1979, p. 2. Sida archive.

WP-System argued that it would be nearly impossible to establish an organisation of Vietnamese and expatriates based on Western principles, and urged that SIDA define the objectives of the new management organisation. WP further, underlined the need to give "the greatest possible authority" to the site management, but to base it on the established MoLI organisation.²⁶⁶ The proposal was quite brief and relied heavily on references to WP's earlier experience. Evidently, WP-System had problems recruiting personnel since the rival Scanmanagement was recruiting more or less the same people for its proposal.²⁶⁷

Scanmanagement's proposal was undoubtedly the most convincing of the three. It referred to the broad experience of the partners in forestry management and training. Outlining the main objective of training local personnel to assume full operational responsibility, it used the language of modern management thinking. The consortium found the idea of a common organisation acceptable. Its personnel would be assigned to the MoLI organisation, although it did suggest that Scanmanagement's engineers and technicians should hold independently responsible positions in an initial period. The whole training component was well described, and included as well special preparatory seminars for the foreign employees to create unity, co-operation and mutual understanding. The number of expatriate staff proposed was lower than that proposed by WP-System.²⁶⁸

The HIFAB proposal had a different character. HIFAB is a group of companies in the field of management of capital investment projects, including planning, administration, and supervision of project activities. It did not have competence in forestry industry in the same way as Scanmanagement and WP-System, and the proposal was based on hiring in forestry industry experts. HIFAB suggested two alternative organisations. The first was that HIFAB alone or through a joint venture assume the role of project manager under a contract with SIDA. In the other proposal, SIDA would administer and control the project, and HIFAB would carry out the various service functions needed. None of the two models were particularly attuned to the organisational debate that had been unfolding in SIDA in 1978–79.²⁶⁹

Reviewing the three proposals, the SIDA committee judged Scanmanagement to be the best in the field of operational experience, training of Vietnamese personnel, and recruitment of qualified foreign personnel.²⁷⁰ WP scored highest on Vietnam experience. Analysis of financial data showed that the monthly fees for personnel from Scanmanagement were 20 per cent higher than for WP-System personnel. WP seemed to be proposing more people than SM, although it was difficult to distinguish between what was needed for

²⁶⁶ Letter from WP-System to SIDA, 16 August 1979, Indication of interest. Sida archive.

²⁶⁷ WP-System, *Proposal for project management of Bai Bang Mill*, 10 September 1979. Sida archive.

²⁶⁸ Scanmanagement memo, *Bai Bang – Supplementary Information on Project and Operations Management Assignment*, 7 September 1979. Sida archive.

²⁶⁹ HIFAB, *Project Management Contract for the Bai Bang Pulp and Paper Mill*, 17 August 1979. Sida archive.

²⁷⁰ SIDA memo, *Evaluering anbud projektledning Bai Bang*, prepared by B. Elding, 12 September 1979. Sida archive. The SIDA committee consisted of Elding, Vanhainen, Ström and Magnussen.

construction as distinct from operations. The HIFAB proposal was ranked lower than the other two and was not seriously considered at any point, not least because it did not contain a fully developed organisational proposal.²⁷¹

The formalities of an open competition for tender were respected – which had not been the case in 1974, but it was evident that influential circles in SIDA from the outset had wanted a new consultant to replace WP. Bo Elding, the main SIDA official in charge of the reorganisation of Bai Bang, had clearly expressed this view. He also secured a direct reporting line to Anders Forsse on this matter. Others in SIDA, however, including Petter Narfström, Senior Advisor to the General Director and the one who brought in WP in 1973, were not strongly critical of WP.²⁷²

The tendering process raises the major question how to evaluate the performance of a consultant, and to use this as a basis for changing terms and conditions if needed; a new competition is not always a necessary instrument for change. The case clearly illustrates the problems donor agencies face in setting performance criteria for consultants and using these in an objective manner to terminate or continue a relationship. WP-System had in many ways done a good job, and had accumulated much experience of working in Vietnam.²⁷³ But the project was behind schedule and SIDA was becoming impatient with the lack of progress. How much WP was to blame is hard to say, especially considering the adverse conditions in Vietnam at the time. The second half of the 1970s, when the construction took place, was characterised by much dogmatism, bureaucracy, and suspicion of Westerners. The obstacles posed by extreme shortages and economic crisis in the aftermath of one war, and the beginning of another, were formidable.

By using the tender mechanism to get rid of a consultant, the donor invites problems of weighing the value of project experience against the value of new professional expertise, as well as the transaction costs of "training" a new consultant. When a change agenda dominates, the importance of local experience is underrated, as was clearly the case in the 1979 tender. The coming-on of WP-System in 1973, gradually replacing Jaakko Pöyry, was a similar case, and, interestingly, the story was later repeated in 1991, when Scanmanagement, then renamed Scan Project, lost the competition to a Canadian consultant firm – Stothert Enterprises – for a new contract of technical assistance to Bai Bang.

Choosing a new consultant in 1979 involved transaction costs of transferring knowledge from one company to the other and making the new firm adapt to the special circumstances in Vietnam. The advantage was that the new consultant could introduce fresh procedures and style of working.

²⁷¹ SIDA memo, *Insatspromemoria – Driftstöd till Bai Bang-projektet*, prepared by B. Elding, 5 May 1980, p. 43. Sida archive.

²⁷² Interview with Elding, Stockholm, October, 1997. Rehlen moved to Hanoi as SIDA representative for a three-year period in 1979, and Forsse was appointed Director-General of SIDA in July 1979.

²⁷³ Westring 1978.

Changing guards: Resistance from WP-System

In September 1979 SIDA had taken the first step to set up a new organisation for the operations phase by selecting Scanmanagement as consultant, but it took another year to reach a final agreement. Among other things, an arrangement had to be worked out for a smooth transition from the old to the new consultant. Scanmanagement had to co-operate with WP-System to complete the construction of the mill.²⁷⁴ The transition from WP to Scanmanagement was a difficult operation for SIDA, and it had a negative effect on the project for a considerable period of time.

SIDA had anticipated that WP-System would strongly oppose being replaced by Scanmanagement. Just after the tender decision had been made, a delegation from SIDA met with the director of WP-System, Tore Hallenius, in October 1979 to specifically inform him why SIDA and the Vietnamese Ministry of Light Industry had found Scanmanagement best suited for the task. They suggested, however, that Scanmanagement could co-operate with WP-System and the two could work as one organisation. Hallenius declared that he was ready to explore this option.²⁷⁵ This was the start of four months intensive and difficult negotiations between SIDA, WP-System and Scanmanagement designed to find a solution acceptable to all parties.

As the two consultants confronted each other directly, they engaged in a power play as well as trying to find a solution. One of SIDA's concerns in this process appeared to be to defend WP-System against the increasingly self-assured Scanmanagement, possibly to retain the knowledge and expertise that the consultant had accumulated over the past almost six years in Vietnam. Moreover, it may be noted that SIDA's Petter Narfström, who had played an important role in the Bai Bang project from its early days, was back as the head of the agency's Industry Division. Narfström had been one of the supporters of WP-System from the very beginning and had strongly recommended in 1973 that it be hired as a consultant.

SIDA even tried to push Scanmanagement to accept WP as a partner in the consortium, and threatened to call a new tender, this time in international competition, unless SM followed SIDA's proposals.²⁷⁶ The four companies in the consortium, in a joint letter to SIDA in early January 1980, rejected the proposal. First of all it was – correctly – pointed out that it would be a major mistake to make WP-System both a part of the consortium and a sub-consultant. Moreover, the consortium had strong backing from the entire Swedish forestry industry and some key persons had threatened to reassess their decision to take part if WP were to join.²⁷⁷

²⁷⁴ SIDA memo, *Insatspromemoria – Driftstöd till Bai Bang-projektet*, prepared by B. Elding, 5 May 1980, p. 2 (35) and 8 (44). Sida archive.

²⁷⁵ SIDA memo, *Anteckningar från samtal på SIDA 17 October 1979 med dir. T. Hallenius, WP-System*. Sida archive.

²⁷⁶ Letter from SIDA to Scanmanagement, 20 December 1979. Sida archive.

²⁷⁷ Letter from Scanmanagement to SIDA, 4 January 1980. Sida archive.

In this situation, SIDA had little choice but to accept WP-System as merely a sub-contractor to Scanmanagement, not a partner. The consortium had been more united than expected, and WP-System acting alone was not considered a realistic project leader. Step by step, SIDA convinced WP-System to accept a more limited role, although it would retain responsibility for the construction part.²⁷⁸ The two companies would keep separate offices in Stockholm and likewise have separate personnel administrations. The final step to define the relationship between the consultants was the agreement of 4 September 1980, replacing the old agreement between SIDA and WP-System. Scanmanagement and WP-System entered into a detailed agreement where WP-System accepted the role as a sub-contractor to the consortium in order to terminate the construction phase.²⁷⁹ When the negotiations finally ended, SIDA was exhausted and relieved, and nobody complained about the result.²⁸⁰ Anders Forsse later explained: “More than anything else, we wanted to complete the project.”²⁸¹

The two companies had played it tough, knowing that the contract with the Vietnamese financed by SIDA was potentially a very lucrative one. It is worth noting that the negotiating battle took place in Sweden, with the Vietnamese represented at only one of the meetings in Stockholm, and during the final negotiations in Vietnam to sign the agreement between Scanmanagement and Technoimport – the company of the Vietnamese Ministry of Foreign Trade responsible for imports.

The negotiations between SIDA and the two consultancy firms also influenced the thinking within SIDA on the structure of the project management at the site. In SIDA's proposals for a new management structure in early 1979, the consultant was to have a limited role. Yet, the way the negotiating process unfolded, the actual outcome was that a new, strong consultant came in to assist Ministry of Light Industry to carry out the project. Its role and responsibilities remained to be worked out.

A new project organisation: Role change

Concurrently with the tendering process, SIDA had started to work on a new project agreement between Sweden and Vietnam. One important point to be settled was who would be the contract partner for the Swedish consultant. SIDA clearly wanted the role to be shifted from itself to a Vietnamese party. Before this could be realised, SIDA engaged Scanmanagement to prepare for

²⁷⁸ SIDA memo, minutes from meeting, 9–10 January 1980. Sida archive.

²⁷⁹ SIDA memo, *Överenskommelse beträffande upphörande av avtal mellan SIDA och WP-System AB; Avtal mellan Scanmanagement och WP-System*, 4 September 1980. Sida archive.

²⁸⁰ Interviews with persons involved reveal that some of the negotiators from SIDA had to take leave for a period after the negotiations to recover. Ehnemark who became the Stockholm administrator of SM has repeatedly said that SIDA showed very little interest in the project in the first years of SM involvement, and seemed to be relieved that the project progressed in the early 1980s.

²⁸¹ Interview with A. Forsse, August 1998.

the new project agreement, including proposals for times schedules and budgets for project implementation.²⁸²

In Vietnam, Technoimport was the institution that usually imported equipment for projects under construction. It was therefore decided that a contract should be entered into between Scanmanagement and Technoimport, while each was responsible to SIDA and MoLI respectively.²⁸³ The contract between Scanmanagement and Technoimport was signed in March 1980 and was supposed to enter into force on 1 July 1980.²⁸⁴ It might seem odd that Technoimport was chosen as the counterpart rather than MoLI, but this was in accordance with Vietnamese practice at the time. It was the first time, however, that Technoimport would sign a contract with a Western company. All previous contracts had been with Eastern European companies under turnkey-type projects. In these projects Technoimport was the counterpart, and when the project was finished, it was handed over to the relevant Vietnamese line ministry and the foreign company left.

In terms of Vietnamese practice, it was also unusual that SIDA had MoLI as counterpart in the investment and construction phase (cf. Chapter 3), and it would again be unusual if the Swedish experts should continue to work in Vietnam after the mill had started operating. As it turned out, both Technoimport and MoLI found it difficult to handle the new arrangements. One of the problems was that several ministries were involved. Another was the lack of routines for how to use foreign consultants in the operations of an enterprise. Evidently, Bai Bang was to be considered as an experiment. MoLI had received the authorisation of the Prime Minister in 1978 to have total, overall responsibility.²⁸⁵

SIDA was faced with difficult dilemmas concerning the role of the Swedish consultant and the management structure of the project. The trade-offs are evident in the choice of contract. It would have been possible to enter into a commercial type of contract between Scanmanagement and the new Bai Bang paper factory, that was established as a MoLI enterprise, either in the form of a joint venture or a management contract. Vietnamese legislation had by then opened up for foreign investment.²⁸⁶ Instead, Scanmanagement entered a conventional technical assistance contract, providing advice and services to Bai Bang. Why were alternatives of a commercial bent not considered? Was it because this would have placed responsibility for results directly upon the Swedish company? Was it inconsistent with one of the formal objectives of SIDA, namely that the Vietnamese take full responsibility for operations. It should be noted that Vietnamese authorities did question the role of the

²⁸² SIDA memo, *Contract between Scanmanagement and SIDA*, Industry Division, 26 February 1980. Sida archive.

²⁸³ SIDA memo, *Insatspromemoria – Driftstöd till Bai Bang-projektet*, prepared by B. Elding, 5 May 80, pp. 3–8. Sida archive.

²⁸⁴ *Management agreement, Scanmanagement and Technoimport*, 15 March 1980. Sida archive. SIDA and MoLI approved the agreement.

²⁸⁵ SIDA memo, *Terms of reference: Visit to Bai Bang Paper mill Project by SIDA's Project Advisory Council*, 23 October 1978, Industry Division. Sida archive.

²⁸⁶ SOU 1977b, p. 67.

Swedish consultant, and that SIDA emphasised that "neither SIDA nor a Swedish project management company can take responsibility for reaching a certain production at the mill".²⁸⁷ Many, including former WP and Scanmanagement personnel, argue today that a commercial-type contract would have been the best approach. The disadvantage to SIDA would have been that the agency would have had less influence, and SIDA was apparently not prepared for this. There were too many interests involved for SIDA to leave and turn the project into a commercial venture; it was still a political project that attracted much attention.

Although SIDA knew that the mill management was not yet ready to take over full responsibility, there was much optimism in the agency. It was the first time Vietnam had accepted a joint project organisation at both the ministerial and enterprise level. Equally important, the agreement specified that Swedish experts would have "the right to perform *executive* [emphasis added] functions and shall, when so deemed proper, transfer such functions to their Vietnamese counterparts and thereafter work as advisors or working instructors."²⁸⁸ What this paragraph meant in reality was highly unclear, but it definitely gave the consultant considerably more power than had been the case in the WP period.²⁸⁹ The idea of giving the Swedish side the executive power was clearly initiated by Scanmanagement, and might have been a condition laid down by the consortium.²⁹⁰ SIDA seemed to believe that the Vietnamese in this way would learn from the Swedes and take over responsibility step by step.

What would be SIDA's role in this new arrangement? What did the role of "only financier" mean in practice? SIDA wanted to take a step back from the implementation "front line" (see Chapter 3 on the role of the Vietnam Group in solving numerous practical matters), and direct the project through improved instruments of planning and monitoring – e.g., budgets, time plans, progress reports, and approval of appointments. Would there be any difference in reality from the construction period? A system was set up with monthly reports from Scanmanagement, semi-annual reports of activities, approval of the Annual Plans of Operation, and an institutionalised system of review by independent consultants to assess the progress of the project and give advice. This became known collectively as the Review Missions. The problem was that SIDA also lacked the manpower for such an enhanced supervisory role. Shortage of personnel had likewise been a recurrent complaint from the Vietnam Group in the agency during the construction phase. The SIDA office in Hanoi was supposed to play a more active role, and was strengthened when Christina Rehlen took the position of Counsellor of Development Aid in 1979, but it took time for her to obtain more assistance. In Stockholm, the capacity to deal with Bai Bang on a daily basis actually decreased.

²⁸⁷ SIDA memo, *Insatspromemoria – Driftstöd till Bai Bang-projektet*, prepared by B. Elding, 5 May 1980, p. 11. Sida archive.

²⁸⁸ *Specific agreement*, article IX.5, signed 20 November 1980. Sida archive.

²⁸⁹ SIDA memo, *Insatspromemoria – Driftstöd till Bai Bang-projektet*, prepared by B. Elding, 5 May 1980, p. 25; and Review Mission, September 1980, Annex 2, p. 2. Sida archive.

²⁹⁰ Interview with Gundersby, Oslo, August 1998.

SIDA's approach to the 1979–80 negotiations showed the agency's readiness to play the conditionality card. Until then, SIDA had been seeking compromises rather than making unconditional demands; this had been the case also during the most difficult patches of the negotiations leading up to the 1974 project agreement. As early as in November 1979, when a SIDA delegation visited Vietnam in connection with the annual country programme discussions, a number of demands were made to the Vietnamese as a precondition for the signing of a new Specific Agreement on the operations phase of Bai Bang. The list of demands was long, and contained a number of points that conflicted with Vietnamese priorities and established practice at the time. SIDA wanted Vietnam to:

- establish a Joint Policy Committee on the ministerial level;
- establish a Mill Management Board and take direct responsibility for project implementation (see Box 4.1 on the proposed organisational structure);
- formulate a master time schedule for project implementation. A total budget should be established including the contributions from both Sweden and Vietnam;
- take over the procurement function no later than January 1983;
- make a plan for supply of pulp to the mill;
- ensure transparency in all plans, budgets, and relevant laws etc.;
- guarantee sufficient financial resources for the completion and operation of the mill;
- provide a sufficient number of qualified Vietnamese personnel;
- implement payment procedures for the Vietnamese erection and building companies based on payment per hour;
- guarantee sufficient supply of raw materials, consumables, spare parts, etc.;
- ensure swift receipt and unloading of imported goods and secure adequate storing;
- guarantee that equipment financed by Sweden would be used exclusively by the project;
- establish a central storage system and vehicle pool;
- provide a sufficient number of interpreters;
- secure necessary permits for expatriates to work in the Haiphong harbour, assisting in handling of Swedish cargo;
- improve Road No. 2 which connected Bai Bang to the main Raw Materials Area (see Chapter 5 on this issue); and
- allow foreign experts to assess local resource availability of kaolin, starch, and alum.²⁹¹

²⁹¹ Based on the *Draft Specific Agreement*, May 1980, and *Review Mission September 1980*, Annex 2. Sida archive.

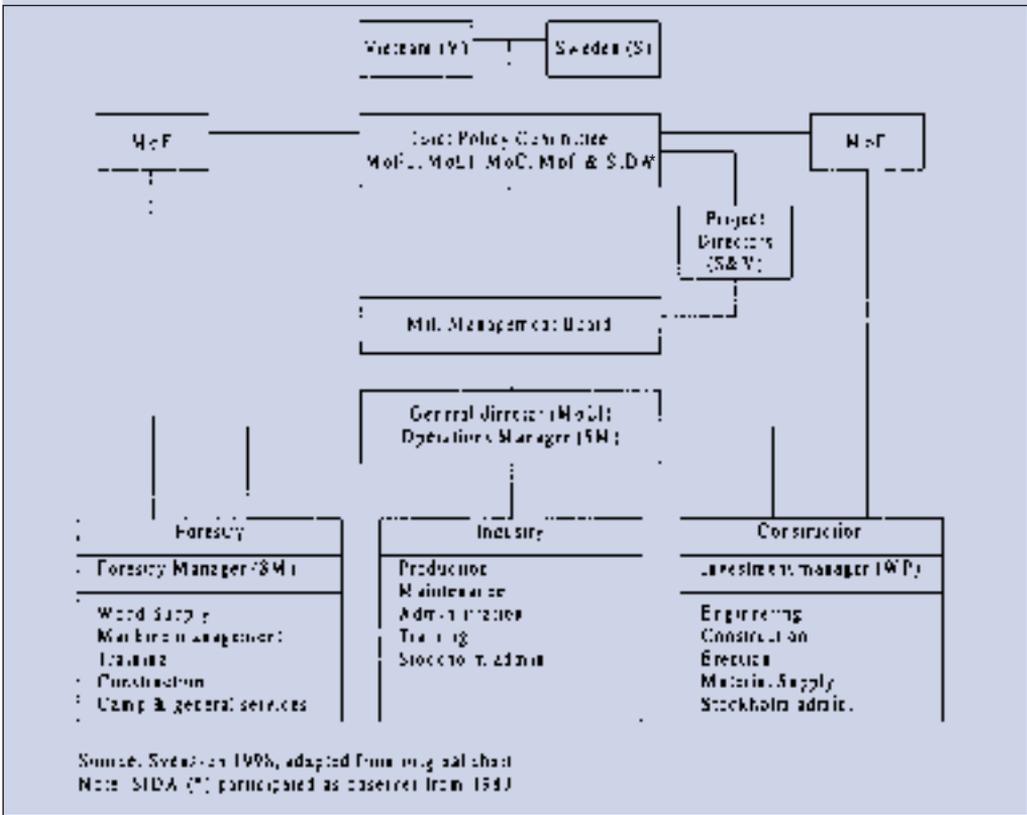
These demands were repeated in the negotiations in May 1980, but the Vietnamese objected to several of them. As a result, the signing of the agreement was postponed. This caused a number of problems, including lack of funding for the new consultant who was scheduled to start working in July 1980. SIDA had to arrange a temporary solution whereby Scanmanagement would be financed from the construction budget until the new agreement was signed. The manoeuvre was clearly intended to commit the Vietnamese to the project, and also to prevent Vietnam's conflict with Cambodia and China from influencing decisions in Stockholm.



*Production has started. The Swedish and Vietnamese project directors inspect the result.
Photo: Helder Netocny/Phoenix*

By late summer 1980, both SIDA and the Review Mission of independent consultants found that the Vietnamese government had made a considerable effort to implement most of the points on the conditionality list. The pressure tactic apparently had worked. The Review Mission identified only four areas where Swedish demands had not been met: Improvement of Road No. 2 and the supply of local raw materials were still inadequate, but restrained by national budget allocations. Obtaining sufficient manpower to complete the plant was still a problem. There had been some transfer of equipment from the construction companies, which were under the Ministry of Construction, to the Ministry of Light Industry, which was to run the mill, but not sufficient to keep to the agreed time table.

Box 4.1: Vinh Phu Pulp and Paper Mill – basic organisation – 1980



On balance, the mission recommended that SIDA sign the new Specific Agreement for the period 1 July 1980 to 30 June 1983, but recommended a slight delay in the signing in anticipation of the national budget for 1981.²⁹² Only when the next Review Mission confirmed that most of the demands on the list had been met was the Specific Agreement finally signed, in November 1980.

The number and nature of the demands put to the Vietnamese government showed a new attitude towards Bai Bang on the part of SIDA. In part, this reflected increasing knowledge about the basic problems in Vietnam, and a growing frustration over the daily obstacles that seemed to have no end. SIDA's new, more demanding attitude was clearly designed to compel the Vietnamese authorities to institute better management. There was no longer any illusion about Vietnamese capacity to achieve the almost possible, as there had been during the very early negotiations on the project. Secondly, SIDA was under pressure from the centre-right coalition government at home to complete Bai Bang as quickly as possible, indeed, more quickly than SIDA considered feasible.

²⁹² *Review Mission September 1980*, p. 8.

In 1979–80, Vietnam was in the midst of a severe economic and political crisis. It was a most difficult time for Vietnamese authorities to meet the long list of demands that SIDA put on the table. Nevertheless, Hanoi tried to comply. As the country's first "Western" project, and because of its special ties to Sweden, Bai Bang ranked high on Vietnam's list of priority projects. Moreover, the economic crisis had led to the beginning of reform thinking, which was to provide a more supportive environment for the project in the 1980s. The plenary meeting of the Vietnamese Communist Party in August 1979 approved a number of reforms designed to increase the production of food as well as other goods for consumption and export so as to overcome the crisis. The first reforms of the old management system were instituted, and made the changes and demands initiated on the Swedish side easier to carry out.

On a new course

Assuming the "executive" role

The entry of Scanmanagement had an impact on the style as well as the costs of Swedish technical assistance. The new consultant had defined for itself the role of a modern business manager who was in charge. It was a role that could only be fulfilled if SIDA were prepared to pay what it would take to get the best people in Sweden to Bai Bang, Scanmanagement pointed out.

Scanmanagement's financial remuneration was negotiated with SIDA only, and the paragraph concerning remuneration to the consultant was classified secret. The first contract (a three-year one), between Scanmanagement and its Vietnamese partner, Technoimport of the Ministry of Foreign Trade, amounted to SEK 133 million. In the next agreement of 1983 the secrecy had been lifted. In this contract, Scanmanagement received an overhead of 76 per cent on personnel. One may assume that the 1980 agreement was probably in the same range. This is not a very high rate in the management consultant business, but Scanmanagement had the benefit of enjoying a large number of long-term positions, which is rarely found in private sector contracts. Most importantly, the new consultant was allowed by SIDA to pay higher wages than its predecessor, WP-System, had been able to do, as this was considered necessary to attract industry people of high calibre. On the whole, Scanmanagement clearly brought in a new style of management that seemed to give the company more authority in the Vietnamese context than what WP had wielded.

The contract obliged Technoimport to provide Scanmanagement with housing and office space in Hanoi, Bai Bang and even the more remote centre for the forestry activities – in Ham Yen – at the level of Swedish standards, and with offices equipped with modern facilities. This probably seemed a logical request to the Swedish consultant, but such facilities were non-existent in Vietnam at that time. Scanmanagement also wanted a sizeable number of vehicles for its employees, and they got them: "Under WP we had only two cars, but under

Scanmanagement the vehicle pool was built up considerably. We decided what we needed and told the Vietnamese; they always agreed, and they got their share of it”, recalled one of the Swedes working at the project, and continued: “We had the support of SIDA, and everybody was geared up to make this political project work and increase productivity. No means were spared.”²⁹³



Swedish standards. Inside a new house in Vietboda – the Swedish Camp in Bai Bang. Photo: WP-System archive

Already in December 1980, Scanmanagement wanted to change the structure of the project. This, the consultant noted, would necessitate employing more foreign experts, and SIDA accepted it readily. According to the 1980 Management Agreement with Technoimport, Scanmanagement had considerable executive power. The Swedish consultant was expected to

- take charge when necessary in the field of handling, testing, and start-up of production;
- develop and direct the implementation of plans for operation;
- carry out a training programme;
- develop and carry out plans for the gradual transfer of operational and managerial activities to Vietnamese personnel;
- develop and implement maintenance procedures.

In addition, Scanmanagement was supposed to assist in the provision of raw materials, development of long- and short-term plans for operation, procurement of goods and services, and the development of forestry resources.²⁹⁴ In the beginning of the project the lack of raw material, especially

²⁹³ Interview with Otterstedt, Stockholm, July 1998.

²⁹⁴ Services by Scanmanagement, Appendix A, *Management Agreement*, 17 March 1980. Sida archive.

coal, stopped the factory on several occasions. It was typically of the way Scanmanagement perceived its responsibility that, when faced with such problems, the company went beyond its role as assistant and made direct contact with Vietnamese at the central political level (see chapters 5 and 7).

The “business” style of Scanmanagement, and the costs involved did raise eyebrows within SIDA. It appears that some friction was created by the differences in organisational culture between, on the one hand, the somewhat “puritan” people in the development agency, who observed a Nordic culture of moderation and morality in spending money, and, on the other, the consultancy firm with its demand for high income and living standards. SIDA even considered finding a new consultant in 1983, when the agreement had to be prolonged.

The renewed Management Agreement in 1983 did represent a few important changes, but first and foremost it confirmed the continuation and expansion of Scanmanagement’s operations. The agreement cost SIDA 124 mill SEK for a two-year period, i.e. considerably more than the first agreement. The main change was that the parties to the agreement were augmented to include in addition to Scanmanagement and Technoimport the Ministry of Light Industry and the Ministry of Forestry. This was an attempt to make the two Vietnamese partners work together. For the same reason, the Joint Policy Committee was replaced by a Steering Committee, headed by a chairman appointed by the Vietnamese government, who in reality was the Deputy Prime Minister, Do Muoi. It had been a Swedish request that the highest political level was represented in the Steering Committee. SIDA had realised from experience that having a direct link to the Prime Minister helped speed up the decision-making. As in the former Joint Policy Committee, all the relevant ministries were members as well, but now SIDA was allowed to participate as observer.

A second important change was that Scanmanagement’s “duties and methods” indicated that each expatriate would have one or more Vietnamese counterparts to work with, but there would be no separate Swedish organisation. In principle the Vietnamese should make the decisions and the expatriate should act as advisor. The only exception was vehicles and other mobile equipment financed by the Swedish contribution, where “the expatriate personnel shall have the right to decide on the utilisation and maintenance”. SIDA had clearly succeeded in limiting the role of Scanmanagement in the 1983 Agreement, but it took time before it materialised at the site (see Chapter 8).

Who had *de facto* executive power at Bai Bang? It is not an easy question to answer. In the early period, WP never really wielded executive power at the site level. First of all, it was not supposed to, and, probably more important, the Vietnamese organisation resisted too much influence from WP. Scanmanagement no doubt had much more influence in the first period after 1980. From 1983 and onwards the counterpart system was developed. The whole management system was supposed to be structured as a unified organisation, as the 1980 agreement specified and the 1983 agreement had

reaffirmed. This model was, above all, promoted by SIDA, but probably also supported by the Vietnamese. In practice, however, a unified organisation did not materialise. The logic of the two systems was simply too different. In November 1981, Scanmanagement reported that one of the problems that might threaten the successful completion of the project was “the unwillingness of the Vietnamese to give Scanmanagement the executive right to carry out the work and – connected to this – the unwillingness to take part in the joint review meetings at all.”²⁹⁵ About six months later, the Head of SIDA/Hanoi, Ragnar Ångeby, brought up the matter with the advisor to the Prime Minister. The latter seemed willing to give the executive responsibility to the Swedish director.²⁹⁶ One reason was that the advocates of reform at the highest political level wanted change, and they found that the Swedish project was a means to achieve this goal. At the site level, however, people had a very different approach to the co-operation with the Swedes, and possibly even different instructions. By 1985, the new Management Agreement of that year said more clearly than the previous agreements that the Vietnamese had the executive responsibility, while the Swedes were the advisors. But the company history of Bai Bang, written by Vietnamese journalists, presented Swedish advisors as having been the de facto managers even up to around 1987, more than two years into the phasing-out period (see Chapter 8):

*The participants in the [management] seminars were not only the Mill’s key managers but also the managers of Vietnam Paper Industry and the provincial offices. Since 1987 SM [Scanmanagement] had gradually handed over the management of the Mill to VPU’s [Vinh Phu Paper Union] management. Of course, there had been still problems here and there, but the management had been really developing with firm and reliable steps matching with the nation-wide economic renovation process.*²⁹⁷

The authors of the Bai Bang company history take a balanced stand on the question of whether the societal reforms or the Swedish management reforms came first. The two developments were seen as just matching each other. As to where executive power was lodged, however, their conclusion is clear. They perceive the factory as having been run by Swedish experts up to 1987.

Christer Ehnemark, the chief project administrator of Scanmanagement-Stockholm, later defined “executive power” in relation to who controlled the money. (We didn’t control the money, we always had to go to the Vietnamese or to SIDA and present our case.– To Ehnemark, this meant that Scanmanagement did not wield executive power. Yet he recognised that Scanmanagement had much influence, especially in the period up to 1985, after which it diminished. “There was the MoLI organisation and our shadow organisation, and we had to implement through a series of smaller decisions.”²⁹⁸

²⁹⁵ Scanmanagement memo, minutes from Board meeting, 11 June 1981. Scanmanagement archives.

²⁹⁶ SIDA memo, from Ångeby/Hanoi to Industry Division, referring from the meeting, 16 June 1982. Sida archive.

²⁹⁷ Dao Nguyen and Quang Khai (eds.) 1997, p. 66. (Quote from official English translation)

²⁹⁸ Interview with Ehnemark, August 1998.

Procurement by Vietnam

One of the other central, recurring themes during the project concerned procurement, especially international procurement. It had been one of the difficult issues for SIDA in the early period when WP was responsible for procurement, and had made SIDA too intimately involved in day-to-day decision-making through the Procurement Group (see Chapter 3). When the construction phase ended, SIDA decided it would be appropriate and easier if the Vietnamese took over the procurement function. The renewed project agreement of 1980 specified that Vietnam would take over the responsibility for procurement of all goods and services no later than January 1983.

Why was procurement the first area to be transferred to Vietnamese management? One possible explanation is that SIDA had come to realise that international procurement is one of the weakest areas for many developing countries, and that transfer of knowledge in this field was particularly important. The point had been made already in the mid-1970s by the head of SIDA's Vietnam Group, Gösta Westring.²⁹⁹ However, SIDA officials seemed completely out of touch with the realities in expecting that the Vietnamese would be able to take over procurement by the end of 1982. The principle was reasonable, but it could only be implemented in the long run. In a centrally planned economy, procurement was organised quite differently from the standard practice of an international enterprise, based on tendering in an open market. Technoimport was, in the 1983 agreement, designated to be responsible for procurement from an office set up in Bai Bang, with a liaison office in Stockholm. The idea was to move procurement away from the central procurement office in Hanoi, and thus more effectively respond to the needs at the factory level. It did not work. Technoimport was not supportive of the idea of a subsidiary office in Bai Bang, and it never functioned properly. The liaison office in Stockholm never ceased being primarily a training facility associated with Scanmanagement. Christer Ehnemark, viewing the matter from Scanmanagement's Stockholm's office, later analysed the reasons for the failure:

SIDA was not an expert in handling industrial operations, nor should it be. When SIDA talked with recipient representatives, it was usually at a high level. These persons would not be well informed about the problems at lower levels. SIDA was told by the Vietnamese that they could handle the procurement, and SIDA did not question whether Technoimport was an organisation with this type of experience. The Vietnamese philosophy was that everything should be purchased centrally. We were against that idea from the beginning. Things always go wrong when bureaucrats do the procurement. It must be decided at the factory level.³⁰⁰

In reality, Scanmanagement was responsible for procurement directly or indirectly until it left the project in 1990. If SIDA's expectations of transferring the procurement function early and completely to the Vietnamese was an

²⁹⁹ SIDA memo, *Möjligheter till överföring av kunskaper från Sverige till u-länderna inom två speciala Sektorer*, prepared by Westring, Industry Division, 3 June 1975. Sida archive.

³⁰⁰ Interview with Ehnemark, August 1998.

attempt to act pro-actively, it could better be understood and legitimised. This appears not to have been the case, however. Overall, the procurement issue created problems and animosities among all parties concerned.

The side projects

Although the new agreement in 1980 in most respect focused narrowly on the mounting problems of finishing construction and moving into operations, it also opened up for the regional development focus that became an important feature of Bai Bang.

In its letter of 21 November 1978 requesting continued Swedish assistance, Vietnam had mentioned that it also wanted increased support for forestry activities. The Vietnamese were aware of the problem with raw materials. It was not only a matter of nurseries and plantations, but of developing a regional infrastructure. Most of the trees had to be felled with traditional methods and brought to the road and river landings by buffalo carts, and from there transported over long distances to the mill. Moreover, the raw material supply was dependent on plantations cultivated by migrant labour from the Red River Delta and on ethnic minorities that had to be motivated to work in the plantations.³⁰¹ In addition, the forests were degraded and posed environmental problems; some of the northern provinces only had ten per cent of their forest area left.

One important decision in the renewed project agreement in 1980 was to engage the Ministry of Forestry more directly and forcefully in the project. Six years later, this led to a separate Plantation and Soil Conservation project (see Chapter 5). The Living Conditions Project undertaken by SIDA to improve conditions of the workers in the forest areas, as well as the various social welfare activities that preceded it, was also an outcome of problems related to supplying trees for the mill. These activities were in part premised on the understanding that low productivity, in the forest as well as in the mill, was related to the low living standards of the workers. It was in the period around 1980 that this connection came to be clearly understood.

Scanmanagement identified itself with a much broader development mandate than WP-System had, and actively pursued an agenda to improve the social and economic infrastructure that supported the mill. The vocational school had been identified as a crucial area of support already in 1978, but it was not until the new phase that opened with the 1980 agreement that preparations could be made to start a Vocational School Project. The initiatives to build staff houses and a township where mill workers could build their own homes (referred to as the Housing Project), and to improve the transport infrastructure to Bai Bang (called the Transport Implementation Project – TIP, see also Chapter 8), both had a parallel decision-making history. Scanmanagement was the broker between Vietnamese institutions, which slowly came to accept

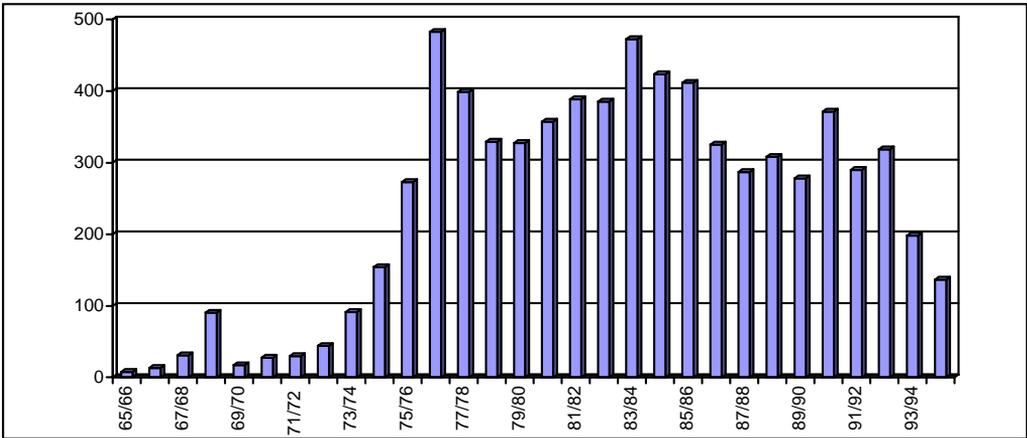
³⁰¹ SIDA memo, *Insatspromemoria – Driftstöd till Bai Bang-projektet*, prepared by B. Elding, 5 May 1980, p. 2. Sida archive.

these side projects as requirements for Bai Bang, and SIDA. The new ideas were well received in SIDA, not only because they corresponded to the new paradigm of integrated development. New projects were needed to fill the allocated aid programme to Vietnam (“the country programme”) as the outlays on construction in Bai Bang rapidly tapered off (Box 4.2 below presents the annual disbursement of Swedish aid to Vietnam. Note the rapid decline in the years before 1980).

Bai Bang was not the only aid project at this time to develop a multi-sectoral and regional approach. It was a general trend, and much has been written about the successes and failures of “integrated development” projects – whether they responded to popular needs; the problems of co-ordination; lack of integration in national and local administrative and political systems; and their tendency towards excessive expatriate control. It is difficult to relate these lessons to the mushrooming tendency of the Bai Bang project. All the side projects have their individual histories which cannot be presented here. Some were quite successful. The vocational school received high marks in evaluations, and is running well today. The transport project was implemented below budget cost. The housing project was much delayed, should have started earlier, and had to be redesigned to accommodate the upsurge of private house building. But the housing project also represented a model of implementation that was an innovation. The roles of recipient and donor were better defined here than in the rest of the Bai Bang projects. SIDA would only transfer resources in tune with agreed Vietnamese contributions, and actually adhered to the principle, too. The system worked, although it took longer time than planned, and expatriate input was minimal.

How far should donors pursue the role of trouble-shooter and problem-solvers? To what extent should the tendency of side projects to mushroom be contained? In a country in crisis, there is never any end to the problems that may justify donor initiatives. In retrospect, we would say that the strength of Bai Bang as a project was that it never lost sight of its primary rationale – namely the production of paper.

Box 4.2: Annual disbursement of aid to Vietnam – total payments in current prices (million SEK)



Source: Sida statistics.

Chapter 5

Raw materials for the mill – not getting the fundamentals right

Commonly, investment in a primary industry follows two principal rules: (i) the investment is not done without having first secured the supply of basic raw materials, and (ii) the processing technology must be tailored to the properties of the raw material. The Bai Bang project violated the first rule, and although it started out observing the second, uncertainties about the quality and quantity of the raw materials – above all the wood supply – created a nightmare that would run throughout the whole project from start to finish. The issue influenced the course of the project in different ways: it made senior SIDA officials seriously contemplate abandoning the project in 1974; it led to a number of additional investments not initially planned; at times it stopped production altogether; and generally caused the mill to operate far below capacity. The issue also triggered pressure for organisational reforms from both the Vietnamese and Swedish side.

Arguing that bamboo and hardwood were plentiful and fast growing, the Vietnamese authorities were reluctant to give credence to Swedish concerns that the fibrous raw material might be insufficient. They nevertheless welcomed Swedish assistance in building forest roads and undertaking research for a future plantation programme. This chapter looks at the major decision-making themes linked to the forestry component of the mill. It is essentially a story of a stepchild of an industrial venture – of a project component not finding its proper role. Numerous initiatives were launched to be rapidly abandoned as officials and experts struggled to find the right kind of tree species and make plantations succeed. Sweden brought in forestry technology unsuited to the environment, and Vietnam resisted reforms necessary to make it work.

In the end, Ministry of Forestry, SIDA, and the management of the mill all failed to bring the wood supply situation under control. One explanation lies in the perceptions of what was wrong. What was initially perceived as a technical problem gradually, and correctly, became understood as a social and economic problem. But the Vietnamese and the Swedes appear as equally slow learners.

Raw material for an integrated pulp and paper mill is not wood alone. Of all the other inputs, coal was the biggest headache. SIDA did not sit idly on the sidelines, even though the 1974 letter of agreement exonerated Sweden from any responsibility in this regard. Frequent and high level political pressure was applied to get priority for Bai Bang at the coal mine, and a major transport project was launched. We were now in the 1980s with its new development paradigm of structural reform and integrated development. It was easier for Vietnam, as well as for the Swedish consultants, to attach new side projects to Bai Bang.

Through much of the time considered here Vietnam was going through a period of deep economic crisis. The unification of the country and integration of the South was costly in all respects, and the reconstruction needs after a devastating war were formidable. In 1979, Vietnam was also at war with both Cambodia and China, which further intensified the scramble for scarce resources, and set the context for the raw material issues unfolding at the mill.

This chapter looks particularly at the supply of wood and coal and traces how the key actors in the project – MoLI, the Ministry of Forestry, SIDA, and the consultants – reacted to the twin challenges of how to get enough material of the right quality, and how to ensure timely supply in a struggle to get formal priority for Bai Bang. Wood supplies, or more precisely, bamboo and wood, represented the time bomb that never exploded. Coal supplies became the unexpected problem which, for several years, were to become the main cause of stoppages in paper production.

What are the needs?

Making pulp requires a whole range of raw material inputs. The Bai Bang project was based on the assumption that all of this should be supplied from domestic sources. In 1974, however, despite years of preparatory studies, the availability of various raw materials was far from assured. Most of the sources had been identified in principle, but the practical side of getting raw materials to Bai Bang remained more or less uncharted territory for the Swedish side. The 1974 agreement stipulated that Vietnam had the sole responsibility for future raw material supply, whereas Sweden's role was restricted to bringing in some transport equipment and helping modernise forestry.

From the beginning, the planners toiled with the question of how far Bai Bang should control its own supply of raw materials and energy. The design maximised the number of functions possible within the project area so as to make it as self-contained as possible. Placed in a locality without any basic infrastructure except a bad road, the industrial site had to include a number of investments that normally would not be needed. The mill was set up with its own electric and water supply, a coal-fired power plant with surplus capacity to feed the national grid, and a water intake and water treatment plant with enough capacity to provide drinking water for a future town in Bai Bang. Bai Bang was also set up with production of its own chemicals for bleaching the pulp (chlorine, caustic soda, and sodium hypochlorite).

Although, the result was, from a Western point of view, a rather self-sufficient mill, it was nevertheless highly dependent on several critical raw materials only available through the central planning system. It was assumed that Vietnam would be able to secure regular supplies in sufficient quantity and quality, relying on the production capacity of other state enterprises. Vietnam did in fact commit itself to improving the transport to Bai Bang – from forest areas and from Hanoi and Haiphong. The range of materials and the volumes involved were considerable:

- Fibrous raw materials for the pulp (250,000 tons/year)
- Coal for the power plant (120,000 tons/year)
- Limestone to produce burnt lime needed for the cooking of the pulp (32,000 tons/year)
- Salt for the chlorine-alkali plant which produces the required chemicals (16,000 tons/year)
- Fuel oils for firing the lime kiln needed to make burnt lime (10,000 tons/year)
- Sodium sulphate (3,500 tons/year)
- Various other additives: talcum, china clay, kaolin, rosin, starch and alum³⁰²

Where to get all these raw materials was still not certain when the 1980 project agreement was negotiated, setting the stage for the operational phase. Some had to be dropped and some imported, but for the most important ones there was no alternative but to fight for allocations from the central planning system.³⁰³ Getting it all to Bai Bang, not least the fibrous raw materials, would be a major logistical operation in terms of transport and organisation of the supply mechanisms. In a resource-starved economy with many competing demands, the scramble for raw materials took many different forms. The supply mechanism had an official side through the allocations made within the five-

³⁰² Talcum, china clay and kaolin are mixed in the pulp to reduce the transparency of the paper. Alum is used for water purification.

³⁰³ In 1981, it was decided to drop the additives for reduced transparency, and also starch. Later, when it was decided to produce export quality paper, the need for such activities again arose. Without these additives the capacity of the mill would be limited to about 48,000 tons of paper.

year planning mechanism controlled by the State Planning Commission. This could be over-ruled through political interventions at the level of Council of Ministers. Then there was the unofficial side, largely hidden from the Swedes, through bilateral deals directly between enterprises and ministry departments. The system promoted a fierce struggle over scarce resources between organisations, leaving little room for flexibility and co-ordination.

Wood supplies

It had not been evident from the beginning that the paper mill should rely on its own pulp. In the early years of the planning stage, however, Vietnam rejected all Swedish suggestions to do without a pulp mill, or postpone its construction until a later phase. The Vietnamese vision was self-reliance and import substitution, based on local materials and, above all, on what was claimed to be abundant natural forests.³⁰⁴ Although it never had access to all material necessary for a complete evaluation of the wood supply, e.g. aerial photos, maps and field access, Jaakko Pöyry Co. – the Swedish planning consultant – seriously questioned the wood supplies. The outcome was a moderately sized pulp mill with a design capacity of 48,000 tons per year – a midget compared to the 200,000 tons capacity mills being built in other countries. Nevertheless, Bai Bang was a giant compared with existing pulp mills in North Vietnam.

Bai Bang required a steady wood supply of about 250,000 tons annually, which was to come from a large designated Raw Material Area (RMA). The size of the RMA was subject to heated discussions between the Vietnam and Sweden, and was settled only in the twelfth hour of the 1974 negotiations. The agreement that followed gave Sweden two roles in forestry. The most important was to facilitate the transport of wood from the stumps to the mill, while the second was more of a research programme into silviculture and harvesting technology. Whereas in the industrial part of the project, WP-System and later Scanmanagement were key actors in the building up of a new enterprise organisation, the consultants had a much more peripheral role in forestry. In fact, the feeling of being sidelined was a recurrent complaint from the Swedes working in the forestry sector.

As discussed above in Chapter 2, wood supplies were not only a Swedish worry. Some Vietnamese officials recognised that the supply from natural forests would not be sufficient. Tree planting was consequently discussed as a solution as early as mid-1972, and Vice Minister Tuan at MoLI confirmed in a meeting on the project agreement in June 1974, that “[I]t is true that there are difficulties in the procurement of raw material, and that planting must be carried out.” However, the desire to get the paper mill up and running overshadowed concerns with the details of the raw material supply; the military

³⁰⁴ Vietnam had no reliable data on forest resources in the early 1970s, but the political sentiment was one of wealth in natural resources – viz. the proverb “the land of golden forests and silver seas”. The influential General Director, Mr Nguyen Tao of the General Department of Forestry even assured Prime Minister Pham Van Dong that there was enough wood for a paper mill producing 100,000 tons. (Interview with Nguyen Van Kha, Hanoi, March 1998)

security costs of doing a detailed inventory were also prohibitive. Finally, the division of labour among the ministries made it difficult for MoLI and the State Planning Commission to question repeated assertions from Ministry of Forestry (MoF) to the effect that the raw material supply would be “sufficient”.

In the same manner as the discussion about “sufficiency”, the Vietnamese authorities probably underestimated what it would take to *extract and deliver* the quantities of wood involved. A strange feature of the 1974 agreement was that the Ministry of Forestry was given the responsibility for this – the Achilles’ heel of the venture, without being a direct party to the agreement. The Swedish, for their part, had only an auxiliary role, which included providing equipment for building forest roads, wood harvesting and transport, and advice on planning. The role of the MoF was to assign annual production targets to state and provincial forest enterprises within the RMA, for delivery to Bai Bang. The system never worked to the satisfaction of MoLI, nor SIDA, and the late 1970s and early 1980s were particularly difficult. In fact, from a wood supply point of view, it was fortunate that completion of the pulp mill was delayed.³⁰⁵ Later, the number of stoppages of the mill because of an empty woodyard was actually small. Other problems, like coal, stood in the way. However, an uneasy feeling, especially on the Swedish side, that there would not be enough wood in the future was there all the time. Among all the discussions and decisions surrounding this problem, we shall focus on three of them: finding the proper tree species for the pulp, organising the supply chain from forest to mill, and understanding the reasons for inadequate supplies.

Finding enough of the right trees

Paper is generally produced from a mixture of pulp from long- and short-fibre wood species, a formula that gives strength as well as opacity. The initial concept was to use indigenous species entirely – no import of pulp and no exotic trees. *Stryax tonkinensis* (a fast-growing hardwood tree) would provide the bulk of the short fibres and different varieties of bamboo the long fibres. In his first visit to Vietnam, Jaakko Pöyry’s Magnus Spangenberg, the forest industry adviser to SIDA, was quite optimistic about the availability of these species. Later he came to question this assumption, to the point of becoming a thorn in the eyes of the “industrialists” in the State Planning Commission and MoLI in Hanoi, as well as the Ministry for Foreign Affairs and SIDA in Sweden. To be on the safe side, the parties agreed in 1974 on a very large raw material area to serve the mill, in the provinces of Vinh Phu, Ha Tuyen and Bac Quang. This did not, however, resolve the basic question of whether there would be enough of the right tree species when the mill needed them.

The forest inventories done in 1971–73 at the request of SIDA documented vast areas of naturally growing bamboo, but only small areas of hardwood plantations. Hence, it was planned to start with a high ratio of bamboo (80 per cent) in the pulp, reducing the proportion gradually as the new hardwood

³⁰⁵ Hjalmarsson 1982, p. 41. He was responsible for start-up of paper production, working in Bai Bang from August 1979 to June 1982.



Collecting *Styrax* for transport to Bai Bang. Water buffaloes were invaluable in the rugged terrain of Ham Yên. Photo: Heldur Netocny/Phoenix

plantations of appropriate species could be harvested. Soon, however, the Swedish foresters also started to question the reliability of the bamboo supplies. Finding the right species and the right mix turned into a long process of trial and error, mainly the latter. Why was it so difficult in Bai Bang – this being normally the first factor to be nailed down in any pulp and paper project?

Based on international experience, the experts from Jaakko Pöyry confirmed during their first investigations that the bamboo had good fibre, and concluded with a recommendation to start with bamboo, but then to develop *eucalyptus* as the future supply for the project.³⁰⁶ Later they reported major disadvantages with bamboo: the range of paper qualities would be limited, and extraction and transport costs would be high.³⁰⁷ Furthermore, supplies were uncertain if competition with other uses – especially house construction – and problems

³⁰⁶ Pöyry & Co 1971.

³⁰⁷ Pöyry & Co 1974, Para 3.2.1.

of access were taken into account. The idea of eucalyptus plantations, apparently, did not sell in Vietnam, where influential foresters at the time were worried about the environmental effect of cultivating eucalyptus.³⁰⁸ The prevailing sentiment was that bamboo was available in sufficient quantities, and more *Styrax* would be planted.

It is important to recall that Jaakko Pöyry was never given the opportunity to make a complete inventory of the proposed raw material area (RMA). As discussed in Chapter 2, this was too sensitive for a country at war. The Vietnamese reactions included apparent formal compliance and subterfuges: “[W]e should fulfil our counterpart’s requests punctually . . . [to] make them believe in our commitment. They wanted to see a forest and we showed them Cuc Phuong – a national park”, one official reported.³⁰⁹ When Spangenberg in 1972 started to argue that the available forests might only suffice for a mill of about 35,000 tons capacity, the Vietnamese reaction was stern. “I think this debate may continue,” Vu Tuan told Spangenberg, “but you should believe that Vietnam has enough materials for the factory . . . there is no reason to decrease [the mill’s] capacity.” However, he assured Spangenberg that the planting of *Styrax* would start immediately “on tens of thousands of hectares per year”.³¹⁰

When Jaakko Pöyri completed the feasibility study in 1974 it was based on the bamboo–*Styrax* mix as the fibre for the pulp. In the meantime, however, Vietnam had come to share Swedish concerns about the availability of the short fibre supplies (i.e. *Styrax*) in the short run (i.e. at the assumed start of pulp production in 1979) as well as in the long run. The quantities of planted *Styrax* were far from what Vu Tuan, Vice-Minister of MoLI, had indicated in 1972, and there was even less of *Mangletia glauca* – a similar hardwood species that had been identified.³¹¹ There were no natural hardwood forests available for the project, because of distance and topography, as well as the need to preserve some of the natural forests. Adding to the Swedish concerns, were the observations that the impact of shifting agriculture was much more severe than previously believed.³¹² The paper experts also believed initially that *Styrax*-fibre was not so good for paper.³¹³

The botanical characteristics of bamboo, being a grass species and not a tree, added to the uncertainty. Bamboo flowers at long intervals of 20 to 40 years, after which the stems decay and become unsuitable as fibre material. The time of flowering is unpredictable. In August 1973 two smaller bamboo species flowered in Ham Yen, and the big threat was the flowering of the large bamboo – the *Nua*. That would come to pass in 1976.

With these uncertainties in mind, the Swedish experts pushed from the beginning for an enlargement of the RMA. When Nguyen Van Kha of the

³⁰⁸ Interview with Dr Nguyen Huy Phong (FIPI).

³⁰⁹ MoLI document, *Minutes of the meeting No. 78/CNn.TCHC*, 15 April 1971. National archive, Hanoi. (Our translation)

³¹⁰ Minutes of meeting, April 12 1972. (Our translation)

³¹¹ Both *Styrax* and *Mangletia* are fast-growing, deciduous trees that normally appear as pioneer plants on fallow swidden land.³¹² SIDA memo, from Industry Division/Blomkvist, 5 April 1974.

³¹³ Later tests abroad (1980) showed this concern to be unwarranted.

State Planning Commission visited Sweden in September 1971, he confirmed the government's intention to make Ham Yen, the area north of Bai Bang towards the Chinese border, the raw material area. By that time, inventories had just started in Yen Bai, much closer to the proposed mill site, but were discontinued as Kha intervened. The central area in the RMA from then onwards was Ham Yen. Later, the adjacent Bac Quang was added. When Swedish forestry experts judged even that insufficient, the Vietnamese in March 1973 agreed to add two more areas (Yen Son and Chiem Hoa). Yen Bai again entered the picture in the final negotiations on a project agreement in 1974 – talks which turned into a numbers game between MoF and the SIDA consultant (see Box 5.1). Apparently, the discussions never dealt with the underlying rationale for selecting the particular areas in question. SIDA was mainly concerned with size.

It may seem curious that Yen Bai was not retained as a primary RMA. Not only was it initially included, but, according to Vice Minister Son at MoF, it had good forest plantations. The initial work done in this area by Swedish forestry experts also had found it to be promising.³¹⁴ One apparent objection was that Yen Bai was already allocated to other purposes (e.g. the small Chinese-built paper mill in Viet Tri). Another reason could be that MoF wanted Swedish assistance to open up new forest areas, in effect using the mill as a lever for forestry development. This would also explain why the forestry component of the project put in place in 1975 focused overwhelmingly on infrastructure. Most of the budget was spent on road building, and only a small part on developing new plantations. Silviculture and forestation received less than one-fifth of the Swedish contribution to forestry. Nguyen Van Nam, former manager of Technical Department, confirms that MoF in the beginning was little concerned about the long-term survival of the mill.³¹⁵

Box 5.1: Negotiating the reality – counting the trees

Vietnam and Sweden used different estimates over the existing bamboo and hardwood resources, but no one had reliable data. As a consequence, the negotiations in 1974 descended into a rather absurd squabble about what should be the official figure.

In a heated meeting on 17 June Gunnar Pettersson from WP told the Vice-Minister Mr Son from MoF that “the figure in Vietnam's calculation is a bit too high. The reliable figure is perhaps somewhere between the Vietnamese and Swedish calculations. So I propose to take the average figure as basis for discussion.” Son for his part agreed to “borrow” certain reserve areas in the districts of Yen Bai and Chiem Hoa to accommodate the Swedish need for a higher estimate. He added that in Yen Bai there were very good forest plantations, and Pettersson was welcome to come and see for himself. Pettersson seemed puzzled by this statement: “So you also plan to use the plantations in Yen Bai for Bai Bang?” “No, this is only a temporarily borrowed reserve area”, Son replied, and ended the discussion by suggesting that one should start immediately with road construction in Ham Yen and Bac Quang.

Source: Minutes of the meeting, as recorded by MoLI, National archive, Hanoi (our translation)

³¹⁴ SIDA memo, minutes from meeting of SIDA's Project Group, 2 November 1973. Sida archive.

³¹⁵ Interview with Nguyen Van Nam, Hanoi, March 1998.

A picture emerged of a forestry component suffering neglect from both sides. On the Swedish side, it received little attention from the Vietnam Group in SIDA, and the same applied to WP-System. Their attention was mainly on construction. There was lack of co-ordination as the responsibility was split up among different consultants: WP-System was responsible for forest road construction, while it subcontracted Silviconsult Ltd. for the plantation part and later Interforest AB (a firm belonging to the Jaakko Pöyry Group) for harvesting and transport. There were no functioning counterpart arrangements with the Vietnamese side. The Swedes worked in an enclave, with little information and no influence on what happened with the forests and plantations that the mill was going to depend on.

In the meantime, the idea of using pine matures. The origins of the switch to pine as a source of long fibre, to replace bamboo, are uncertain. In Jaakko Pöyry's final feasibility rapport of 1974 the bamboo–*Styrax* approach seemed settled. Yet the idea of pine plantation appears in Jaakko Pöyry assessments as early as in 1971,³¹⁶ and in mid-1972 Kha has also come to recognise pine as a possibility. He asked ambassador Öberg about the possibility of Swedish assistance on a large-scale plantation programme involving half a million ha over 10–15 years, half of it pine.³¹⁷

The Swedish company that had been contracted in 1974 for the plantation programme, Silviconsult, advocated from the beginning the idea of introducing pine. Pine plantations could be developed on barren land close to the mill, and exclusively under the management of the mill. This would have obvious advantages compared to the scattered sources of bamboo. Silviconsult carried out extensive provenance trials during the first years, and already in its first year on site they recommended reducing the estimated requirements for bamboo supplies and the share of bamboo in the pulp mix. The pulp mix is an important design criterion for the pulp process, and any changes would result in additional work to modify the pulp mill.

During the 1970s both natural forests and plantations were neglected. As a result, the density of bamboo fell rapidly, and the *Styrax* and *Mangletia* plantations promised for Bai Bang were also heavily decimated.³¹⁸ The 1970s and early 1980s was a period of extreme economic hardship and the government did not stop people from making settlements in the hills and mountains, and MoF was unable to protect the designated Raw Material Area. People of ethnic minorities clearing new land burned large forest areas.³¹⁹ The migration of people from the lowlands further increased the pressure on the existing forest. Since MoLI and SIDA trusted that pine would provide the ultimate solution, they did not raise any alarm. Ironically, this process of forest degradation was helped by the construction of Swedish-financed forest roads.³²⁰

³¹⁶ Spangenberg 1971.

³¹⁷ MFA document, cable from embassy (Öberg) to MFA, 6 June 1972. MFA archive.

³¹⁸ Interview with Nguyen Hon Phon, Hanoi, March 1998. He informed that in 1972 there were 10,000 stems of bamboo per ha in the bamboo area of Ham Yen. In 1984 this had dropped to 4,000.

³¹⁹ Interview with Nguyen Van Hung.

³²⁰ Interview with Lindberg, Stockholm, August 1998.

When the bamboo flowered in late 1976 and in 1977, the number of stands of the main species, the large *Nua*, was reduced by a half. The long fibre supply was now in jeopardy. Had the flowering areas been allowed to regenerate naturally, new bamboo would have been available in 7–10 years, but the local authorities decided to burn the areas and establish *Syrrax*.³²¹ However, as there were no workers to weed the new seedlings, many of these died, leaving barren hills behind. The situation triggered the first official reformulation of the pulp mix – reducing the share of bamboo. This happened, however, at a time when pine plantations were still at the experimental stage. In late 1978, therefore, the experts planned that the pulp mill would have to start with 100 per cent hardwood (i.e. now anticipated to be in early 1982).³²² It was estimated that after 4 years, bamboo supplies should have picked up to constitute 40 per cent of pulp production at full capacity.

However, this was not the end of the species and pulp-mix issue or, rather, confusion. When the new project agreement was negotiated in 1980, the foresters had again changed their minds. This time it was decided to start with pure bamboo. The experts believed that it would be difficult to get the hardwood harvested in time, because new forest roads had not been built to reach the now mature *Syrrax* and *Mangletia* plantations established in the late 1960s. An additional concern was that they did not know how to store hardwood for longer periods. Bamboo would deteriorate more slowly and hence would sustain the long transport better.

In a 1982 report very critical of the whole forestry component, the project leader of Interforest, complains that

*during the past 6 years there have been many experts in charge of different sections and the entire project. All these experts have had their own opinion of how to solve the problems. . . This has created a confusing situation where all new assignors have started nearly from the beginning and not continued the work of previous experts.*³²³

The flowering of the bamboo moved Silviconsult to intensify the planting of pine (*Pinus caribea* was the most promising). This turned out, however, to be a blind alley. What had looked very promising under close supervision in the experimental plantations in Bai Bang, proved difficult to replicate in the field. Large nurseries were established, but the Forest Research Centre (FRC)³²⁴ was unable to get the large quantities of seedlings out in time. Planting was not done properly, and the young trees were not protected from grazing animals. “People even cut pine for decoration in their homes.”³²⁵ The forest enterprises that were supposed to buy seedlings from FRC’s nurseries had no budget allocation for this. There were also ecological problems in the form of fungi and insects. All in all, the survival rate was extremely low.

³²¹ Scanmanagement 1990, p. 36.

³²² SIDA memo, from Finn Knudsen, member of SIDA’s Project Advisory Council, 11 December 1978, outlining a plan for the wood supplies. Sida archive.

³²³ Interforest/Lindberg 1982.

³²⁴ This was the counterpart organisation to Silviconsult, formed as a department of the Seed Company of MoF.

³²⁵ Interview with Lindberg, Stockholm, August 1998.



*Pine did well during test, but failed under field conditions.
Photo: WP-System archive*

The pine had clearly been a Swedish initiative. Some newspapers in Sweden referred to the pine in Bai Bang in patriotic terms. Not only did Sweden give Vietnam Swedish paper technology; it even demonstrated the virtue of the most Swedish of all trees. “Pine is a better raw material than bamboo”, said one headline, adding with admiration that its rapid growth in Vietnam would make a Swedish forester “green with envy”.³²⁶ Of course, Silviconsult did not promote pine for sentimental reasons, but given that ten years later the pine experiment was abandoned, a question can be raised as to why such a risky experiment received this much attention. On the Vietnamese side there was

³²⁶ Headlines in *Nya Wermlandstidningen* May 29, 1979, from *Frühling* 1981, p. 15.

scepticism about a single-minded focus on pine,³²⁷ but for some reason the parties were not able to communicate about a more indigenous approach based on further development of local species and planting techniques.

The case illustrates a phenomenon common to many aid projects. The foreign expert reacts to a problem with the technical solutions known to him. Re-learning takes time in a totally different environment. The cultural and institutional isolation of the forestry expatriates in Bai Bang made the learning curve even longer. The language and other communication problems were almost insurmountable (see Box 5.2). The role of the foreigners became limited to experimentation in and around the expatriate enclaves in Bai Bang and Ham Yen. They neither had the professional knowledge of, nor institutional access to, the management of the rapidly deteriorating natural forest, and ways and means to improve planting of *Styrax* and bamboo.³²⁸

Box 5.2: Institutional misfit

The role of the Swedish experts was far more difficult in the forestry area than in the mill where the Swedes had more influence. Tord Lindberg of Interforest describes in diplomatic terms the arrival of a new expert in 1981:

[T]he transfer of information to the new silviculturalist could not be made in a proper way. He had to start with investigations about what was planned and agreed upon, but as there were no detailed plans available no real continuation could be done. . . No firm policy could be found for the future planting programme.

Continuity need not be a problem in the absence of written plans and policy. Why could he not ask his counterpart organisation – after all it was that organisation that was supposed to ensure continuity, rather than the outgoing expert? This is only one small example of the formidable communication problems that existed between the Swedish and Vietnamese worlds in Bai Bang – perhaps the worst case in the history of Swedish technical assistance.

Source: Interforest/Lindberg 1982.

With the vanishing natural bamboo forests and unreliable hardwood plantations, in early 1980s Scanmanagement now pushed for a separate plantation programme outside the authority of Ministry of Forestry. The organisational question had now come to the forefront. As to the choice of species, pine was dropped completely, and attention turned to the previously despised eucalyptus.³²⁹ Attempts to establish eucalyptus on barren hills had been successful, though not without using heavy machinery – rippers – to break the laterite hardpan typical of degraded tropical soils. Bai Bang had turned full circle and was back to the first ideas of Jaakko Pöyry.

³²⁷ Interview with Dr Nguyen Huy Phon, Hanoi, March 1998.

³²⁸ In 1986 they started to use methods for vegetative propagation of bamboo based on old local techniques. There are expectations that this will eliminate the flowering problem.

³²⁹ The reasons why the Vietnamese for many years turned down the idea of employing eucalyptus are not fully understood. According to Pöyry the climate of Bai Bang is ideal and a mere 20,000 ha of well-managed eucalyptus would suffice for the mill.

It is difficult to pinpoint anyone on whom to affix blame for the great confusion in the selection of species. “Nobody seems to know how or why eucalyptus and pine were selected as the species for the future.”³³⁰ Some experts even pointed out later that it is not a technological imperative to have a mix of long and short fibres – either one can do the trick. Although clearly a technological project, Bai Bang also suffered from its technological bias. The approach was to take a certain technology as given, and seek to adapt resource use and social organisation to this technology. The alternative of taking the available resources and social organisation as critical constraints and adapt the technology accordingly, was not seriously pursued, but might well have been more viable.

During the 1980s it was gradually realised that eucalyptus as well, for different reasons, would be unable to provide a solution. It was evident that the method of establishing eucalyptus plantations on barren land, using heavy machinery, could not be replicated without Swedish assistance. Furthermore, Vietnam’s forestry experts, questioning the idea of large monocultural tree plantations, were now abandoning the search for a single-species solution. This must also be understood in the context of the emerging land tenure reforms in forestry, allowing individual farmers to manage woodlots on long-term lease arrangements. At the Forestry Inventory and Planning Institute (FIPI) today, the experts advocate focusing on biodiversity and what works for the farmers to ensure sustainable supplies of forest products.³³¹ In this sense, Bai Bang contributed to a broader learning process in forming current forestry policies in Vietnam.

Although the woodyard at Bai Bang Paper Company in recent years has seen ample supplies from private farmers, bringing in a variety of species – bamboo, *Styrax*, eucalyptus and recently introduced *Acacia* species – the fibrous raw material problems are not over yet. According to the General Director, it gives a false sense of prosperity. Imported pulp now has to be added to get the quality needed to run the machines at full capacity. The quality of the local pulpwood is not good enough. The mill will also have to secure supplies for the future from several other provinces, by far exceeding the original Raw Material Area. The current plans for expanding the mill to 100,000 tons will only reinforce this. It remains to be seen whether the current mix of a freer market and emphasis on social forestry will provide a lasting solution, or the ideas of large scale plantations again will be revived.

Getting wood to the mill

On the Vietnamese side the attitude is still that the forest resources are sufficient. Dr Nguyen Huy Phon at FIPI, who has been with the project since 1971, is very clear on this point. The real problem was never the quantities out in the forest; it was institutional and social factors that constrained the supply. When

³³⁰ L-E. Birgegård, *Överväganden inför ett fortsatt engagemang i skogen*, memo to SIDA. September 1984.

³³¹ Interview with Nguyen Huy Phon, Hanoi, March 1998.

the *doi moi* reforms from 1990 onwards allowed the mill to buy from any wood seller, the management of the mill could shift its attention from controlling supply chains to getting the prices right. It is part of the story that the improved prices also encouraged substantial illegal felling of trees in state forests.

That the new market was a more effective supply mechanism than the state planning system, was amply demonstrated in 1996. The *Vietnam Economic Times* reported in April that the Bai Bang Paper Company's woodyard was bulging with surplus stocks, the explanation being that there had been too much felling because people needed money for *Tet* celebrations.

Before this turnaround, there had been a long and difficult tug-of-war between MoF and MoLI over control of the forestry part. Even with the full backing of Sweden in periods, MoLI was never able to come out on top. Inter-ministerial rivalry determined the organisational context on the supply side. Technologically it seemed a straight forward issue. The supply chain for bamboo and wood – from stump to mill gate in the experts' lingo – was a concern from the beginning, but mainly in a technological sense: what would be the most efficient and appropriate way to fell the trees and bamboo, bring the logs out of the forest and onto a means of long-distance transport? There was an implicit assumption that the existing technology could not cope with the volumes required. The organisational aspects of this were largely unknown to SIDA, which left it to the Vietnam side to handle. While the Swedes became immersed in testing and implanting various technologies known to them, the organisational quagmire on the Vietnamese side made rational planning and implementation virtually impossible. This is well illustrated in the implementation of the harvesting and transport programme in the late 1970s



Construction of a forest road near Ham Yên, using heavy machinery from Sweden.

Photo: Heldur Netocny/Phoenix

and early 1980s and the Swedish attempts to allow the mill to control its own plantations.

When Sweden moved into the remote hills of Ham Yen with heavy road equipment, Scania trucks and Krabat tractors, chainsaws, and mechanical winches from Norway, this was welcomed by Ministry of Forestry. Both parties were driven by a strong technological bias. Gradually the foreign experts came to look for “small-is-beautiful” solutions, but even the attempts to introduce Scandinavian handtools like bow saws and axes, and the design of better buffalo harnesses, turned out to be technological improvements that could not be sustained without aid. There are several examples of technology selection processes that started out as rather sophisticated imported solutions and ended up being a modified version of local technology, like the rafting of bamboo down the Song Lo River. Yet it is amazing that MoF at no point tried to steer the Swedish harvesting and transportation programme towards more locally adaptable solutions.

One explanation is that the forestry bureaucrats favoured the imported equipment, although they should have been aware of the enormous problems of operation and maintenance that it entailed. There were times when almost the whole machine park was grounded from lack of maintenance and spares.³³² Another explanation is that MoF had little influence on what WP-System actually decided to import. In fact, MoF had no representation in the joint Procurement Group and the Project Management Board; the latter was manned by MoLI personnel only. The result was an approach far removed from the reality of the farmers and forestry workers, the majority of whom were women. To succeed, technological innovation to improve efficiency should have started at their level. Ironically, it was not until the Swedish minister of industry inadvertently started the “forced labour” debate in Sweden, that SIDA and MoF started to address the people’s issue (see Chapter 6).

This slow learning cannot be blamed on the Swedish consultants alone. SIDA, through the Industry Division and the Vietnam Group, for a long time looked at Bai Bang strictly as an industrial project. The goal was to produce paper – full stop! When in the late 1970s the Swedish forest road advisers advocated giving assistance to the villages through which the roads were passing in the form of water dams, small buildings, and other local infrastructure, SIDA objected.

If MoF had limited influence on the choice of technology, the situation was different with respect to its use. In August 1978 WP-System listed a number of complaints they wanted to discuss with SIDA. One theme ran through it all: we are not properly involved. There is no proper counterpart, either at the higher level or in the work of the individual advisers. WP-System wanted more influence on the use of road equipment, selection of personnel for training, planning of raw material supply, and which roads to build.

³³² This was in 1981–82, according to Hjalmarsson 1982.

By 1978, MoF had built only 20 km of the 100 km of forest roads planned, according to WP-System.³³³ This did not prevent the planners from creating a grand plan to build 1000 km of main forest roads and 750 km of feeder roads in five years from 1978. Not surprisingly, this turned out to be wishful thinking. At the end of the period, according to Interforest reports, the mileage had increased to only 80 km of new roads and 95 km of upgraded old roads. Besides lack of fuel and maintenance of equipment, the main problem reported was lack of manual workers. Ham Yen is not a densely populated area, and local farmers had other priorities than poorly paid road works. “To complete the work we would have had to apply real ‘forced labour’”, Lindberg of Interforest commented wryly.³³⁴

That the problems encountered not only had to do with choice of technology is illustrated by the *organisational problems* associated with selection of road alignments. Hardly any of the roads identified, according to the Swedes, could be regarded as forest roads.³³⁵ In 1978 only 5 km were genuine forest roads, and similarly in 1982, Interforest claimed that many of the roads were actually “social roads” – not meant for access to forest areas. The situation reflects a difficult political process on the Vietnamese side. To attain consensus on road priorities, many parties were involved at the national and provincial level and in different ministries and the military. Mill priorities were submerged in this political struggle, and neither MoLI nor SIDA/WP-System/Scanmanagement could prevent it. The slow progress was also due to the fact that the Ham Yen/Bac Quang area after 1977 was put under military control. It was now very difficult for MoF to function in the area. In that period, several roads were built by demobilised soldiers using non-mechanised methods.

SIDA also got involved in an argument with Vietnam about the width of road bridges, suspicious that Vietnam used military specifications allowing for tanks to pass. WP-System also reported that off-road transport was likely to be a major bottleneck, since there were far from enough buffaloes. Similarly, they also questioned whether MoF had any plans for long-distance truck transport. “The summary shows that except for certain preparatory activities the forest project has been paralysed.”³³⁶ Six months later the mood was even more pessimistic, and WP-System warned SIDA that it would be impossible to secure deliveries of wood by the target date for completion of the pulp mill – April 1981. The main problem was the slow pace of road construction and the total lack of collaboration between the Vietnamese and Swedes in planning and organisation.³³⁷ It was likely that the pulp mill would remain idle for 1–2 years.

The problems were eventually recognised at higher levels in government. There was a genuine concern that Sweden might pull out too early for Vietnam to manage the raw material supply on its own. In November 1978 the Ministry

³³³ MoF had established a new enterprise to do this job – Forest Zone Construction Community (FCC).

³³⁴ Interview with Lindberg, Stockholm, August 1998.

³³⁵ WP-System memo, from Erlandsson, 24 August 1977.

³³⁶ Interforest/Lundell 1979.

³³⁷ WP-System, letter from Erlandsson to SIDA/ID, 2 February 1979.

of Foreign Trade sent its official request for added support to forestry, in addition to operational support to the mill.

When pulp production came close to reality, the plantation programme had been declared a failure, and the only option was to get access to as much as possible of the Ham Yen/Bac Quang area. In 1979, MoF established a separate company for logging in this area – Ham Yen Bac Quang Forest Company (HBFC), in response to pressure from SIDA. This created some optimism that an organisational breakthrough had been achieved. Further reinvigorated by the arrival of Scanmanagement on the Swedish side, the first Review Mission team (September 1980) underscored this optimism, but stressed the importance of effective co-ordination between forestry and industry.³³⁸ The other important issue was the need to minimise transport time, since the quality of wood quickly deteriorates in a warm and humid climate. It was recommended to use Swedish support to increase the number of buffaloes. There was no mention of the scarcity of wood, or roads going in the wrong directions. To the contrary, the delays in construction have had a positive effect on increasing the growing stock, the mission concluded.

The problems remained the same, and Scanmanagement later complained that the HBFC model caused MoF to concentrate almost all Swedish resources on this company and area and to neglect others.³³⁹ Even so HBFC was able to supply only half of what was needed.³⁴⁰ The alarming situation and the desire to demonstrate that the mill could work prompted Do Muoi into action once again. At a special meeting in Bai Bang in July 1982 he ordered ministers and provincial chairmen to take special action to supply wood, coal, limestone, rosin, alum, salt and kaolin. He even told the mill director, Trinh Ba Minh, to look around the table and remember the faces and promises of the men sitting there.³⁴¹ It did work for a while. Even soldiers were mobilised to bring in wood. This was only the first of several occasions when a supply crisis is temporarily overcome by the remarkable ability of the Vietnamese system to respond to calls for campaigns.

However, the mill-forestry relationship did not improve. As with WP-System, it also became increasingly difficult for Scanmanagement to get reliable information on the growing stock, and the linkages between the limping road building programme and timber resources remained tenuous. The crash programme started by Scanmanagement in 1980 to speed up road construction, including bringing down Swedes to operate road machinery, did not have the anticipated effect. Besides, more and more observers started to question the cost-benefit of the road programme. A Review Mission in 1984 estimated that the cost per km was five times higher than in Sweden, and roads sometimes went to areas with very little bamboo.³⁴²

³³⁸ *Review Mission September 1980*, Annex 7. SIDA replaced the Project Advisory Council with a new system of bi-annual review missions.

³³⁹ Scanmanagement 1982.

³⁴⁰ MoF reported in August 1982 that HBFC would not be able to supply all the wood needed for the next few years.

³⁴¹ Reported by Scanmanagement/Lindh based on information from Trinh Ba Minh, General Director at Bai Bang.

³⁴² *Review Mission October 1984*, p. 29.

The search for technical solutions to the supply problem finally started to fade. In Sweden, SIDA looked for advice in the upcoming rural development profession, in particular from one of its most vocal spokespersons at the time – Lars-Erik Birgegård. In his proposal for further analysis of 1983 Birgegård suggested two studies: one on the socio-economic factors that influence labour productivity, and one on the role and function of the many organisations involved.³⁴³ SIDA accepted the first, and triggered a renewed debate in Sweden on labour conditions in Vietnam (see Chapter 6).

The second study was not commissioned, possibly because SIDA had become tired of trying to understand the Vietnamese organisational world.³⁴⁴ The pendulum had swung. To use an analogy frequently invoked by Scanmanagement's Project Director Sigvard Bahrke for the 1985–90 period (see Chapter 8 and Box 8.4: The driving lesson), it started in 1975 with the Swede in the back seat giving advice to MoF subsidiaries on how to drive. (Some would even say the Swede was driving another car entirely, trying to overtake and shout his message across.) As the trip progressed the Swede became increasingly uneasy with the route as well as the slow speed. He first raised his voice, then climbed into the front seat next to the MoF driver. But when he asked for the steering wheel, the driver refused. The Swede realised that driving himself was probably not such a good idea after all, not being familiar with the roads or the car, and decided to return to the back seat again, but on one condition. He wanted a new car and a new driver, and only then would he continue to cover the fuel bill.

Moreover, the Swedes wanted the new driver to be MoLI, and the car should be the “formation of a Vietnamese organisation to direct and handle the mill, forestry, import and other project activities”.³⁴⁵ The principle was that “the Vietnamese authorities must be made fully responsible for the forest production. In no other SIDA forestry project the Swedes have the same half-executive role as in Bai Bang”.³⁴⁶

When negotiating a new project agreement in 1985, SIDA again played its conditionality cards, and an integrated organisation was one of demands. In Chapter 8 we describe this in connection with the phasing out discussion. Although SIDA concluded that Vietnam complied with SIDA's demands, this seems exaggerated. The outcome in 1986 was yet another MoF construction – this time called the Vinh Phu Service Union. It remained as independent of the mill and MoLI as its predecessors.³⁴⁷ The only notable difference was the formation of a co-ordinating board. In practical terms there was no improvement, not until the market reforms did away with the monopoly of the Service Union as the sole supplier of wood to Bai Bang.

³⁴³ L-E. Birgegård 1983.

³⁴⁴ In a way it came later as a bi-product of the labour conditions debate, when SIDA in 1987 commissioned a comprehensive study of labour conditions in the forest enterprises, headed by Liljeström (Liljeström, Fforde and Ohlsson 1987).

³⁴⁵ Letter from SIDA-Hanoi/Öström to MoLI, 21 November 1984. Sida archive.

³⁴⁶ SIDA memo, notes by SIDA-Hanoi in preparation for new project agreement, 20 November 1984. Sida archive.

³⁴⁷ It had started with Forest Zone Construction Community – FCC (1975–79), followed by HBFC (1979–83), which again had been replaced by Bac Yen Union (1983–86).

Were there any alternatives that could have forged a more rational form of co-operation between the industry and forestry parts of Bai Bang? As discussed earlier (Chapter 3), Sweden and Vietnam had agreed that Bai Bang needed MoLI as a lead agency from the very beginning. Other ministries, and they were many, would provide their contributions under MoLI's co-ordination. There were two important consequences of this decision for the forestry part. Firstly, the Ministry of Forestry had to relate to MoLI on a day-to-day basis, based on a series of smaller contracts, agreements and joint plans. It was a model that made sense in the private sector in Sweden, while in Vietnam, the model fundamentally contravened the hierarchical and segmented command structure of vertically separated ministries and departments. They only accepted orders from above, and MoLI being moreover a weak ministry had extreme difficulties performing its intended role. The second consequence was that MoLI became the recipient and owner of all equipment supplied by SIDA (this changed in 1980). This undermined institutional responsibility and ownership.

It is difficult to say whether a different set-up would have worked better. Had MoF been given a direct and explicit contractual responsibility for delivery, e.g. through the 1974 agreement, this might possibly have led to earlier attention within MoF to organisational matters and efficiency, and to a better utilisation of the Swedish support. On the other hand, the rigidities of the central planning system of Vietnam would have remained the same. It was conceivable that Bai Bang could have based its supplies on an industrial forestry approach much in the same manner as adopted, for instance, in Brazil at the same time – as actually proposed by Jaakko Pöyry which was also a leading consultant for that project. Vietnam, however, never wanted or was not properly aware of this experience – based on large-scale eucalyptus farming. Probably it was a wise decision, given the social and political realities on the ground, but the problem was that the grand idea about modern industrial forestry was kept alive among the project decision-makers on both sides. This is visible in the types of Swedish consultants mobilised in the project and the working methods that they brought in. It is also visible in MoF's priority for equipment and roads.

This technological bias survived much longer than it should, thanks to a closed-circuit decision-making process where social and institutional analysis was not a household term. The MoLI–MoF divide made no difference. The fact that Vietnam had promised to supply the mill through a poorly organised system of small forest enterprises – being little more than peasant collectives providing cheap labour to the state in exchange for a secure but basic livelihood, took a long time to surface. However, words like “enterprises” and “plantations” exuding efficiency and large-scale, had little to do with reality. The closed circuit opened only when the supply crisis was imminent.

One lesson is the need to include social and institutional analysis from the beginning. In fact, it is in the beginning that such analyses are most useful. They cannot guarantee success – as noted by SIDA/Hanoi, “we cannot undertake studies and then be certain that we do the correct thing”.³⁴⁸ But

³⁴⁸ SIDA memo, notes by DCO in preparation for new project agreement, 20 November 1984. Sida archive.

they probably would have reduced waste – and the forestry component certainly wasted a lot.

Where is all the timber going?

Vietnam had “golden forests”, as a Vietnamese proverb goes, but harvested wood was a scarce resource. Some have estimated that close to half of all the wood and bamboo harvested for Bai Bang disappeared or was damaged on the way.³⁴⁹ There was a lot of theft, probably mostly in the form of illegal transactions by people in the system. The black market prices for firewood and timber for house building far exceeded the official prices at the mill gate, which was probably lower than the actual production costs of the forest enterprises. The element of Swedish support was quite low for many of the enterprises, and for the provincial ones there was none at all. MoF owned the Swedish equipment for forestry, and the provinces in the beginning had to pay for any Swedish equipment they received.

It was in the early 1980s that explanations to the raw material shortage started to shift from a purely technical (not enough trees) and organisational perspective (wrong ministry in charge) to social and economic ones. The expatriates working on the forest roads had for years observed the terrible conditions in many new forest settlements. They assisted in various practical ways, although SIDA did not officially support this. The industry people, on their side, now strongly advocated support to develop a fully-fledged township for its workers. The question on how to improve labour productivity came firm on the agenda, and Scanmanagement wrote at the end of 1982: “the root to most of the problems we face today is to be found in the socio-economic structure.”³⁵⁰

The impact was first and foremost in the justification for social welfare initiatives in connection with the industry – viz. staff housing, free lunches and salary reforms. Scanmanagement was behind most of these initiatives.³⁵¹ Vietnam for a long time resisted these reforms, primarily on the grounds that they did not want Sweden to sponsor a “labour aristocracy” in Bai Bang. The central planning system also made it very difficult to transfer surplus and benefits directly between sectors. Government officials interrogated the General Director, Trin Ba Minh, when he in 1984 arranged for distribution of rice, clothes, and mosquito nets to forest workers. “I did something very bad”, he later said. He had traded the commodities outside the system, which by now was very common. “Do Muoi did understand, we had to do something drastic with the labour productivity problem. Drivers drove 8 km with big tractors to get a cup of tea.” According to Minh, Vietnamese forest workers only produced 0.2 tons per day, compared with 90 tons in Sweden, and the level of mechanisation alone could not explain the difference.³⁵²

³⁴⁹ Interview with Lam Van Minh, Hanoi, January 1998.

³⁵⁰ Scanmanagement 1982.

³⁵¹ Interview with Tran Ngoc Que.

³⁵² Interview with Trin Ba Minh, Hanoi, March 1998.

Productivity improved when in 1986 the mill was allowed to buy its first bamboo directly from a private farmer. Two years later Vinh Phu Service Union was no longer responsible for supplying Bai Bang. The mill arranged its own wood purchases, even though it was not yet properly organised for this. In June 1987 the Prime Minister decided to form a task force to make recommendations for reforming the management of the raw material area for Bai Bang. It was headed by the State Planning Commission, and comprised officials from several government agencies. This led to a decision in December that, *inter alia*, established a new mechanism for the allotment of forestry land to both state owned forestry farms and private families, and let them run it as a business.³⁵³

In Sweden the time was also ripe for change. The forced-labour debate had sharpened the focus on social issues, and there was a strong trend in the international donor community towards “social forestry” and “area development”. Only a year after the Birgegård study and the active intervention of the agricultural office of SIDA, the project took a new course.³⁵⁴ The Plantation and Soil Conservation Project was born, and passed the now so critical eyes of the Swedish Parliament without any problems, at a time (1985–86) when the industrial component was struggling to get through.

In retrospect, the Swedish aid to Vietnam’s forestry sector can be divided into three phases, illustrating the gradual shift towards a more people-focused approach. The first phase – 1974–85 – was the unsuccessful attempt to transform a forest bureaucracy into an industrial forestry sector by means of investments in planning, inventories, research, transport, and improved harvesting technology. In the second phase from 1986 to 1991, the focus shifted to plantations and conservation, but still mainly targeting public enterprises. Only from 1992 onwards do we see a complete move towards a comprehensive community development approach linked to the rational use of natural resources, focusing on the individual farmer. It had been a slow process of change, on both the Swedish and the Vietnamese side – particularly considering that the failure of the old approach started to be recognised ten years earlier by both.

Coal supply

Contrary to a widespread impression, the biggest constraint on production was not wood. It was coal. In the first years, half of all stoppages were due to inferior quality and irregular supplies of coal.³⁵⁵ The initial design of the power plant was based on the best quality the Hong Gai mine could supply

³⁵³ *Decision No. 328/CT* by the Prime Minister on a Policy and Management Mechanism for the Raw Material Area for Paper Industry in general and Bai Bang in particular. The principal aim of this Mechanism was to enable the supply of sufficient raw materials for Bai Bang and other paper mills to run at full capacity by 1995.

³⁵⁴ Interview with Persson, Stockholm, August 1997. He took leave of absence from the Agriculture Division of SIDA, and on his own initiative carried out a two-month fieldwork in 1984. He then fought for a separate forestation programme detached from the industry part.

³⁵⁵ Interview with Ehnemark, Stockholm, August 1998.

and several modifications had to be made to cope with higher ash content and wet coal. The problems started as soon as the power plant was commissioned. The first half of 1981 was really difficult and in April 1982 SIDA informed the Ministry for Foreign Affairs in Stockholm that the transport of coal and wood was now the central problem.

Several petitions from the Swedish embassy to the Council of Ministers in this period went unheeded. Coal was the Achilles' heel in the modern sector of Vietnam's economy and even the "Vietnam–Sweden friendship project" had difficulties competing with power stations, steel mills, cement factories and railways. Yet, the political importance of the project was evidenced also in the question of electricity supplies to the mill. In July 1980 the Ministry of Coal and Electricity informed Bai Bang that electricity would be cut off for a period of 3 months or possibly longer. This was a period of extreme power shortage and many industries had already closed. Bai Bang had not yet commissioned its own power station and depended on the national grid. The alarm bell rung at the embassy and after hectic negotiations with the Prime Minister's Office, Do Muoi intervened and the supply was recommenced after only three hours.

The Head of the Hanoi Office, Ragnar Ångeby, learned in June 1982 at a meeting with the special advisor to Pham Van Dong – Mr Le Tu – that the Prime Minister was reportedly very dissatisfied with Vietnam's progress in the project, and wanted to open up for a more Scandinavian way to manage it. The Vietnamese director – Mr Minh – should be given more authority, and the Council of Ministers should ensure adequate supplies of coal. With this commitment, Le Tu suggested raising the production target, which, according to government was too low.³⁵⁶ In a different connection, was Le Tu also praised by Scanmanagement's Project Director, Svenningsson, for his ability to arrange a special train ferrying coal between Viet Tri and Bai Bang.

The response to these frustrations was a broadening of Sweden's engagement. The idea of a transport project emerged. The initiative was first related to Road No. 2, north from Bai Bang to Ham Yen and further into the RMA. Vietnam had promised in 1979 to make improvements to Road 2. Nothing happened, and SIDA used the 1980 negotiations to get a renewed promise from Vietnam – this time to start improvements at the beginning of 1981. SIDA even promised asphalt for the road. SEK 20 million were set aside for material and equipment to be financed as import support outside of the project budget. The carrot did not help, however. The Ministry of Transport and Communication could not document what happened to the first shipment of asphalt that arrived. SIDA stopped further shipments, but did not stop efforts to solve the transport problem. Scanmanagement complained about frequent breakdowns on the trucks plying this route, and even suggested pulling out the Swedish vehicles and leaving it to MoF to handle this traffic with their old trucks. These frustrations are behind the initiation of several SIDA-financed studies to look at costs and justifications for a road rehabilitation programme.

³⁵⁶ SIDA memo, from DCO/Ångeby 15 June 1982.

The cost estimate keeps climbing towards SEK 50 million when, in late 1984, SIDA decides to withdraw from this initiative.

By 1984 Scanmanagement had changed its view, and was now arguing that since the rafting of timber had started, the road was of less importance to Bai Bang. The costs involved could not be justified in terms of the savings on transport costs for the project. Besides, this was the main road to the north, to the Chinese boarder, and of great national importance. The Ministry for Foreign Affairs and SIDA were worried that they would gradually be dragged into a major road project that might well be questionable from the political point of view. The military strategic issue is discussed in internal memos, but the argument is not used in the final decision memo to withdraw.

The Road 2 debate did not stop SIDA's Industry Division from seeking the approval for a general commitment to improve transport for Bai Bang, and the coal supply was now the major concern. SEK 97 million was set aside in June 1986 to improve river transport. It was agreed to spend the fund on a new harbour (An Dao) near the mill, and equip MoLI with a fleet of tugboats and barges. The job was tendered, much to Scanmanagement's dismay, and was given to another Swedish company – Brenner-Mariterm AB.³⁵⁷ It is worth noting that when this side-project was completed in 1989, for the first time in the history of Bai Bang there was a genuine cost saving. SEK 22 million were reallocated to the country frame from the Transport Implementation Project.

The coal problem continued throughout the 1980s. In April of 1985 Scanmanagement's Bahrke decided to write directly to the Minister of MoLI, Nguyen Chi Vu. The coal yard will be empty in 24 hours (a bit late to send the letter!) Bahrke claims, and warns Vu about the upcoming parliamentary debate on Bai Bang in Sweden. "(T)his Swedish opinion will react strongly if it is known that the plant has to be closed."³⁵⁸

The case of coal is only one of several parallel stories to do with the project's attempts in the 1980s to influence more deeply the economic and social environment in which it operated. The problem-solving initiatives clearly came from Scanmanagement. At the same time, SIDA had an annual aid allocation for Vietnam with ample resources for new initiatives, and the regional development ideology had become a household word. In fact, the term "regional development" now starts creeping into the "justification" formulations in SIDA's project memos on Bai Bang. Ragnar Ångeby at SIDA's Development Cooperation Office in Hanoi responded favourably to most of the ideas, and in August 1982 several Bai Bang derivatives are under preparation:

- Sector study on forest industry
- Study on rehabilitation of paper mills in the South

³⁵⁷ Interview with Rehlen, Stockholm, July 1998.

³⁵⁸ Letter from Vinh Phu Pulp and Paper Mill /Scanmanagement (signed by Bahrke) to MoLI/ Nguyen Chi Vu, 9 April 1985. Scanmanagement archive.

- Pre-study on new plantation programme
- Housing and township for mill employees
- Vocational school
- Road No. 2
- A comprehensive transport study related to the need of the mill
- Study on alum production
- Study on commercial relations between Sweden and Vietnam

There is no evidence that Vietnam actively lobbied for the transport project or any other of the side-projects that came into being. Obviously, the mill management and local MoLI staff were enthusiastic about an expansion of the Swedish involvement, but the Vietnamese requests, like from the Ministry of Transport and Communication for Road No. 2, and later the barges, only came after SIDA had signalled its funding initiative.

The case of the supply of raw materials to Bai Bang is a story which, from the start, housed unrealistic expectations of what Vietnam could provide – the fundamentals were not right, to use a common phrase from the later structural adjustment debate. After years of frustrations, the response from the donor was, not unlike the structural adjustment agenda of the World Bank and others, we have to improve the environment within which the aid works. Mushrooming of this kind is a well-known response to problems in aid projects. But how far should donors pursue the role of trouble-shooters, and how far should they intervene directly to ensure privileges and priorities for one's own project?

In Bai Bang, Sweden clearly extended its role very far. The country played in this way an important role as an agent of change (see Chapter 7), but also got itself involved in activities where the impact was negligible. Much of the forestry was of this kind. The money could probably have been better spent elsewhere, not to mention the costs to Vietnam in its attempts to accommodate Swedish demands. The end of story was that the Western paper technology desired by Vietnam did not function properly and the mill the did not get the raw materials it needed, until Vietnam also imported another Western “product” – namely a functioning market economy. The irony is that none of the two parties made this connection when the idea of a paper mill was floated. If they had, there would probably be no production of paper in Bai Bang today.

Chapter 6

Labour for the project – a Vietnamese responsibility and a Swedish concern

*It is striking that the difficult living and working conditions of the forestry workers were initially defined as a productivity problem. . . The management system was characterised by a single objective – to secure raw material for the Mill*³⁵⁹

Large-scale industrial projects are often perceived as technical and managerial tasks, where problems can be solved by technical and managerial solutions. No doubt, the paper mill challenged the creative minds of the various engineers, managers, and politicians. This notwithstanding, the Achilles heel of the project repeatedly turned out to be related to labour, i.e. obtaining an adequate number of workers; obtaining sufficiently qualified workers; and increasing the productivity of the workers. When Swedish public opinion in the early 1980s suddenly became aware of the persistent labour problems at the factory – and of the even greater problems in the forest areas which were supplying the raw materials for the mill – a major public debate got underway. It continued without interruption for almost a decade, only dying out when Sweden's association with the project came to an end.

Two independent forces were driving the mounting concern with the conditions of the workers. First, the Swedish management consultants at the project site were realising that social dimensions related to the workers' living conditions

³⁵⁹ Liljeström, Fforde and Ohlsson 1987, p. 41.

would have to be integrated into the project if it was to work, a move that might increase productivity as well. Second, pressures were building up in Sweden. SIDA was sensitive to negative criticism voiced by the public, and the Swedish parliament went so far as to make improved living conditions for the forestry workers a precondition for continued support for the project in the latter part of the 1980s. On the Vietnamese side, the evolving economic reforms (*doi moi*) coincided with Swedish demands for improved labour conditions, and worked in the same direction. Concern for increased productivity and improved living conditions thus went hand in hand, and also solved the problems of labour shortages at the mill in the last half of the 1980s. In the forestry sector, a solution was not found until most Swedish aid had been phased out, but the situation did improve in the meantime.

Around 1980, when the paper mill was about to start operating, the economic crisis in Vietnam was so severe that food shortages necessitated direct food support for the workers. Labour-related issues severely strained Swedish–Vietnamese co-operation because such matters were formally the responsibility of Vietnam, and clearly specified as such in the 1974 project agreement; Sweden, however, increasingly insisted on having a say. After some resistance, the Vietnamese came to accept and, indeed, appreciate, Swedish involvement. An important factor in this respect was the thinking behind Vietnam’s *doi moi* reforms. The reforms changed the understanding of “equality” and made it easier for Vietnamese authorities to allow programmes that distributed benefits unequally. This favoured the Bai Bang workers, who were favoured with special support measures and bonuses in comparison with workers at other enterprises.

The debate in Sweden about the forestry workers at Bai Bang is an amazing story of how labour conditions in an aid project in a far-away country can become a major political issue at home. There was concern both with the poor working conditions in Vietnam, and the allegedly forced recruitment of people, especially women, to work in the forests. The issues engaged people on all sides of the political spectrum. Indeed, the debate seemed to relate more to political concerns in Sweden itself than to social realities in Vietnam. The labour issues served to revive the debate originally sparked off by the decision to aid Vietnam in the late 1960s, and which had turned into a minor political storm in 1974 when the project agreement for Bai Bang was concluded. This time, independent researchers played the role of catalyst when they found that the deplorable working and living conditions of female forestry workers violated basic humanitarian standards. Public opinion stirred, but it was politicians of the opposition parties that led the 1980s debate. What followed was an intensely partisan dispute which reflected the positions of the political parties in Sweden.

One consequence was the strengthening of the conviction in SIDA that it was time to wind up the Bai Bang project as soon as possible.

The debate ended when a large-scale socio-economic study was carried out in 1987 by a team of researchers headed by Professor Rita Liljeström, a sociologist. The study concluded that while the workforce employed in the forest not 'forced labour' in the conventional sense of the word, but "forced" by Vietnam's widespread and grinding poverty to work under gruelling conditions. By the time the Liljeström study was completed, moreover, living conditions had improved considerably and the labour market had opened up for mobility. These trends were primarily related to the general reform process in Vietnam. Projects launched by SIDA to improve living conditions for the workers had relatively less effect, although significant and noticeable in the period before the Vietnamese reforms took effect. The result was that living conditions for workers in the raw materials area of the mill saw improvements sooner than did those beyond its perimeters. The Swedish debate also served to focus attention on a problem which otherwise would have received less consideration from the Vietnamese authorities.

Vietnamese views on labour

Sweden and Vietnam approached the labour issue very differently. First, there was a difference in perspectives. Vietnamese authorities were concerned with investments and labour conditions in the country as a whole; Sweden was mainly concerned about the one project – Bai Bang. Vietnamese authorities saw no problem in transferring workers trained at Bai Bang to other projects, and did so on a number of occasions.³⁶⁰ From the perspective of national development, this was probably justified since Vietnam had an acute shortage of skilled labour. However, it was detrimental to the project in a narrow sense, and therefore not acceptable to the Swedish side. There were also other conflicts of interest specifically related to labour. Before the new thinking of the 1980s reform took hold, Vietnamese authorities did not want the workers at Bai Bang to be privileged just because they worked at a 'capitalist' project.

Such conflicts are probably commonplace in many development projects. In a sense, it was a 'little Sweden' syndrome; the Swedish side was mainly concerned with what was related to the project and wanted to create an industrial environment as close to Swedish standards as possible. Vietnamese authorities, on the other hand, viewed the project in a broader national perspective.

It seems there was increasing concern for the conditions of workers in Vietnam during the 1980s, partly because of the economic reforms which, to a large degree, also were social reforms. One important element in the reforms was a

³⁶⁰ It has not been possible to confirm through interviews in Vietnam the Swedish allegation that workers were transferred, but it appears so consistently in all SIDA documents and negotiations that it must have been seen as a real problem.

new wage system that introduced bonus and piece rates, and, in the early 1980s, also encouraged extra production at home.³⁶¹ The purpose was to increase productivity and evidently also the income of workers, because the situation was very difficult both in agriculture and industry all over the country. The problems in Bai Bang were not very different from elsewhere in Vietnam. Both the Vietnamese authorities and the Swedish project management had a joint interest in improving productivity, and the Swedish aid component meant there were more resources and other means to do so at Bai Bang than in other state enterprises.

Before the *doi moi* reforms in Vietnam, equality was still a major issue, even more so at the local than at the central level. Poverty was widespread, but may not have appeared to be so profound because it was to a large extent equally shared. In the latter part of the 1980s the situation changed radically. It was related to *doi moi*, not so much because of the economic reforms per se but to the change of mentality that accompanied them. The idea of equality and *equal* distribution of goods changed to become a question of *fair* distribution. In this respect, the ideology of *doi moi* differed radically from earlier concepts. Central planning was increasingly considered pseudo-socialist because it favoured equality in the sense that everybody worked according to ability and received more or less an equal share of the result. In the new thinking, “real socialism” meant that each person should work according to ability, and be rewarded according to his or her work and ability. This ideological shift was probably one of the most important changes that Vietnam experienced in the mid-1980s. It had a radical impact on the organisation of economic life, as became evident in the second half of the 1980s. The more independent the enterprises were allowed to be, the more they would attempt to improve the conditions of their workers. The enterprises that worked well and secured a large surplus could pay higher wages than could companies with little surplus. The negative implication was that people were increasingly left to fend for themselves with respect to food and other necessary items. For the better-off families, the system meant an improvement; for the poor, this was not necessarily the case.

In the early 1980s, the Vietnamese authorities regarded forestry enterprises in more or less the same terms as they did ordinary factories. As long as the state-subsidised system was in place, the forestry workers were given rations of rice and other daily goods just as were the workers in industrial enterprises or the administration. The workers were part of the state system. Working and living in the forest might be less attractive than living in the city, however, and supplies were often irregular. After the *doi moi* reforms, support from the state diminished and the forestry workers were gradually left to manage their own lives. Overall, the reform process had a positive impact on the forestry workers because land now could be allocated to individual families. As market liberalisation and the subsequent land reforms of 1988 and 1993 got underway, things improved further, though only after some very lean years.³⁶²

³⁶¹ Nørlund 1990, pp. 33–53; Nørlund 1995, pp. 131–36.

³⁶² Liljeström, Lindskog, Nguyen Van Anh, and Vuong Xuan Tinh 1997.

The logic of the new thinking, however, meant that many forestry workers did not do well because their productivity was very low. Improvements could only be achieved by their doing a better job. Yet Vietnam in the 1980s was still a mixture of old and new ideas, and the social welfare system was embedded in the old system. The forestry workers were not left totally on their own. The Swedish debate and SIDA's efforts to improve the working and living conditions of the forestry workers no doubt helped as well. By the end of the project, the forestry workers, as well as the mill workers, enjoyed better material conditions and certainly better living conditions than people outside the project area.

Labour and productivity at the mill

Many Swedes were surprised that there could be labour shortages in Vietnam – a country with a seemingly abundant supply of workers and a central planning system that allocated jobs according to the needs of the enterprise. The matter is, nevertheless, more complicated. A free labour market as such did not exist, though there were various forms of mobility. The Bai Bang paper mill was situated outside the usual industrial sites where industrial labour had established traditions and roots. That was also the case for labour in the forestry sector. Forestry workers were recruited partly from migrant labour in the lowlands, and partly from ethnic minorities which were not used to plantation work or to growing trees for commercial use. The migration was both spontaneous and organised by the state.³⁶³

With the arrival of Per-Axel Svenningsson as project director in October 1981 Scanmanagement increasingly saw the need for better living conditions for the workers in order to make the mill attractive to people as a permanent workplace. In consequence of this, the idea was launched to establish a township for the MoLI workers at Bai Bang. The first concrete initiatives to plan a mill town were taken in November 1981 when a joint Vietnamese–Swedish project group was formed to plan accommodation for personnel from the Ministry of Light Industry (MoLI).³⁶⁴ The 500 MoLI mill operators and their families needed accommodation and food. The wage structure was also under review. A ‘campaign’ was launched by Scanmanagement and approved on the Vietnamese side by the Joint Policy Committee to present the pulp and paper mill as “one of the flagships of industrial development in Vietnam”.³⁶⁵ This was a kind of language the Vietnamese side both understood and approved.

³⁶³ Ibid. A number of examples are provided.

³⁶⁴ Minutes from Mill Management Board meeting, 12.11.1981; *Agreed minutes from Joint Policy Committee meeting*, 1.12.1981. Sida archive.

³⁶⁵ Ibid.

Social problems and the food programme for workers

Already when the mill was being built in the late 1970s, it was realised that labour productivity and workers' morale was low. There was frequently insufficient workers, or they were not trained for the tasks assigned. In principle, the Vietnamese side was responsible for supplying labour to the project, and the Swedish side was not supposed to interfere. For instance, a Swedish offer during the negotiations back in 1971–72 to set up a village camp for the construction workers had been rejected by the Vietnamese. When, in the late 1970s, food shortages became acute at the site – as elsewhere in Vietnam during the nation-wide economic crisis – the question of supplementing the workers' food rations was raised by the Swedes. However, this meant that money would be reallocated from the project, and the Vietnamese authorities were afraid the project funds would run short. Moreover, granting the Bai Bang workers privileged treatment thanks to Swedish assistance was ideologically sensitive.³⁶⁶

By 1980, it was evident that the economic crisis in Vietnam slowed down the construction work at the mill site in very direct ways. Many labourers were compelled to look for additional work outside the project or to grow food to help meet the needs of their families. As a result, absenteeism was high and workers' morale suffered. During the negotiations between the two governments in May 1980 it was decided that Sweden should supply additional food to the Bai Bang workers, to be financed out of existing project funds. The food programme did not start until mid-August 1980, just after project management on the Swedish side was transferred to the new consultant, Scanmanagement. Since the factory canteen was not yet ready, only cold meals prepared by a Vinh Phu restaurant company with local foodstuffs were available. The issue was raised again in November at one of the first meetings of the Joint Policy Committee, the committee established in 1980 on SIDA's insistence that there be a high-level instrument for joint project organisation (see Chapter 4). The Swedes proposed here that, given the severe food shortages in Vietnam, extra food rations for the Bai Bang workers should be imported from abroad. It was also suggested that the food deliveries could be arranged through the World Food Programme, but this was never done.

A small survey was done by the mill management to assess the results of the supplementary food programme shortly after it started in 1980. The results were mixed. Of the twelve factory departments included in the survey only six responded that attendance had improved and as many as nine of them could not confirm that work performance had improved. However, it was noted that people no longer complained about not getting food, and that they stayed longer at work (which did not necessarily mean that they worked longer hours). The number of food portions distributed daily averaged 3,665 for a total workforce of around 4,000, and from the number of persons participating in the programme, it seemed to be appreciated. The biannual external reviews conducted for SIDA by an independent team of experts, the Review Mission,

³⁶⁶ Interview with Pham Van Ba, Bai Bang, March 1998.

came to a similar conclusion. Its 1980 report concluded that the supplementary food programme was having a fairly good effect, and that the Vietnamese were more content than the Swedes. By this time, the programme had only been running for a couple of months.³⁶⁷ The menu consisted mainly of chips and a little meat, some days *tet* cake as well.³⁶⁸ Some persons complained that they would rather have rice, and in response to this rice and instant noodles were subsequently served. The following year, bread, fish, and pork were also on the menu.³⁶⁹

The price of the food financed by the Swedes was set at about USD 0.80 per meal for bread, meat, and fish.³⁷⁰ The food was delivered by a restaurant, and the bill paid by the project. The food programme was calculated to cost SEK 15 million for the three-year period, or an average of SEK 1,250 per head per year, all told. This was extremely high compared to the general cost of living in Vietnam, but the distorted exchange rate makes it difficult to say exactly how much it contributed to the real welfare of the workers in Vietnam.

The Joint Policy Committee meeting that in November 1980 had discussed the additional food rations also addressed another critical labour issue – the lack of manpower. Responding to Swedish entreaties for more labour to complete the mill construction on time, Mr Giông from the Ministry of Light Industry promised that 4–500 construction workers would be sent to Bai Bang that very week. Provincial authorities would make available building materials and temporary dwellings. The Committee also discussed how work on the project site could be made more efficient. In the end, both sides went on record as agreeing to be ‘in favour’ of labour incentives.³⁷¹ Despite these efforts and promises, the manpower problem did not find a satisfactory solution. To compensate for the shortages of Vietnamese workers, Swedish construction workers were recruited to Bai Bang in 1982 to help complete the work. As a result, the total Swedish staff increased to about 400 persons.

Bonus system and “the family economy”

The new Swedish project director, Per-Axel Svenningsson, who came to Bai Bang in October 1981, was fully aware of the connection between labour productivity and the welfare of the workers, as noted above. At a meeting of the joint Mill Management Board soon after his arrival he emphasised that “labour is the most important factor of production in the continuous operation of the mill. The best economic result is achieved if the mill is operating at full capacity. The present working discipline is for many reasons unacceptable. The most important thing is that living conditions must be such that the worker

³⁶⁷ *Review Mission October 1980*, p. 15.

³⁶⁸ WP-System, letter to SIDA, *Additional food for Vietnamese personnel*, 16 September 1980, Sida archive.

³⁶⁹ Contract with the Vinh Phu Restaurant, 31 March 1981. Sida archive.

³⁷⁰ *Ibid.*, the price was high compared to present Vietnamese prices and an obvious sign of the distorted exchange rate, which would continue for almost a decade.

³⁷¹ *Agreed minutes* from meeting in Joint Policy Committee, 17 November 1980. Representatives from five ministries, Technoimport, Prime Minister’s Office, Scanmanagement and SIDA were present. Sida archive.

sees his job in the mill as his main and only job.”³⁷² What ensued was the introduction of a bonus system for the workers.

The first type of bonus was introduced in connection with the completion of the various phases of the mill. When the construction of the pulp mill was completed in August 1982, gifts were handed out to the employees. The bonus could be compared to the “bonus of production” campaigns which had long been common in the Vietnamese system of management but not common among workers. One of the employees later recalled the way gifts were given to the workers when they had finished constructing the pulp mill. “We were divided into classes according to how long we had worked at the mill. The first class got a bicycle, and the second class got a cassette player. I belonged to the first category. Unfortunately, the bonus of the first class was worth only half that of the second class. You could sell the cassette player and buy two bicycles.”³⁷³

A system of external Review Missions had been organised by SIDA in 1980 to follow the project on a biannual base. The mission consisted of two to three industrial and forestry consultants, and until around 1987 the missions often consisted of the same persons. In 1981, when construction of the factory was almost finished, the Mission decided to concentrate more on issues related to problems anticipated in the operation phase. This included above all questions to do with the living conditions and motivation of the employees. Mission members talked with both the Swedish and the Vietnamese side, and often acted as a link between them, but their account is nevertheless that of an outsider. However, a fairly coherent picture does emerge from the successive Review Missions.

Even if most of the ideas that emerged from the Review Missions and elsewhere to improve the social conditions of labour were on the table from late 1981 onwards, it took time to implement them. In 1982, the recurrent problems identified by the Review Mission were familiar: insufficient recruitment of labour, especially skilled labour, poor worker motivation, theft, etc. The mill management had started discussions with the Ministry of Forestry about a programme for food, clothing, and shoes for the forestry workers. Food shortages in remote areas were particularly serious in that period when the Swedish support projects had not yet started. Trinh Ba Minh, the Vietnamese Project Director, suggested a housing programme for the mill workers, and the Review Mission supported the idea of developing a township close to the mill as originally suggested by Scanmanagement in late 1981. The Review Mission also supported the idea of productivity-linked incentives for workers.³⁷⁴

The following year (1983), the Review Mission once again found the lack of worker motivation in the factory to be a serious problem. Low motivation was attributed to the low income and low bonuses. The workers’ income consisted of a low basic wage, bonuses, subsidised food and other basic goods at very low prices provided by the state shops, together with other types of income

³⁷² Mill Management Board meeting, 12 November 1981, Sida archive.

³⁷³ Interview with Pham Van Ba, Bai Bang, March 1998.

³⁷⁴ *Review Mission March 1982*.

from the growing of vegetables or raising chickens and pigs, the so-called 'family economy' encouraged by government policy from 1982 and onwards. On top of this came the food provided by the project. It was no longer delivered as meals at the mill but as food supplements in the form of instant noodles and other preserved foods. The Review Mission found that the 'family economy' was the most important source of income. Many sold foodstuffs on the free market – which existed in a limited and informal way, and where you could get higher prices for food than in the system of state subsidies. The Review Mission suggested again that the salary system be changed in order to reduce the relative significance of the family economy. The logic was similar to that expressed by the Swedish project director, Svenningsson: the worker must see his job in the mill as his main and only job and must be remunerated generously enough to do it well. As for the workers in the forest area – as distinct from the factory – the Review Mission suggested a number of technical means to increase productivity, but found it difficult to identify immediate and concrete initiatives to improve socio-economic conditions. The mission mainly suggested providing additional food.³⁷⁵

The Review Missions only came for short periods to check a set of questions identified by SIDA. However, in 1983 SIDA commissioned another study to examine income and social conditions in greater depth, particularly the conditions of the female workers. The study was carried out by Birgitta Sevefjord during the period September 1983 – July 1984. The study collected sociological data from interviews with around 200 women.³⁷⁶ These data pointed to a gender problem in the labour force. Most of the women employed were very young, and many were newly married. During the two years 1983–84, 45 per cent of the women in the sample gave birth, and many were absent from work due to pregnancy, childbirth, or because they had to care for sick children. It was considered a woman's job to deal with everything related to children. The problem was that workers not present at the mill did not receive the additional food rations, so many of the women workers who badly needed the food did not get it. The general problem of low labour motivation, however, cannot be attributed only to issues of gender. Only 34 per cent of the employees at the mill were women, a very low proportion indeed compared with the forestry enterprises.

The Sevefjord study revealed a number of other important facts. The various types of income, ranked in order of importance were: the subsidised food rations; additional food provided by Sweden; gardening and raising pigs and chickens; wages and bonuses; and, of least significance, extra work. Most of the supplementary food was sold off to get additional income, and this extra allowance represented the "difference between having too little and having enough".³⁷⁷ Most of the women at the factory were young, came from Vinh

³⁷⁵ *Review Mission October 1983.*

³⁷⁶ Sevefjord 1985, pp. 1–3. SIDA initiated in 1982 an evaluation of the SIDA-supported development project's effect on women's living condition. The purpose of the study was to investigate the role of female workers in the Bai Bang mill and, secondly, how the project had affected these women.

³⁷⁷ *Ibid.*, pp. 32–33.

Phu province, and had an agricultural background. In the beginning they found the work at the mill hard. There was little to eat and they felt lonely. After a few years life improved for the women the main reason being that about 70 per cent of them had married and borne children. Even if some of them had wanted to leave the factory, they would not leave their families. Sixty per cent felt that their life was better now than before they came to Bai Bang.³⁷⁸

Importantly, the study also showed that incomes at the Bai Bang plant were *lower* than in other large factories in north and central Vietnam, a matter SIDA duly took up with Vietnamese authorities. The lower income levels were due to the non-fulfilment of the production targets.³⁷⁹ The study also outlined the decision-making system in the Vietnamese context: By showing that the Party and Trade Union had an important say in decisions concerning production and social planning the study opened for better insight into the Vietnamese management system. The problem of getting women involved in the decision-making process was, however, also evident. Because the women took care of the housework and childcare and had no time for political activities, they were not eager to take extra work in the factory. The study pointed to the fact that 127 workers in 1983–84 had begun to build their own houses, and that private housing was preferred to company housing because it gave the opportunity to grow vegetables. The local market and shops started to flourish, and workers were settling down for good.³⁸⁰ The fact that the labour force was young and had a large number of children could thus be considered a structural problem which would diminish over time.

The Review Mission in the spring of 1984 recommended continuing the supplementary food programme until a bonus system had been worked out. At the same time it was noted that the rapidly developing free market economy was still accounting for a greater proportion of the workers' income than regular work.³⁸¹ For the first time the Review Mission noted that worker motivation had improved, and attributed this to the food programme. Typically, a household needed 2–3,000 *dong* per month to get by. A worker's income at the mill would consist of:

- a basic salary of 150 *dong*
- bonuses plus other earnings amounting to 6–800 *dong*
- supplementary food allowances to the tune of 800–1,000 *dong*³⁸²

The calculation did not include the subsidised goods which would explain why the basic wage could be so low,³⁸³ as most basic commodities were added

³⁷⁸ *Ibid.*, pp. vi, 60.

³⁷⁹ SIDA memo, *Idépromemoria*, prepared by Rehlen, 3 October 1984, p. 7. Sida archive.

³⁸⁰ Seveffjord 1985, p. viii.

³⁸¹ The Review Mission was drawing on the new insights from the research on women's life, but did not follow up the improvements for women suggested by the report.

³⁸² *Review Mission April 1984*.

³⁸³ The subsidised goods consisted of rice, meat, sugar, salt, fish sauce, glutamate, soap, fish, bean curd and fuel.

to the income at very low prices. The two-price system – i.e. the state prices and the market prices – was becoming increasingly problematic in that the gap between the two price levels continued to widen, thus exerting an upward pressure on the subsidised, system of rationed goods. For instance, rice in the state shop cost 0.4 *dong* a kilo in 1984, whereas the free market price was 40–50 *dong* a kilo.³⁸⁴

In the *forest area*, the Review Mission noted that a piece-rate system for tree planting had been introduced in some areas and expected this to increase productivity.

In a second assessment later in 1984, the Review Mission pointed out that organisation and motivation on the Vietnamese side of the project had improved. This was partly attributed to the success of the food programme as well. The employees now considered Bai Bang an attractive place to live and work. Even if wages were still considered too low by the Review Mission, and the income from “the family economy” still too important, the new bonus system meant that the workers received additional income in connection with achieving record production levels. Such extra income in turn had a positive effect on motivation. The management had also demonstrated in other ways that good work would be rewarded and that poor performance would have negative consequences. An individual evaluation of a section of the personnel had been carried out. For the 550 workers involved, this resulted in the reassignment of 80 employees, certain others were “let go”, and 25 were promoted. The mill was now employing 2,800 people, although the management on both sides agreed that a staff of 1,400 should have sufficed.

As mentioned, total household income consisted of a number of different types of incomes, and the Review Mission now began to include the value of subsidised goods in its calculations. Such goods consisted of the supplementary food from the Swedish programme and the subsidised commodities from the state which together were considered to represent the most important stable incomes. The bonus and piece-rate payments fluctuated but appeared less important in the example cited by the mission. The main difference between households was probably income from “the family economy”, generated by gardening and animal husbandry. Such income varied greatly from one family to another. The Review Mission calculation for a household income for a mill worker in late 1984 was as follows:

- A family needed 3–5,000 *dong* a month.
- The basic salary was 200 *dong*.
- A recent incentive scheme including piece-rate and monthly bonus added 3–400 *dong* a month.
- Additional food was sold in Hanoi or Haiphong for 700 *dong*.
- The state-subsidised food was calculated to represent 1,600 *dong*.

³⁸⁴ Sevefjord 1985, p. 30.

- The “family economy” was not calculated, but consisted of gardening and animal husbandry.³⁸⁵

Bai Bang was increasingly considered to be an attractive place to live and individual employees were building their private houses – initially about 40. In fact, the housing programme about to be initiated with Swedish funds was to some extent waning in importance. As one employee, Pham Van Ba, related, he received little direct support from the programme. When it started in 1985, he had already built a house of about 150 square feet, mainly financed with money he had saved from the sale of the bicycle and the instant noodles provided by the food programme. Earlier there were only dormitories, not suitable for families, Ba said. He preferred a private house, and higher level land, which was good for housing, was available at a low price. The government, in fact, encouraged the employees to build private houses, thus relieving the factory and the government from having to pay, he concluded.³⁸⁶

While the situation improved considerably at the mill, life in the forest was still deplorable and there was little sign of improvement. The discussions about the living conditions of forestry workers had started in Sweden in the early 1980s, and in consequence of this the 1985 agreement between Sweden and Vietnam included funding to improve conditions in the forest sector.

Doi moi at the mill

In 1985, substantial changes took place in Vietnam’s currency and salary systems. A currency reform exchanged the *dong* with new money in September 1985, one new *dong* being equal to ten old. This triggered the first serious period of inflation in Vietnam. The subsidised food system was abolished at the mill, only to be reintroduced a few months later in most other places in the country – and probably also in Bai Bang – because its sudden disappearance threatened the basic security of the state workers and employees. Given the inflation, the subsidy system represented the best security for the employees. A worker earned in 1985 around 500 *dong* per month, but the price of rice had gone up from 0.4 to 5 *dong* per kilo, and real income had in fact decreased for a period.

The Swedish-financed food contribution still accounted for a value of three or four times the amount of the earlier basic wage. The supplementary food programme was gradually taken over by the Vietnamese management, and the mill organised the sale of waste products to generate extra income. The additional income was distributed to the workers, so Swedish funds were reduced to covering 20 per cent of the supplementary food programme. The Review Mission that year (1985) believed that the reforms in the longer run would lead to a full salary system in which industrial workers would earn enough to make a living without being dependent on other sources of income. A salary bonus was, moreover, paid to the workers three times in 1985 as a

³⁸⁵ *Review Mission November 1984.*

³⁸⁶ Interview with Pham Van Ba, Bai Bang, March 1998. The state usually provided housing for the employees.

reward for achieving monthly targets, but they only accounted for 10 per cent of the total salary that year.³⁸⁷ In spite of improvements, the motivation of the employees was still considered to be too low. However, the performance during peak periods demonstrated that there was a capacity to produce at higher level, provided adequate raw materials and motivation could be harnessed simultaneously.

The planning of the housing project for the workers' that was supported by Swedish funding to the tune of 55 million SEK faced disruptions partly because of private house-building initiatives. Thus, in order to harmonise the collective efforts of the township, a 'do-it-yourself' feature was made part of the housing project.³⁸⁸

The situation in the forest was difficult. The Review Mission in late 1985 predicted that the felling of trees would slow down during the early months of 1986 and add to the shortage of raw materials, partly because of the late payment of the workers, and partly due to reduced work because of the *Tết* holidays (lunar New Year) – a time when work usually slowed down. The rules were tightened to ensure the prompt payment of salaries, distribution of supplementary food, and decrease the length of the *Tết* celebrations as much as possible.³⁸⁹ Considering the work conditions in the forest area overall, the Review Mission concluded that the picture was very mixed, ranging from good to very bad in the various work brigades (e.g. villages).

The focus by 1985 had increasingly turned to the conditions in the forest. The report by Katarina Larsson and Lars-Erik Birgegård on socio-economic factors influencing labour productivity in the forestry component of the Vinh Phu Pulp and Paper Mill project had been published in January 1985. It triggered a heated discussion in Sweden because the situation, especially for the women workers in the forest, was miserable. Lisbet Bostrand, a forest expert who had studied working and living conditions in Asia, was commissioned by SIDA in 1985 to follow up the report to see if conditions had improved for the forestry workers since January 1985. One of the conditions set up by Sweden, when the new SIDA agreement was signed with Vietnam in January 1985, was the improvement of conditions for the forestry workers. One of the purposes of the Bostrand study was to compare the situation among forestry workers in Vietnam with those of other countries in Southeast Asia. Bostrand found that "compared to living and working conditions for forestry workers in other Asian developing counties, conditions in Vietnam are not worse, but similar – and in many respects even far better."³⁹⁰ The Vietnamese conditions were better with respect to the welfare system of childcare, maternity leave (recently prolonged to 6 months), health services, free education, orderly holidays of 12 days with payment, and possibilities to grow extra crops and raise pigs on land allotted to each worker. The Review Mission also compared the situation in Vietnam with

³⁸⁷ *Review Mission November 1985*, pp. 3, 20–21.

³⁸⁸ *Ibid.*, pp. 21–22.

³⁸⁹ *Ibid.*, p. 25.

³⁹⁰ Bostrand 1986, pp. 3, 55.

conditions in other countries of the region. Housing conditions were better in Malaysia, but worse in India, Bangladesh, and parts of Indonesia. The ratio between earnings and cost of living was judged to be average for Southeast Asia, the facilities in the camp and fringe benefits better than in most other countries of the region, and the security in employment and income, social care, and other social measures far better than in most other developing countries.³⁹¹

In the following year (1986), the Review Mission again found the salary system an obstacle to better work performance. The bonus system had little effect, and although the piece-rate system was considered to be better, it evidently was not sufficient to make a difference. The mill was now permitted to apply a new management system, including the right of the enterprise to decide on recruitment, placement, and dismissal of employees.³⁹² Lifetime employment was in principle abolished. The reforms were introduced a little earlier at the mill than in other places, although it would take several years for the new system to become generalised in the country (see Chapter 7).

In spite of the reforms, which introduced greater labour mobility, the number of employees at the mill remained more or less the same during the operations phase, that is, around 2,500. The mill organisation was officially changed in May 1987, and the name changed to Vinh Phu Pulp and Paper Union. Production, maintenance, and transport sections became separate enterprises within the company. The problem was now reversed insofar as too much autonomy created problems of co-ordinating production. The mill was allowed to buy wood directly from suppliers outside the state plan: about 20 per cent of the total was bought this way at double the state price.

Drastic changes took place in 1986–88. This was a three-year period with very high rates of inflation – prices rose by 6–800 per cent. At the end of 1987, it was decided to increase the price of paper by 485 per cent the following year. This also represented an attempt to abandon the two-price system and adopt a unified price. Wages increased 1,315 per cent.³⁹³ The exchange rate to the Swedish *krona* had been established at 2.24 *dong* for the project for several years, although this was of very questionable relevance.³⁹⁴ Trying to calculate the real exchange rate in 1987, the Review Mission concluded that it should be around 31 *dong* to the *krona*. Based on the calculated exchange rate, labour would cost around USD 25 a month (without bonuses) – a figure comparable to the level of wages in China, but a little lower than in India and Sri Lanka. With an exchange rate closer to the black market rate of about 100 *dong* to the *krona*, labour would cost USD 8 only.³⁹⁵ Prices on the free market in Vietnam increased continuously and the state prices moved in the same direction,

³⁹¹ *Review Mission November 1985*, pp. 29–30.

³⁹² *Review Mission May 1986*, p. 12.

³⁹³ *Review Mission October 1987*, p. 30.

³⁹⁴ In the early 1980s it was close to one *krona* to the *dong*, which was a considerable overpricing of the *dong*. The rate of 2.2 for the Bai Bang project seems even more extreme. The official rate to the USD was 1.2 in 1985, 107 in 1987, 3,971 in 1989 and 5,045 in 1990, now very close to the black rate of exchange.

³⁹⁵ *Review Mission October 1987*, pp. 31–35.

although not to such a great degree. The government attempted to find a balance between regulating the exchange rate and the various prices, but the situation was chaotic with a variety of applicable exchange rates depending on the status of the customer. The adjustment was inevitable at this point, and the currency was in principle made convertible in 1989, when the black rate became to all intents and purposes the official exchange rate. The market was now an important determinant of prices, and state shops and ditto prices disappeared. With regard to other factories in Vietnam, decree no. 217 of late 1987, which established the independence of state enterprises, helped to do away with a considerable part of the family economy in the industrial enterprises, simply because the wages increased and the unified price system rendered market trading less vital. In principle, a fully paid employment system as the Swedish advisors had wanted was introduced, but much regulation and adjustment lay ahead before a satisfactory solution was found. In the event, salaries did not increase very much until the subsidy system was finally abolished in 1988. The official figures for the average monthly wages are shown in Box 6.1.

Box 6.1: Average monthly income at the paper mill

1984	286 dong
1985	167 dong
1986	681 dong
1987	2,447 dong
1988	22,961 dong
1989	35,195 dong
1990	132,000 dong
1991	302,000 dong

Source: Dao Ngyuen and Quang Khai (eds.) 1997, p. 152.

The dramatic increase in monthly income from 1987 to 1988 was mainly due to inflation. After three years of continued high inflation (1986–88) the rate went down in 1989, and an increase in real wages only came in 1990. During the early and mid-1980s, a great effort was made by the Swedish side to increase the wages at the mill, but the amendments to the economic and social system did most to increase wages. The subsidised state system of cheap goods was transformed into payment in money, and was related more closely to the productivity of the workers than before.

From 1987 and onwards, the Review Mission seemed to lose interest in the labour question. One of the issues in a 1987 review concerns worker safety, an indication that the basic problems of low productivity and lack of enthusiasm are no longer a main concern.³⁹⁶ The factory could from this time handle labour-related matters directly, and other problems were pressing, such as securing raw materials for the mill, improving living conditions in the forest, and making sure there would be enough foreign currency to buy the necessary

³⁹⁶ Ibid., p. 17.

materials from abroad. In the late 1980s, the Review Mission consisted of new consultants with no former experience in Vietnam. This led to new type of reporting and partly new approaches. The fall 1989 report mentioned that wages should be increased and the number of employees reduced.³⁹⁷ A report issued in the summer 1990, the last of the Review Missions' reports, was prepared by a new consultancy firm which looked at labour from a new perspective. Some of the old complaints were revived and a number of new ones added. The latter included very low wages; discriminatory treatment of labour as between blue and white collar workers; and preferential treatment of certain factory departments by the Paper Union; lack of a labour market and employment possibilities; considerable overstaffing – around one thousand workers were deemed sufficient – and very low productivity per employee. The Mission found the general socialist preference for employing people in a semi-welfare organisation based on paternalism to be a basic problem.³⁹⁸

The reform policy left many decisions to the company and enterprise level, and worker remuneration was related to the general performance of the enterprise rather than a national wage scale for the state sector. The subsidies system was changed by government decree and left wages to a more performance related piece-rate and bonus system. However, numerous problems still had to be solved within the new framework of operation. Drastic reforms of management and human resources were recommended by the various Review Missions, but from mid-1990 it was no longer the concern of the Swedish consultants to suggest solutions.



From the inauguration ceremony, 26 November 1982. Do Muoi and Roine Carlsson visit the wood yard. Photo: Helder Netocny/Phoenix

³⁹⁷ *Review Mission September 1989*, p. 19.

³⁹⁸ *Review Mission July-September 1990*, pp. 15–18.

The Swedish parliament debates “forced labour”

During the election campaign in Sweden in the summer of 1982, questions had been raised concerning Swedish development aid to Laos, where rumours circulated that Swedish projects were utilising forced labour. The centre–right coalition lost the election that year to the Social Democratic Party. Now in opposition, the Conservative Party became bolder, and the Liberal Party (*Folkpartiet*) joined in the criticism being levelled at aid to Vietnam. Parliament became one of the central scenes of an ongoing debate which came to influence Swedish aid policy in the 1980s.

As early as in November 1982, Magaretha af Ugglas, spokeswoman for the Conservative Party and member of SIDA's Board, posed a question to the Foreign Minister, Lennart Bodström. She wanted to know “the government's evaluation of how the leadership in Vietnam and Laos promote democracy, and what results this has had for the population in recent years.”³⁹⁹ The minister answered that the social system in Vietnam and Laos could not be called democratic in a Western sense, and that the leadership of these countries did not attempt to emulate the West. The Swedish government had criticised Vietnam with regard to the large number of refugees leaving the country (“the boat people”), and had denounced the presence of Vietnamese troops in Cambodia. However, Bodström underlined that his government found it important to co-operate with countries with different political, economic, and social systems in order to promote economic growth, equality, economic and political independence, and democratic social development. He pointed out that human rights also included access to food, housing, education, health services, and work.

The Bai Bang project was inaugurated on 27 November 1982. A large delegation from Sweden and a handful of journalists were present. Roine Carlsson, Minister without Portfolio, took part in the celebration as the head of the Swedish delegation and opened the mill together with Deputy Prime Minister, Do Muoi. A journalist afterwards asked Carlsson whether he thought it was of importance that forced labour was used in the project. Carlsson answered that “it is an internal matter for the Vietnamese how the labour force to Bai Bang is recruited.”⁴⁰⁰ It was an unfortunate turn of phrase. The wording charged the Swedish debate, not only the aspects related to Bai Bang, but development aid to Vietnam and the nature of development aid in general.

Forced labour?

A few days after Swedish newspapers published Carlsson's statement, Ugglas directed a new question at the Foreign Minister, now related to the information that forced labour reportedly was being used in projects in Laos and in Bai

³⁹⁹ MFA document, cable from Cabinet/*Pressbyrå*n to embassies, 19 November 1982. MFA archive.

⁴⁰⁰ MFA document, cable from Cabinet/*Pressbyrå*n to embassies, 29 November 1982. MFA archive.

Bang. Secondly, she asked if this had implications for the formulation of Swedish development aid. Rune Ångström (Liberal) raised another question about the methods involved in the recruiting of workers, and whether this and other management issues would be taken into consideration in the government's aid policy.

In response, Lennart Bodström referred to the organisation of the labour market in a planned economy, and stated that measures had been taken to improve the living conditions of the workers at the Bai Bang mill and in the forest areas. As for the formulation of development aid policy, he stressed that it was important that the employees at the project had good working and living conditions, and noted that Sweden had supported measures to this effect. The rumours about the existence of forced recruitment of labour could not be confirmed. Not satisfied with the minister's answer, Ugglas questioned him about "the astonishing statement in Hanoi by Carlsson". She wanted to know whether there was forced labour or not in the project; she also wanted to know if the government would conclude a new agreement with Vietnam without further investigating this issue. "Should Sweden pay hundreds of millions of *kronor* to a development project if forced labour is used?"

Rune Ångström, who was also dissatisfied with the Minister's answers, wanted to know if an investigation of the recruitment of forestry workers and the policy of the Swedish government. "It is not an internal question for the Vietnamese how labour to Bai Bang is recruited," he said.⁴⁰¹ "10,000 women and men work in the area. They are only able to visit their families once a year; they have very little food and little motivation to work. This is not the right way to recruit people." The minister responded by questioning the validity of the rumours about forced labour: "There is no proof behind the allegations." He further praised the many improvements that had taken place for the workers at Bai Bang.

Ugglas returned to the Minister whom she felt seemed to take poverty as an excuse for lack of freedom and use of force. "It is very serious to hear words like that spoken by a Swedish Foreign Minister!" She invoked the human rights of the individual to be protected against oppression and misuse of power. Ångström wanted the minister to dissociate himself from the remarks by Roine Carlsson, and repeated the allegations about the poor conditions for the employees. The minister answered that people were recruited from the southern, overpopulated provinces, but there was no evidence of forced labour, and it was incorrect to say that the government was accepting forced labour. Ugglas continued by saying that it was the duty of the minister to explain the situation to the parliament. "Give us a clear message. We want nothing more than that." Had the question been discussed with the Vietnamese authorities? Would the government enter into new agreements about additional hundreds of millions of *kronor* without being sure of the situation, she asked. Ångström wanted to know if the recruitment of labour was a question of forced labour as defined in Sweden. Ugglas persisted: "It is a great deal of money and,

⁴⁰¹ Riksdagen, *Protokoll på frågorna 1982/83:142 och 160 om arbetskraften vid SIDA-stödda projekt.*

moreover, money given to a country which is a communist dictatorship with hard censorship and jails.”

Ångström remained dissatisfied that the minister would not denounce Carlsson’s remark after the inauguration session in Bai Bang and claimed the information about forced labour had reliable sources. Bodström replied that the government would investigate the accusations but would not take a position until it had some evidence. He further affirmed that development aid would be used to improve the conditions of the workers.

The debate was demagogic, endless, and uncompromising. It did, however, generate further pressure on the government and SIDA to pay attention to labour issues. Public opinion in Sweden was becoming more hostile towards the project even though no more information was available about the alleged forced labour. Basically it was a question of the definition of “forced”. Many people seemed convinced that forced labour, in a conventional sense of the word, was occurring. Few were able to examine and verify the situation on the ground. Nevertheless, the question of human rights was now solidly placed on the agenda of development aid policy. The Social Democrats appeared to be on the defensive, but would not denounce Roine Carlsson.

The investigation of the Standing Committee on the Constitution

After this debate in parliament in early December 1982, the Liberal Party reported the government to the Standing Committee on the Constitution for further investigation of its handling of the forced labour question in Bai Bang.⁴⁰² Roine Carlsson, Minister without Portfolio, was called to testify before the committee, as was Anders Forse, General Director of SIDA. The hearings would take place the following year, and SIDA started to mobilise its forces. Gösta Edgren, Minister without Portfolio with responsibility for development aid, immediately wrote to the embassy in Hanoi in December for further information. Claes Lejion, the SIDA economist at the mission in Hanoi, had already published an article in *Dagens Nyheter* on 12 December, entitled ‘Recruitment to Bai Bang according to Swedish principles’. He argued that there was no forced labour in Vietnam; in fact, the methods used to recruit workers encouraged mobility – just like in Sweden. The Ministry for Foreign Affairs in Stockholm asked him to study the question further. Apart from the impending investigation of the Standing Committee of the Constitution, new aid negotiations with Vietnam were scheduled for May 1983 and labour issues were expected to be on the agenda. Lejion started investigations in the Bai Bang region, and requested information from the various ministries in Hanoi about the recruitment of labour. At home, the Swedish Committee for Vietnam, Laos, and Kampuchea – which had its roots in the solidarity

⁴⁰² The Standing Committee on the Constitution is one of 16 standing committees, each of which consists of 17 members representing the different parties in proportion to their respective strength in the parliament. This committee prepares issues related to constitutional laws, municipal laws and laws related to the parties, the press, and other media. In this case the Standing Committee had the task of inspecting the work of the ministers without portfolio.

movement with Vietnam during the war against the United States in the late 1960s – planned to contact the Vietnamese trade unions for information.⁴⁰³

During the discussion about the new Swedish–Vietnamese agreement in SIDA's Board in April 1983, Ugglas tabled a reservation to the proposal to support Vietnam with “about 1 billion *kronor*”.⁴⁰⁴ Referring to Vietnam's invasion of Kampuchea and lack of human rights at home, the Conservative Party spokeswoman suggested phasing out the aid. At the same time (12 April), the head of SIDA, Anders Forsse, was called to the Standing Committee on the Constitution where he gave a detailed presentation of the background to Bai Bang and the recruitment of labour in Vietnam. He explained that Vietnam was a communist state with a centralised decision-making system. Market principles did not apply to the recruitment of labour. As in Laos and other communist countries, the normal procedure was to direct workers to various companies. As for Bai Bang, there was a shortage of labour in Vietnam, and the Vinh Phu province was not a very attractive place to live and work. However, “we have never had the feeling or got the impression that employees in Bai Bang were forced, in the sense that they would be punished, or that there was any type of compulsion to force people to work there”, Forsse said. “Often people did not follow directives to go there, some people instructed to go there have simply not shown up . . . and it has happened that employees who came to work in Bai Bang have left.”⁴⁰⁵ Anders Björck (Conservative) who was leading the investigation, asked if SIDA had informed Roine Carlsson about the recruitment of labour, if the government had asked SIDA about possible forced recruitment of labour, and if SIDA had found it appropriate to inform the government about this type of accusation and conditions? Forsse stressed that SIDA obviously would have reacted if it could be established that workers were working at the site under forced conditions. “If it had been a question of prisoners in chains who were being whipped to work, SIDA would react regardless of what any Swedish government would say.” Björck further wanted to know the result of Edgren's request for more information from the embassy in Hanoi, but Forsse had not yet received any reply. The report arrived a week later with a detailed account of the employment of the forestry workers.⁴⁰⁶

The embassy report prepared by Leijon was based on about 60 interviews with workers in the forest brigades, as well as interviews with officials in the forestry companies, the ministries in Hanoi, and Swedish personnel. The main conclusion of the report confirmed that the recruitment of workers to the forestry company did not differ from recruitment to other positions in state companies or administration, and it was not appropriate to call it forced

⁴⁰³ MFA document, *Statssekreteraren Gösta Edgren till ambassadören Ragnar Dromberg*, 17 December 1982. Sida archive.

⁴⁰⁴ This agreement did not go beyond the limit of SEK 2,000 million decided in 1980 for the Bai Bang project since unused funds still existed. The amount planned in the country programme for Vietnam was SEK 345 million in 1982/83 to 83/84 and SEK 365 million the following years.

⁴⁰⁵ Riksdagen/Konstitutionsutskottet, *Uifrågning av generaldirektör Anders Forsse*, 12 April 1983, p. 328.

⁴⁰⁶ SIDA memo, *Lönadsförhållanden vid och rekrytering till Vinh Phu-projektets skogsdel*, prepared by Leijon, 20 April 1983. Sida archive.

recruitment. Moreover, the forestry workers, like other workers, could leave their jobs. The living conditions varied according to the age of the establishment of the brigade. Workers in the older brigades had living conditions and a social life similar to other places in Vietnam. The new brigades lived under more simple conditions and there were limited possibilities for social life in their spare time. Most of the workers were young, single people from the Red River Delta. The income of the youth in the new brigades was, at the time, much higher than the average for state employees in Vietnam.⁴⁰⁷ The investigation showed that 58 per cent of all employees in the forestry were women, and in the felling sector they constituted up to 70 per cent of the workforce. The female workers were young – mainly in their twenties. At the end of 1982 the forestry company was employing 5,700 persons, of whom 500 had been hired that year. The need for workers in 1983 was greater, up to 2,000, in order to secure the raw materials for the recently completed mill, and an estimated 600 persons would leave for retirement or other reasons.⁴⁰⁸

Roine Carlsson testified before the Committee a few days later. He claimed he had been incorrectly quoted by the press in Bai Bang in November the previous year, and explained the circumstances under which he was talking to the journalists. The central question that preoccupied all those involved in the project, he said, was how to secure a continuous supply of raw materials to the mill in order to meet production targets. When asked about his position on slave labour, he had answered that nothing had given him that impression. He was convinced that the project operated according to the intentions of Sweden and Vietnam. Not accepting this evasion of the issue, Björck asked Carlsson why – if he had been totally misunderstood – had he not retracted his remark that this was a matter for the Vietnamese government. Was slave labour in a SIDA project simply an internal question only of relevance to the recipient country? Carlsson did not answer directly, but claimed that it was not reasonable to answer all allegations presented by the press. Björck continued: “You will not answer yes or no to the question if slave labour is acceptable or not?” Carlsson responded that this was not his task, especially not without further verification of the issue. The panel was incensed at Carlsson’s last remark that he would not take a stand on whether slave labour should be used or not in countries receiving Swedish aid.⁴⁰⁹

The debate did not lead to a common statement being issued by the Committee, even though the three centre-right parties wanted a minority statement because of “the principles involved”. In spite of the debate in the Standing Committee, the Conservatives maintained in the continued debate that forced labour was taking place at the Bai Bang project, and the Liberal Party questioned whether the government’s representatives were really against forced labour.

⁴⁰⁷ Ibid., p. 1–2.

⁴⁰⁸ Ibid., p. 5.

⁴⁰⁹ Riksdagen/Konstitutionsutskottet, *Uifrågning av statsråd Roine Carlsson*, 19 April 1983.

Sida responds

The discussion about Bai Bang continued in the parliamentary debates in May 1983, and was repeated in the following years every time an occasion arose or new information appeared. In the spring of 1983, SIDA engaged two independent researchers, Lars-Erik Birgegård and Katarina Larsson, to investigate socio-economic matters in the forestry sector, because the report by Claes Leijon was accused of being biased since Leijon was employed by SIDA.⁴¹⁰ The research in Vietnam took considerable time and preparations, and the report was not published until January 1985. This happened to be just after the Foreign Minister Bodström had visited Vietnam to negotiate the new Swedish–Vietnamese project agreement, igniting the issue once more.

The Larsson–Birgegård report gave new insights into the organisation of the forestry project in the three provinces that provided raw material for the mill, particularly with respect to the living conditions of the forestry workers. Katarina Larsson had spent about four months in the field in 1984 and was shocked by the deplorable living standards suffered by the many female forestry workers. The issue of forced labour reappeared. Larsson stated that “the recruitment for forestry work was hardly a matter of free choice. . . Normally the posting will last until the age of retirement, with limited hope of a transfer.”⁴¹¹ The report also emphasised the importance of socio-economic conditions as reasons for the low productivity in the forestry sector, in fact this was the principal focus of the study. The main problem was considered to be the low wages, which meant that the workers could not afford to work more than half a day since they had to do supplementary work in their gardens and other tasks.⁴¹² Larsson and Birgegård recommended that the forestry workers be employed on contracts with detailed production goals. Specifically, workers should be employed for a particular period of time and under a system of annual production targets that enabled them to leave after the attainment of the target. This would increase their income and avoid lifetime employment in the forest. It was further suggested that a number of goods be supplied for the brigades, such as radios, kerosene lamps, hygienic articles, notebooks, novels and educational books.⁴¹³

Both the project consultant, Scanmanagement, and SIDA had been aware of the problematic conditions of the forestry workers. The Larsson–Birgegård report served to substantiate these concerns, and placed the issue firmly on the public agenda in Sweden. But the report also spelled troubles for SIDA by giving the impression that SIDA was not doing enough for the workers, and by giving extra ammunition to SIDA’s critics in the “forced labour” debate. A conflict developed between SIDA and the two authors of the report; to SIDA’s annoyance it was partly played out in the media.

⁴¹⁰ Larsson and Birgegård 1985.

⁴¹¹ *Ibid.*, p. 53.

⁴¹² *Ibid.*, p. 87.

⁴¹³ *Ibid.*, pp. 90–92.

The debate about forced labour raised its head for a third time when an extension of the project agreement was due to be signed in 1985. SIDA had now joined external critics in demanding substantial improvements for the workers as a precondition for the new five-year agreement for the mill, and particularly the one-year agreement for the forestry component. Later in the year, Magaretha af Ugglas and Carl Bildt, both leading figures in the Conservative Party, attempted to set up a commission to investigate the forced-labour issue, and in October another round of questions was put to the minister. Ugglas continued to raise the issue in 1986 as well, both in parliament and at SIDA Board meetings. She also insisted that Larsson and Birgegård return to Vietnam to follow up their earlier study.

SIDA was committed to improving the conditions of the forestry workers as a prerequisite for continued aid beyond 1986, and up to mid-1986 earmarked SEK 3.7 mill for improvements of the conditions of the forestry workers.⁴¹⁴ The Swedish contribution was primarily spent on purchasing basic necessities for the workers like rice, hygienic articles, blankets, mosquito nets, lamps, radios, and accumulators.⁴¹⁵ The Vietnamese Ministry of Forestry, for its part, agreed in January 1985 to examine decisions and plans to improve the conditions of the forestry workers, and early next year presented a generally positive report on the living conditions for forestry workers within the raw materials area (see below). To further investigate the situation and placate critics, SIDA commissioned a follow-up report to the Larsson–Birgegård study. This resulted in the study by independent forestry consultant Lisbet Bostrand referred to above.⁴¹⁶ In December 1985, a ‘Forest Labour Welfare Coordinator’ was employed to continuously monitor activities instituted to improve the living conditions in the forestry sector.⁴¹⁷ In November 1986, another independent consultant, Lars Myhr, reviewed activities undertaken under the SEK 3.7 million earmarked to improving the conditions of the forestry workers, and to assess if the situation had improved as stipulated in the July 1986 additional agreement on forestry and a soil conservation project.

The various reports all concluded that conditions were improving, and several pointed to the fact that the conditions of the workers were better inside the raw material area for the mill than outside it. Probably more important in this respect than the SIDA contributions was the wage reform carried out in Vietnam in 1985. This included a government decree to increase the wages, introduce bonus and piece-rate systems, increase of the number of holidays from 12 to 20 days, and provide to certain categories of workers an extra supply of protective clothing, mosquito nets, and writing books. At the same time, “the family economy” expanded in the forestry sector. As part of the general policy of economic reforms, workers and their families were encouraged to raise domestic animals, and grow vegetables. Many new houses

⁴¹⁴ Myhr 1986.

⁴¹⁵ SIDA memo, *Uppföljning av förbättringar i skogsarbetarnas arbetsvillkor*, prepared by Öström, SIDA/Hanoi, 4 February 1986.

⁴¹⁶ Bostrand 1986.

⁴¹⁷ SIDA memo, *Forest Labour Welfare Coordinator, 9.12.1985–8.12.1986. Use of Swedish Funds*. Sida archive.

were constructed during 1985, the Ministry of Forestry pointed out in its 1986 special report to SIDA. With these positive evaluations, SIDA agreed in 1986 to undertake a larger programme to the tune of SEK 4 mill to support the living conditions, now with investments in electricity, building materials, and means of transportation.⁴¹⁸

A larger in-depth study was planned as well, to be ready for the mid-term review in 1987. Professor Rita Liljeström was engaged by SIDA together with a team of specialists, including Adam Fforde, a well-known Vietnam specialist, and Bo Ohlsson. Their mandate was to

- examine the issue of free will versus force in the recruitment of forestry workers;
- analyse changes in the living conditions of forestry workers with particular attention to the situation of women;
- describe and assess different ways of organising forestry work.

In December 1986, Katarina Larsson wrote two articles in *Dagens Nyheter* which immediately brought the ‘forced labour’ issue back into the public domain. The articles were entitled ‘The betrayal of the forestry workers’, and ‘Manipulation as a working method’. Larsson accused SIDA officials and politicians of using unfair methods in development aid. She pointed out that SIDA had tried to stop the report written by Birgegård and herself, and showed how their criticism had been suppressed. The next day, the ever-vigilant Conservative spokeswoman, Margaretha af Ugglas, asked the Minister about labour conditions at Bai Bang, and “if the Minister had received guarantees that forced labour had stopped”. Two days later Rune Ångström (Liberal) wanted to know “if the Minister regards the conditions as having improved and if the forced recruitment has stopped.”

In March 1987, the Swedish Development Minister, Lena Hjelm-Wallén, visited Vietnam. She travelled in the Bai Bang region and expressed satisfaction about what she saw. “Bai Bang is better than I thought”, she said to a journalist. The remark rekindled the discussion on forced labour, but this seemed to be the last time. From then onward, the issue seemed to fade away. “The evolving debate in Sweden about forced labour has been overtaken by events, both the changes in the raw material area, and the political and economic developments in Vietnam”, one reporter wrote. The journalist asserted that the government and SIDA apparently had employed a number of reputable researchers to document something which the Development Minister and most other Swedes in Vietnam already had realised: the life of the forestry workers had improved. The story ended with a plea: “Now the issue is to put an end to the internal Swedish debate once and for all with a prestigious research report.”⁴¹⁹

In 1987, Rita Liljeström and her team carried out extensive research throughout the Red River Delta, where many of the forestry workers

⁴¹⁸ Myhr 1986, p. 1.

⁴¹⁹ Pressbyråen, *Morgonkot 18 March 1987*. MFA archive.

originated, and in the raw materials area. The opportunity to do in-depth research, however, was limited also this time. A mid-term review meeting stipulated in the 1985 agreement to decide if support should be extended was planned to take place in Hanoi. The Liljeström report was ready in November 1987, just in time for the mid-term meeting.⁴²⁰ SIDA immediately circulated the conclusion, which held that there was no basis for the allegation of forced recruitment of workers in the Bai Bang project. "The information about the so-called forced recruitment has to be seen in a historical perspective," the researchers wrote, and the movement of people from the densely populated areas to the more scarcely populated ones was a tradition and an established practice that had been going on for a long time. "The group, moreover, finds that there have been major changes in the working conditions and the social environment for the forestry workers in recent years. Wages have increased, private housing has been built, and the authorities encourage private, family economy."⁴²¹

At the mid-term review meeting in December 1987 in Hanoi, Rita Liljeström further stated that there was no evidence of the existence of any form of institutionalised force in the sense that authorities forced people to work in the forest. The recruitment from the delta area had at any rate almost stopped, and now took place mainly among the second generation of forestry workers and the permanent population in the forest. However, she pointed to the deep poverty in Vietnam, and that a measure of force was embedded in the lack of alternative sources of income. Forestry work was considered relatively attractive for women who usually did not have any other alternatives to agricultural work, which itself was as hard, or even harder, than the work in the forest. Forestry work meant a number of advantages, such as 20-days holiday, the right to health care, and old age pension, maternity leave and rice rations. None of this was available for agricultural workers.⁴²² The report also noted that it was difficult to institute measures to assist the forestry workers. Compared to the mill workers, they were more numerous – 17,000 compared to 2,500 – and they lived scattered over a large area.

Rita Liljeström returned to Vietnam in the spring of 1989 to consider the changes in living conditions between 1987 and 1989. She wrote that SIDA had assumed responsibility for the living conditions and concluded:

There are two schools of thought. The adherents of the first argue that the increased efficiency in forestry inevitably will have high social costs; partisans of the other consider the increase of productivity to be the means to protect the workers from further marginalisation. Sweden has an image of being a country . . . evoking hopes among those who want to unite economic reforms

⁴²⁰ Liljeström, Fforde and Ohlsson 1987. In addition to the main report, there are four sub-reports: Fforde, *Vietnam: Historical background and macro analysis*; Liljeström, *The living conditions of the forestry workers with particular attention to women*; Liljeström and Fforde, *Voluntariness and force in labour*; and Ohlsson, *Forestry work and rural development associated with the Bai Bang project*.

⁴²¹ SIDA memo, *Pressmeddelande, 19 November 1987*. Sida archive.

⁴²² SIDA memo, *Instruktion för halttidsöversyn i skogsindustriprojektet Vinh Phu 14–18 december 1987*, prepared by R. Folkesson. Sida archive.

*and open markets with a social conscience. Whether SIDA likes it or not, its decisions put weight in the pan of balance between the different Vietnamese conceptions of the road to development: pauperisation of the unsupported, or efforts to prevent marginalisation.*⁴²³

The reforms in Vietnam and the appearance of a market economy, as well as better utilisation of the land, had solved a number of problems for Swedish development aid. Even if living conditions might not improve from one year to another, they improved in the longer run. However, new problems were making themselves felt: there was less concern with the forestry workers than before from the state. The delivery of rice rations was becoming less regular, and the situation in mid-1988 was critical. Nevertheless, the subsidies system was abolished. The social security that the state had guaranteed to some extent was also increasingly left to the individual families. The majority seemed to fare better under the new, more individualised system, but a new type of marginalisation had started. This should have caused concern among socially concerned groups on the Swedish side, because the weakest usually fare worse in such a system. But the project was approaching its end, and the opposition in Sweden was muted. In Vietnam, the reforms had encouraged liberal ideas and private initiatives. The situation had also changed in Sweden. Disagreement on foreign policy was diminishing, and political contradictions were not played out in the field of development aid to the same extent as before.

At the mid-term review meeting in which the ministries concerned in Hanoi met with SIDA in 1987, SIDA allocated another SEK 5 mill for a living-conditions programme with special attention to improve conditions for single women and construction of public utilities such as schools and kindergartens. This was only for the forestry workers, not the employees of the mill. The programme started in summer 1990, when the Swedes left Bai Bang, and most of the resources went into the construction of houses and electrification. The living-conditions programme continued until 1992, by which time a total of SEK 11 million had been spent on measures to improve the life of the forestry workers.⁴²⁴ At that time the programme was taken over by the Vietnamese. The living-conditions programme officer, Eva Lindskog, left her position one year ahead of schedule because she found that she was no longer needed.⁴²⁵

The debate about the living conditions of the forestry workers put great pressure on SIDA and was another reason why the agency in the 1980s was determined to extract itself from Bai Bang. Another effect was to increase awareness of the social conditions, and to generate social research at a serious level. The research generated valuable knowledge about socio-economic

⁴²³ Liljeström 1989, pp. 3-4.

⁴²⁴ Tran Thi Van Anh and Bendz 1993, p. 2,5.

⁴²⁵ Interview with Lindskog, June 1998.

conditions in Vietnam during the reform process in the 1980s. Moreover, it contributed to a redirection of the focus of the project, from the technical-economical aspects of forestry to the conditions of people living and working in the area, which was an important precondition for the success of the project. The debate forced the Swedish consultant – Scanmanagement – SIDA, and the Vietnamese to make serious efforts to improve the situation.

One may wonder why research on social conditions was not undertaken at an earlier stage, and whether this would have facilitated the implementation of the project and enlightened the Swedish debate. It must be recognised, however, that the debates of the 1970s and early 1980s were expressed in simplistic black-and-white terms and partly driven by partisan political concerns. It would have been difficult to bridge the opposing points of view. Even if SIDA had initiated research to bring out the relevant facts earlier, it might not have improved the dialogue in Sweden. On the other hand, it might have helped SIDA formulate a more effective public information strategy. One of the failures of the agency was not to provide communication about the project more broadly to the public. Attempts to do so started too late, and SIDA was caught in the dilemma of controlling the information by keeping it to itself, or having an uninformed public. Much of the material available in the archives today would have been of interest for a concerned public in the 1980s. Instead, it was kept under lock and key because it was considered “sensitive”. In retrospect, the conclusion nevertheless seems warranted that SIDA would have done itself a service if it had permitted more transparency around the project.

Chapter 7

Producing paper – a Vietnamese company takes form

The account of the operational phase of the mill has three main themes: 1) problems of securing adequate supplies of raw materials (see Chapter 5); 2) problems related to labour (see Chapter 6); and 3), the attempts to introduce Western-type management and business principles to the newly established state-owned enterprise. This chapter will concentrate on the third issue – the transformation of Bai Bang from an aid- and state-sponsored bureaucracy to a market-oriented company.

The changes to take place at Bai Bang must be seen in the context of the economic reforms that gradually altered the economic environment in Vietnam during the 1980s. These reforms had both a constraining and an enabling effect on the management philosophy at the mill, which followed liberal capitalist principles and was commonly referred to as the “Scandinavian management” method. In effect, there was a clear interaction between the two processes: the introduction of liberal management practices at Bai Bang exerted also a reciprocal influence on the national reforms.

The Bai Bang enterprise was initially accorded a privileged status within the centrally planned economy, signifying its political and technological importance. The special privileges were extended and enhanced in the 1980s, and were of critical importance in sustaining the factory through a difficult decade. Such enthusiasm for the so-called “friendship project” was not equally shared throughout the Vietnamese administration or the Party, but reform-oriented Party members at the highest level took a great deal of interest in the project. Apart from being important to the Vietnamese economy, Bai Bang represented

a model of new and efficient ways to manage an enterprise. In 1984, the Council of Ministers designated Bai Bang as an experimental mill for the improvement of management. The special meeting convened between Deputy Premier Do Muoi and the Swedish Project Director, Sigvard Bahrke to discuss management principles serves to illustrate the point further.

The Bai Bang mill was in the forefront of enterprises which were allowed, and even formally authorised, to practice reforms that gave greater decision-making autonomy to the individual enterprise. The precise effects of the special exemptions and privileges accorded Bai Bang are uncertain. Many seemed to have little impact because of limited knowledge and acceptance of the initiatives at lower levels in the administration and the Party. The full effect was at any rate dependent on changes in the macro-economic environment and the transition from central planning to the market as a mechanism for supplying inputs to the mill and distributing its product. Scanmanagement said in 1990 that the reforms had come too late to make its work effective. But the current management of the Bai Bang Paper Company has argued that the factory's successful adaptation to the new market economy in the 1990s is mainly due precisely to its exposure to the principles of "Scandinavian management".

This chapter attempts to capture the dynamics in the interaction between the national reforms and the influence of the Swedes at the factory-level.

Reforms in Vietnam

Speaking at the inauguration of the Bai Bang paper mill on 26 November 1982, the Director of SIDA, Anders Forsse, said that the project would contribute to the "industrialisation and modernisation" of the country.⁴²⁶ At the time, the word "modernisation" was not used in the political language in Vietnam; the main concern in 1982 was still to protect and defend the motherland. But Vietnamese officials would certainly agree with the idea of industrialisation. Building socialism and moving towards large-scale socialist industrialisation were still the catchwords. Yet change had started to creep in, generated by the economic crisis of 1979–80. The report by the Party leadership to the 5th Party Congress in 1982 was a frank admission of failure. National production was not able to meet the needs of social consumption, creating serious shortages of food, clothing, and other consumer goods. There were great shortages of energy and significant shortcomings in the communication and transport sectors. In some areas, the livelihood of the working people was also affected by droughts, floods, and enemy destruction.⁴²⁷

⁴²⁶ Transcript of the speech, 26 November 1982. MFA archive.

⁴²⁷ Communist Party of Vietnam 1982, p. 23. The report was authored by Le Duan, the late secretary-general and chief ideologue of the Vietnamese Communist Party.

The 5th Party Congress was the first such assembly after the initial reforms had been introduced in August 1979. By 1982, the Party leaders were talking in two tongues: the old socialist rhetoric was still in place, but the political line for achieving goals had changed. There was less emphasis on heavy industry, and more on small-scale production. All types of production were to be encouraged and combined, and export and consumer goods were given highest priority. But the state was still leading in the trade sector and the intention was to transform the private enterprises in the South into state enterprises.⁴²⁸

The strategy for the period 1981–85 presented to the 5th Party Congress incorporated several points of specific relevance for the new MoLI enterprise in Bai Bang. The main aim was to stabilise and improve people's living conditions. This included, *inter alia*, increasing the supply of writing paper and newsprint for schoolbooks and newspapers.⁴²⁹ Importantly, the strategy stressed the need to overhaul the economic management system: "Achieve a change in planning procedures by all managerial levels – central, local and grassroots. Plan from the grassroots. Link planning with cost-accounting and socialist business operations." Incentive policies were urgently needed to encourage production, increase productivity, and forge a unity of the state, the enterprise and the individual.⁴³⁰ The Party leaders affirmed the monopoly of the state in foreign trade, but opened for autonomy on the enterprise level by directing every firm that had a responsibility to export to try to finance its imports by its own means.⁴³¹

Today, the reforms in Vietnam are often linked to the *doi moi* policy formulated at the 6th Party Congress in December 1986. As the documents of the 1982 Party Congress show, however, the reform process started much earlier. In the first period, it took the form of affirming and, to various degrees, legalising change that occurred spontaneously at the local levels. To deal with the shortages and price distortions caused by the economic crisis, people started to operate outside the planned economy. Firms, officials, and assorted individuals improvised and broke rules to engage in new, unofficial, and initially illegal forms of trading and other resource mobilisation. This "fence-breaking" – as it was called in Vietnamese – was the driving force in the early reforms and gave the entire process a spontaneous and bottom-up quality.

Until 1986, the response of the state was to endorse some of these changes as tactical concessions deemed necessary to preserve socialism.⁴³² As part of the production was *de facto* channelled to local consumers, and a market slowly started to develop, the Party authorised what came to be known as the Three-

⁴²⁸ Ibid., pp. 56–60.

⁴²⁹ Ibid., p. 75.

⁴³⁰ Ibid., pp. 75–79.

⁴³¹ Ibid., p. 60.

⁴³² This is what Fforde and de Vylder call "hard reform socialism", in contrast to the reform process after 1986 which represented a strategic retreat from socialism in favour of the market, and hence labelled "soft reform socialism". Fforde and de Vylder 1996, p. 22 et passim. For a discussion of the reforms, see also Ljunggren (ed.) 1993a and Nørlund, Carolyn Gates and Vu Cao Dam (eds.) 1995.

Plan system. The system, introduced in 1981, formally increased the resources available to a company for buying raw materials in the market or paying a bonus to its workers. The state thus *de facto* recognized the existence of a market, even if it was only meant as a supplement to the production for the state. The main aim was to increase production.

This kind of reform represented what in retrospect appears as a painful transition process for both enterprises and their employees. First, nobody knew where the limits for change lay, and when and how the political system would turn around and clamp down on the process. Second, the economic forces that were unleashed had their own logic. For instance, cost accounting was a new concept in Vietnam; it meant that prices were calculated and determined contrary to the existing system of price-setting at the central political level. It also meant that a black market appeared in which goods were sold at prices determined by demand. The Vietnamese currency acquired both an official and an unofficial exchange rate. This created inflation and undermined the formerly quite stable system of exchange in the planned economy.

This was the situation at the opening of the 1980s when the Swedish private sector managers of the firm Scanmanagement arrived at Bai Bang. Their task was to transfer knowledge to the Vietnamese about how to operate the paper mill. Their knowledge, understandably, was based on business management in a capitalist world economy. In Vietnam this came to be called by the politically more neutral term “Scandinavian management”.

By the mid-1980s, the political and economic environment in which Bai Bang was operating entered another phase. The growth of a private market and small-scale production had put pressure on the state-planned activities and triggered inflation. As inflation worsened in 1984–86, the old system of subsidised prices was severely undercut. In the mid-1980s a fierce power struggle took place in the Party between the conservatives, e.g. the more dogmatic communists, and the reformers. The conservatives won a temporary victory in 1984 when the freedom of the enterprises was curtailed. The next year, the reformers attempted to abolish the so-called two-price system (i.e. prices in the market, and the much lower prices of subsidised and rationed goods), but the experiment failed, causing widespread poverty.

The year 1986 was the watershed. The principle of *doi moi* (“renovation”) was laid down at the 6th Party Congress in December 1986, ushering in a period of reform aimed at a full recognition of a free market economy and private sector. For Bai Bang and similar state-operated enterprises, the most important decision was made in November 1987 when the Council of Ministers further dismantled the central planning system by significantly increasing the autonomy of the individual company. For the companies and their employees, it meant that the “soft” budget constraints imposed by the system of central planning and subsidies were to be replaced by the hard realities of market economics. In 1989, the two-price system was finally abandoned; now, wages

had to be paid in cash, not in subsidised goods. Along with this reform the centrally planned economy was finally abolished.⁴³³

In internal trade, the barriers to inter-provincial trade were removed around 1987, and with the final abolition of the two-price system in 1989, the state was no longer an intermediary in local trade. The policy on foreign trade also changed considerably over time. In 1985, some state-owned companies were allowed to export production above the plan target, and to retain the foreign exchange within the company. This was followed by further decrees in 1989, when the currency was made convertible. Other relevant reforms followed in the 1990s.⁴³⁴

Two systems, two cultures

When the Swedish–Vietnamese paper mill started to operate in 1982, the reforms had made Vietnam more open for change. This also made the suggestions issuing from the new Swedish management consultants more acceptable than had been the case under the earlier WP- System management in the 1970s. The Western management style espoused by the Swedish consultant was now seen by some as a possibly attractive alternative to the Vietnamese system of planning. It is probably impossible to trace the direct influence of the Bai Bang project on the reform process at large, but the conditions for a fruitful interaction were clearly present. Bai Bang was one of the largest projects under construction in Vietnam, it was the only one built with expertise from a ‘capitalist’ country, and it was the only one that was organised as a co-operative project between the two parties. Moreover, Sweden was allowed to continue to give direction and support in the operational period of the mill. This was highly unusual. The prevailing conventions for the handing over of a project by a socialist country to the Vietnamese authorities was that responsibility passed from Technoimport under the Ministry of Foreign Trade to the relevant line ministry when the project was finished, and the foreign experts would leave. But the Swedes stayed on.

The clash of cultures that the Bai Bang project set off was clearly evident in the years that followed its inauguration. Consequences were felt at all levels in Vietnam – from the central ministries to the regional and local levels, and even down to the mill site and in the forest areas. The most direct confrontations probably took place at the factory site, although this was also an area where efforts to find an accommodation were made. The Swedish side was in some respects the strongest. The Swedes had the knowledge and economic resources that the Vietnamese wanted, and they represented a system of management and production that the Vietnamese – confronted with their own low productivity and persistent shortages – were keen to learn from or even emulate.

⁴³³ In agriculture, the first important change was introduced in 1981 (CT-100), whereby peasants were encouraged to increase production through output-based contracts. The co-operative system was still maintained, but in April 1988, the co-operatives were changed into service organisations and it became possible to lease land for up to 15 years.

⁴³⁴ Fforde and de Vylder 1996, chapters 4 and 5.

The Swedish management model became increasingly attractive as the reforms progressed in the 1980s.

The Bai Bang project was still a small island in the Vietnamese economy and society. To introduce a ‘Scandinavian management’ system at the mill which did not harmonise with the rules of the society at large was no easy task. It required co-operation between two types of planning and management system, and between two different cultures in the broadest sense of the word. The 1980s was still a period in Vietnam during which foreigners were suspect, particularly those coming from the capitalist world which in general and for many years had been the designated enemy. At the height of Swedish engagement in Bai Bang, there were around 600 foreigners – including family members – in the project area. They lived in housing that was comparable to the standard they were used to in Sweden, but in the midst of a very poor rural area. The paper mill was also in this sense an anomaly.

In terms of the Vietnamese planning system, Bai Bang appeared as a “cuckoo in the nest” because of the demands on the Vietnamese side to fulfil its obligations. The “cuckoo” tendency was accentuated by Vietnam’s centrally planned, ‘shortage-economy’, which had few resources.⁴³⁵ Despite the reforms, the ideology still favoured equality, and the existence of a resource-hungry Swedish project generated struggles and envy in the planning system as well as in the locality.

What is “Scandinavian management”?

In Scandinavia there is of course no concept such as “Scandinavian management”. There are variations of management styles within Scandinavia and among companies – e.g. between WP-System and Scanmanagement. It is not possible to talk about just *one* Scandinavian model. On the other hand, there were clear differences between the Swedish and the Vietnamese systems in general. To understand the process of introducing “Scandinavian management” at Bai Bang, it is necessary to recall the structure of the Vietnamese enterprise and employment system in the pre-reform period.

The basic principle of a Vietnamese enterprise was that it received all the necessary inputs (land, buildings, raw materials, power etc.) from the state, and delivered the finish products back to the state. The state would distribute the product according to the needs of the various units in the country. The main constraint for the company was that it had to fulfil a plan decided by the state; it would receive a bonus only if the target was met. How the company was managed was not really a concern of the state. The workers and employees were considered state employees. Employees were paid according to a state system where the differences in income were small, mainly based on seniority. The livelihood of the employees would be secured, partly through the company,

⁴³⁵ The term is from Janos Kornai, who argues that socialist economies have a tendency to produce too little. Kornai 1980 and 1986.

which took care of housing, basic health-care, and pensions. Water and electricity – as far as they existed – were inexpensive, and the basic commodities were delivered through a rationed system at very low prices. Workers were not only life-long employees, their children would often take their place when they retired. A labour market did not exist. It was considered a privilege to be a worker because of a relatively high income, good living conditions, and secure employment. The percentage of party members was in general fairly high since coming from a family of party members opened the doors to employment.

As long as the enterprise had limited decision-making power, the management of the enterprise was not considered a very central issue. Production would usually be organised along pre-revolutionary lines if the company was an old company, or along the lines of Eastern European management for a newer company. Individual enterprises were, of course, influenced by local socio-cultural conditions. The decision-making power would often be in the hands of the Party rather than the administration, or the two would overlap. The tight organisation of trade union and party lines in the factory organisation was an important feature of a Vietnamese enterprise.

As noted above, the first reforms in the early 1980s had allowed companies to operate more independently in some respects. The most important was the Three-Plan system which permitted the company to go outside the state plan and acquire raw materials by itself and to sell the product on the market, or acquire raw material by itself and sell the product to the state. The change opened up for higher production-linked bonuses, and helped the enterprises through the very difficult years around 1980 when everything was lacking – raw materials, spare parts, and power. Unlike before, creativity became an asset.

The situation for the Bai Bang mill was not very different from that of most other enterprises in 1980, although in some respects it was worse. The mill was situated far from the cities, in an area ill-prepared to take on the number of workers necessary to build and run the factory, and lacking infrastructure for the most basic needs. With the factory started up, there were new types of demands and needs – for raw materials for production (coal, lime, salt and wood), for transportation to the mill, for spare parts and other imported items, and for trained workers to operate the mill (see Box 7.1).

The Vietnamese seemed to be impressed with the results achieved by Scanmanagement and repeatedly inquired about support to introduce “Scandinavian management organisation” elsewhere, even as early as in 1982.⁴³⁶ Ideas of cost-benefit calculations in operating enterprises had been aired at the cautiously reformist Party Congress in 1982, probably not as a coherent system but as a specific means to increase the productivity of an enterprise and enlarge surpluses.

⁴³⁶ Scanmanagement memo, *Aktuellt läge i projektet*, by P-A. Svenningsson, 20 May 1982, p. 4. SM archive.

Box 7.1: The situation at the factory in 1982 as seen by Scanmanagement

At the end of 1982, Scanmanagement (SM) and SIDA began their negotiations for a new agreement to take effect in 1983 when the first agreement expired. SM depicted the situation at the mill in 1982 as follows:

In simple terms, raw materials and wood are transported to the mill and transformed into paper through the use of mill equipment operated by local people. All elements required for this process exist and have been tested. What is required now are greater quantities and better continuity in the process. The elements and main problems involved are:

Local People

Recruitment:	Functions reasonably well except for mill foremen and forestry workers
Living conditions:	Terrible
Food Supply:	Insufficient
Motivation to work:	Bad
Training:	Promising

Equipment

Present conditions:	Minor adjustments needed
Maintenance:	Promising, but lack of skilled or trainable personnel
Theft:	Some improvement noted
Spare parts supply:	Can be organised

Wood and bamboo

Availability:	Larger area needed
Harvesting:	Extremely inefficient
Transport:	River promising, roads a problem

Raw materials

Availability:	Acceptable
Transport:	Needs improvement

Finished paper

Customer relations:	Must be organised
Transport:	Needs considerable improvements

Source: Scanmanagement memo, *Aktuellt läge i projektet*, by P.A. Svenningsson, 20 May 1982. SM archive.

The term “Scandinavian management” seems to have been invented by the Vietnamese around 1982. It was probably inspired by the confusion of “Scanmanagement” – the name of the consultancy firm – with “Scandinavian management” as a generic term. The consultant accepted this as a welcome challenge and outlined a strategy of action already in December 1982 (see Box 7.2). The strategy became influential for the next phase of SIDA support for the project (1983–85), and in the phasing-out period as well. When formulating the strategy, Scanmanagement stressed the importance of individual motivation as a prerequisite for the Vietnamese to run the mill efficiently:

It must be fully understood that any form of organisation can function only when individual motivation exists on all levels to act in harmony with the

*aim of the organisation. The realisation of this difficult but challenging task will take time and call for persistent and concerted efforts from all parts, including the Swedish authorities.*⁴³⁷

Box 7.2: Scandinavian Management –1983

In March 83 Ola Wahlqvist of Scanmanagement initiated an internal discussion at Bai Bang on principles for management training.

Scandinavian management can be defined as a means to organise, manage and administer activities of value to consumers and society with the aim of maximising profits, and at the same time satisfy all reasonable social demands related to these activities. Scandinavian management principles have become increasingly human-oriented. (SM memo)

The first courses were held in 1984, and more than 100 managers at all levels in the mill attended. The message was based on the following principles:

- Create free competition
- Let the market determine prices
- Give employees the right to negotiate and strike
- Apply real cost of capital
- Managers to be appointed by the closest superior
- The right and duty of managers to make their own decisions
- Full-scale private ownership
- Same rules to apply for all enterprises.

Wahlqvist later said he was surprised by “how much criticism of the existing system we were allowed to present. The term itself was a Vietnamese invention.”

Source: Scanmanagement memo, prepared by Ola Wahlqvist, 28 February 1983. Bapaco archive; and interview with Ola Wahlqvist, Stockholm, August 1998.

The strategy pointed to the importance of government action, which has to be considered in a broader definition of Scandinavian management. It raised some exceedingly controversial issues from a Vietnamese point of view, namely the role of the state administration and the individual. The Swedish consultant was probably not fully aware of the size of the challenge it took on when raising such issues at Bai Bang.

Scanmanagement outlined the fundamental objectives of management based on organisation theory and the social values of management. Theirs was a ‘socio-technical’ system concept, in which business is built on three interrelated sub-systems: the technical, the administrative and the social. The technical subsystem includes technology and working methods used for production and handling of goods and services. The administrative subsystem includes the company organisation and systems for communication and decision-making. The social subsystem comprises the surrounding society and the individuals working for the company, including the staff’s know-how, values and behaviour.⁴³⁸

The first management course for the project director, Trinh Ba Minh, his closest staff, and a few representatives from Hanoi and the Vinh Phu province

⁴³⁷ Scanmanagement 1982, p. 24.

⁴³⁸ Scanmanagement/VPPPM memo, *Transfer of knowledge*, n.d., September 1983. SM archive.

took place over a two-week period in February 1982. The Hanoi authorities had paid attention to the seminar and project director Svenningsson noted he was himself glad to learn about the Vietnamese system.⁴³⁹

In the mid-1980s, the ideas of Scandinavian management were spelled out in manuals and used in management courses which presented them as ideas relevant for society as a whole. These courses were organised by a another Swedish management consultant, so it is not correct to say that they represented the exact philosophy – to the extent this existed – of the firm Scanmanagement. For instance, a psychologist had helped design the manual and gave “culture” a more prominent role in management than Scanmanagement probably would have done (see Box 7.3).

The Vietnamese perceived Scandinavian management as emphasising economic efficiency, delegation of authority, the counterpart relationships – i.e. Swedes and Vietnamese working side-by-side – and minimal bureaucracy. All these dimensions pointed to the essential differences between a Scandinavian and a Vietnamese model of management, which, not surprisingly, created problems.⁴⁴⁰ In retrospect, the Vietnamese history of Bai Bang presented the situation in the mid-1980s as follows:

The knowledge transfer was also facing a lot of difficulties, especially in the application of [the] Scandinavian Management model during the beginning of this period [1980–85]. It was due to the mill [being] operated [with]in a central planning mechanism, so the mill had to follow the Vietnamese management system with bureaucratic, subsidy routines. And as a result, it often caused misunderstandings and unsympathy[sic] towards Scanmanagement when we did things that they could not understand as well as when we could not apply their good ideas. For instance, they proposed to increase salary and bonus for the employees but we could not do it as it was out of the Mill Director's power or . . . they suggested to put the wood supply enterprise into the Vinh Phu Pulp and Paper Mill, but . . . [this] was impossible. When SM was going to terminate [its]. . . contract, all operations for the Mill and Wood Supply Enterprise were going very well but not the knowledge transfer program.⁴⁴¹

In the latter part of the 1980s, according to the Vietnamese authors, the situation improved. The “Scandinavian model” was only applied in certain areas of the mill management. Internal procedures such as requisitions, cost follow-ups, and annual operation plans followed the Scandinavian model, and external relations like reporting, statistics, and financial management followed the Vietnamese system. When the Council of Ministers issued its landmark decision no. 217 in November 1987 – which established the autonomy of companies and the principle of cost-benefit as the basis for operations – it became much easier to apply the Scandinavian model at Bai Bang, the company history concludes.

⁴³⁹ Scanmanagement memo, *Aktuellt läge i projektet*, prepared by P-A. Svenningsson, 16 March 1982. SM archive.

⁴⁴⁰ Dao Nguyen and Quang Khai (eds.) 1997, pp.63–4.

⁴⁴¹ *Ibid.*, pp. 58–59. The quote is from the official English translation.

Box 7.3: Scandinavian Management

From the manual for management seminars conducted in spring 1985 (Compiled by Albatross 78, Consultants and Researchers AB, Lund)

Basic "rules":

- Obligation to look at the purpose and not the letter of a regulation.
- A manager shall not in the long run compensate for inadequate performance of subordinates through his own work.
- Arguments and criticism before a decision – loyalty after.
- If conflict of conscience impairs loyalty, a person should request transfer.
- Superiors should defend their own subordinates against outsiders.
- Obligation to make recommendations to superiors without prior request.
- Do not block the promotion of your own subordinates.
- Do not mix evaluation of individual work performance with their private opinions or non-work behaviour.
- Meeting notes containing decisions and conclusions ("who does what by when") are mandatory and should be distributed openly.

"Good management in an organisation is not basically a question of using the right methods and techniques, but a question of the right attitude towards people. This is a fundamental cornerstone in Scandinavian Management."

". . . emphasise the historical background and the socio-economic setting in which the management values have developed."

Scandinavian Management attributes:

Result orientation:

- Emphasis on quality and competence
- Efficiency and productivity as means of survival
- Ingrained and flexible ability to plan and follow up changes
- Openness in criticism and feedback of demands as means for results

People orientation:

- Team work as a management tool
- Co-operation and mutual support to strengthen resource integration
- Continuous personnel and management development
- Motivation as a stimulus for organisations

Value orientation:

- Emphasis on values instead of outer behaviour
- Local and individual responsibility and self-control
- Shared goal setting makes self-control possible
- Concern for equality in opportunities
- Concern for social obligations

Pragmatism:

- Realism instead of visions
- Obedient and law-abiding society
- Negotiations before open conflicts

Reliability:

- Trustworthy and stubborn
- Low in risk-taking
- Emphasis on fairness and safety/security
- The welfare state

Box 7.3: Scandinavian Management (cont.)

Megalomania:

- "We are the best in the world"
- Great national pride in
 - cultural heritage
 - technological achievement
 - our social welfare
- World consciousness

Anonymous:

- Lack of charisma
- Low in spontaneity and creativity
- Dependent on others
- Cultural inability to overrate
- Lack of self-confidence

Source: Management seminars, spring 1985, Albatross 78, Consultants and Researchers AB, Lund. Sida archive.

Bai Bang and the national reforms: A two-way interaction

The economic reforms in Vietnam, it will be recalled, had several important aspects. They involved a process of commercialisation whereby the market system gradually replaced central planning as a mechanism for allocating resources. Second, they helped to accommodate the Vietnamese economy to the international system. Third, they eventually entailed a series of "structural adjustments", imposed not by outside authorities but the national government. But what was the overarching objective of the reforms? SIDA official Börje Ljunggren, later Swedish ambassador to Hanoi, repeatedly put the question to high-ranking members of the Party. In 1987, Prime Minister Pham Van Dong answered with a single word: "efficiency".⁴⁴² One of the central reform figures, Deputy Prime Minister Do Muoi and the Party's strong man in the Council of Ministers, gave a slightly more elaborate answer:⁴⁴³ "The objective [of *doi moi*] was to generate rapid growth, while preserving important social gains, and catch up with neighbouring countries."⁴⁴⁴ To Do Muoi, the main question was not *whether* to pursue reform, but *how* to do so.

Do Muoi was not originally known as a reformer, but a symbiotic relationship between him and the Bai Bang project developed. He took an extraordinary interest in the project, and this possibly inspired him to push for reforms in the 1980s. What is clear, however, is that Bai Bang would not have been able

⁴⁴² Ljunggren 1993b, p. 41.

⁴⁴³ Do Muoi ranked number three in the Politburo and was competing with Vo Van Kiet, who was known to support reforms more strongly than Muoi. Do Muoi was acting head of the Council of Ministers in the late 1980s and in 1991 was appointed secretary-general of the Communist Party.

⁴⁴⁴ Ljunggren 1993, p. 42.

to succeed as well as it did without Do Muoi's support and links at the highest political level. In most other respects, the surrounding socio-political environment did not facilitate the task of running the enterprise.

Bureaucratic obstacles in Hanoi

The contract between Scanmanagement and Technoimport to operate the Bai Bang project was signed in Hanoi in March 1980. The choice of a Vietnamese signatory probably reflected the fact that Technoimport was the agency that usually handled contracts with foreign companies. It had not been involved in the first agreement between SIDA and the Ministry of Foreign Trade in 1974. According to Technoimport, this had led to unclear sub-contracts and responsibilities on the Vietnamese side such as regarding the ownership of equipment used by the Building Company and Erection Company (in the Ministry of Construction), and was possibly also one of the reasons for the large "leak" of equipment at Bai Bang.⁴⁴⁵ Nevertheless, the choice of Technoimport was unusual in the Vietnamese context, and it is questionable whether the agency was the best possible counterpart. The decision to make it the counterpart for Scanmanagement was probably the outcome of rivalries between the ministries in Hanoi. After the March 1980 agreement, the Council of Ministers circulated a decree about the organisation of the project. It illustrates the complicated institutional setting and indicates the problems the mill would face when it started to operate.

The Construction Ministry, the Ministry of Light Industry (MoLI), and other ministries were responsible for the termination of the construction phase according to the previously approved time plan. The Ministry of Foreign Trade should guide and advise Technoimport in agreements with Scanmanagement during the operations phase. MoLI was responsible for the employment of the Scanmanagement advisers and experts. Under the guidance of the vice-minister of MoLI, a council should be established to help co-ordinate and facilitate the task, and include representatives of the Ministry of Foreign Trade, the Ministry of Construction, the Ministry of Forestry and two members from the project (one Vietnamese and one from Scanmanagement). This corresponded to the Joint Policy Committee that SIDA had suggested should be established under a specific agreement. On a lower level, a mill management board should be established to facilitate co-operation under the chairmanship of the project chief. This was also a SIDA demand. The Ministry of Forestry was responsible for the supply of fibrous raw material. To guarantee the continuity of production, a plan for the supply of coal and fuel to the power plant should be worked out with the responsible authorities, namely the Ministry of Coal and Electricity, the Ministry of Transport and Communication, and MoLI. Another plan was to be worked out by MoLI in co-operation with the State Planning Commission, the Ministry for Supply and other units concerning supplies for the operations phase. The

⁴⁴⁵ SIDA memo, *Minnesanteckningar från informellt möte med herr Long i Technoimport*, 6 November 1978. Sida archive.

Price Commission and MoLI should provide price indexes to the Swedish side. The Ministry of Transport and Communication should outline a plan for improvements of Road No. 2 and the bridge construction. The Ministry for Supply and Food, the Ministry of Interior, and the People's Committee of Vinh Phu province would be responsible for a continuous supply of food for the workers at the mill in addition to the supply already committed. Finally, the Tourist Office should take care of the contract for the Scanmanagement house in Hanoi. All the involved authorities were obliged to follow this decree, which was signed by the Deputy Prime Minister, Do Muoi.⁴⁴⁶

The new management system at the mill introduced included preparation of Annual Plans of Operation (APOs), including a comprehensive budget for the whole project, and was set to start in November 1980. In February 1981, Rehlen and Elding, at respectively SIDA/Hanoi and SIDA/Stockholm, had already written a long letter about the problems at the site level to a Mr Giong, the responsible official in MoLI. There were shortages of manpower and raw materials such as macadam, acetylene, and fuel-oil for the forestry component. Shortage of coal was a major problem – only 1,000 tons of coal had been delivered in a month, while the agreed quantity was 10,000 tons per month. Two cranes had not been transferred to the forestry component. In addition SIDA underlined that the Swedish resources also in other areas should benefit the forestry project. It was noted that 1,000,000 exercise books had already been produced at the factory, and that storage capacity was used up. “We would ask you to organise the distribution of the exercise books and paper from Bai Bang in a continuous and rapid way.”⁴⁴⁷ The letter shows the problems existing at the factory, and – even more so – in the administrative and economic environment.

It was a break with Vietnamese tradition to send letters and circulate them to the bureaucracy in this manner, but the seriousness of the situation made SIDA try to alert the authorities by unusual means. Even more unusual, the Swedish project director, P-A. Svenningsson, appealed directly to Prime Minister Pham Van Dong. In a letter of 20 February 1982, Svenningsson complained that equipment and skilled labour had been taken away from the project. He had decided to take the matter to the Prime Minister, he wrote, because “all normal channels have been tried” but failed. The language was quite direct: The Prime Minister was informed that to “make continued Swedish aid meaningful at all, measures must be taken.”⁴⁴⁸ It was unheard of for a foreign consultant to address himself to the highest authorities directly. We have no evidence that a reply ever came.

Special privileges for Bai Bang

Nevertheless, there was a response at the highest level. In June 1982, Tu Le, special advisor to Pham Van Dong, visited Bai Bang for the purpose of

⁴⁴⁶ SIDA memo, *Beslut från Premiärministerns kansli*, March 1980. Sida archive.

⁴⁴⁷ SIDA/Hanoi, letter to the project director, MoLI, 2 February 1981. Sida archive.

⁴⁴⁸ Scanmanagement/VPPPM, letter from P-A. Svenningsson to Pham Van Dong, 20 February 1982. Sida archive.

acquiring information and “finding solutions to eventual problems”.⁴⁴⁹ Pham Van Dong was dissatisfied with the lack of efficiency of the Vietnamese authorities and he advised that the organisation of the leadership and the living standards of the workers be improved. “Produce a lot and give a lot of rewards”, was his advice. The reason for the numerous shortages that hampered the project was inaccurate reporting from the Vietnamese organisations at Bai Bang, Tu Le said. The government had now instituted more systematic controls of the project at higher levels, and had appointed special advisors to Pham Van Dong to handle forthcoming problems. One suggestion was to give the Vietnamese and Swedish leaders on the factory level full powers to make all decisions in the project. It was even suggested that the Swedish project leader should have the ‘highest’ power. At the SIDA office in Hanoi, Ragnar Ångeby was puzzled about the suggestion to put the Swedish authority first, and wondered whether he had understood Tu Le correctly. He recommended that the Swedish side kept a low profile, as it would be more difficult to make the new management ideas develop local roots if Scanmanagement took the lead.

Le Tu had a solution to the coal shortages as well. The power station should produce much more electricity, 18,000 kW, because energy was badly needed for other purposes than the factory. Additional electricity could help the irrigation of rice land to increase production. Coal was available – 150,000 tons were ready to ship to Bai Bang from Vat Cac, and 70 locomotives were available in the north. Tu Le noted that 18,000 kW was a significant amount – double the consumption of electricity in Hanoi – but did not elaborate on the implied disproportionalities.⁴⁵⁰

The visit by Tu Le illustrates how the central planning was working, and solutions generated. It should also be noted that his recommendations went further than the state of the nation-wide reforms at the time would suggest. He even suggested testing the application of various Swedish systems of bonuses and wages. “When the tests had been carried out, the accumulated experiences at Bai Bang could be applied to other industries in Vietnam”, SIDA officials reported him as saying.⁴⁵¹

A government meeting took place in Hanoi in July 1982, to discuss the paper mill project. The main question concerned the supply of wood, which was expected to be insufficient for the next couple of years, according to the deputy minister in the Ministry of Forestry. A number of decisions were taken to improve reporting to the Council of Ministers, to give priority to planting, and carefully evaluate the species of trees. Deputy Prime Minister Do Muoi led the discussion, paying attention to details in a way that suggested micro-management. He expressed dissatisfaction about the lack of attention to Road No. 2, and severely criticised the Vietnamese director of the factory, Trinh Ba Minh, for not covering the coal yard with a roof. Do Muoi concluded the session by saying,

⁴⁴⁹ SIDA memo, from Ångeby to Industry Division, 16 June 1982. Sida archive.

⁴⁵⁰ SIDA memo, prepared by Ångeby, 15 June 1982. Sida archive.

⁴⁵¹ *Ibid.*

*If any of you, gentlemen, have dreamt that this factory should be built, then it is time to wake up. Bai Bang shall be the centre of our paper production, and the new model of management shall be followed. The shortest possible channels of decision-making shall be applied even if the regulations say differently. The goal is that the short-cuts of today shall be the routines of tomorrow. It is time now for all ministers to make contact with the Swedish project leadership to learn about the requirements for a functional unit.*⁴⁵²

The meeting took place on the eve of the 5th Party Congress, the congress that endorsed a series of nation-wide reforms, and Do Muoi appeared to strongly support the idea of reform. Governance, however, was still exercised in the traditional, hierarchical manner.

Five months later, in November 1982, Do Muoi officially inaugurated the factory together with Roine Carlsson, minister without portfolio, and in the presence of a number of dignitaries from Swedish government and industry, and a dozen journalists. On that occasion, Do Muoi explicitly proclaimed that the Swedish–Vietnamese project had an experimental nature. The goal of the factory was to “not only to produce as much as possible, but also to establish a base for experiments in economic management and training”.⁴⁵³ The idea of experimentation was not new. Already in 1977, 40 enterprises had been selected to test new guidelines for state enterprises, and the consequent modifications had been implemented in 1979.⁴⁵⁴ It is not quite clear if this particular experiment continued, but in November 1984 the Council of Ministers decided to designate the Bai Bang project an experimental mill for the improvement of management. Do Muoi wanted to profit from the experiences of Northern European management, which he elaborated as the ways in which the Swedish experts solved operational problems, improved internal management procedures, and enhanced the mill’s external relations with higher-level bodies, local authorities, etc.⁴⁵⁵

The reforms take shape

The ‘spring management seminars’ which in 1985 spread the ideas of Scandinavian management beyond the confines of Bai Bang were organised jointly by SIDA and the Ministry of Light Industry at the latter’s request.⁴⁵⁶ Several seminars focusing on ‘Improvement of management of Bai Bang paper mill and the raw material supply’ were presided over by Do Muoi, and attended by numerous government agencies and ministries, as well as provincial officials. The Vietnamese Central Institute of Economic Management was also in

⁴⁵² Scanmanagement memo, “Regeringsmöte” i Hanoi, by Lind, 31 July 1982. Sida archive; citing oral reports from Trinh Ba Minh.

⁴⁵³ MFA document, *Tal av vice-ordföranden i ministerrådet, Do Muoi*, 27 November 1982. MFA archive.

⁴⁵⁴ Ljunggren 1993b, p. 79.

⁴⁵⁵ Council of Ministers, no. 6351 V3, 16 November 1984. SM archive.

⁴⁵⁶ The sequence of the seminars is unclear. Scanmanagement mentioned that the seminars had started around May–June 1985, and that the total number of participants was 350, including managers from Hanoi, Bai Bang, the province, and the forestry area. Minutes, ca. May–June 1985. SM archive.

attendance. The Swedish project director at the time, Scanmanagement's Sigvard Bahrke, met Do Muoi at one of the seminars, and they agreed in a conversation that the time for change had come.⁴⁵⁷ The results of these discussions were incorporated in the government's Circular no. 1107 of 8 March 1985. According to the circular, the problems related to the forests and wood supply were high on the agenda. The circular concluded that the raw material area should be expanded, with 40,000 ha in the neighbourhood of the factory to be planted with wood for pulp and about 25,000 ha for firewood. Moreover, the mill was permitted to make direct contact with suppliers of wood and sign contracts for purchasing raw materials from state central enterprises, local state enterprises and forestry co-operatives and individuals. To this end, the mill was to establish a Raw Material Company that could sign the contracts.

As for the mill, the 1985 government circular further noted that:

- the factory should establish an import/export section for procurement and for export of paper;
- the State Price Committee should help establish more economic cost-accounting and ensure a profit by separating "irrational" expenditures in production costs, correcting the account for the production cost, and fix a "rational" sales price;
- the exchange rate between the Swedish krona and the Vietnamese dong should "correspond to realities", and be first applied to the paper company;
- the mill was allowed to reserve 12 per cent of the profit, because it was still not working at full capacity;
- the expenditure on additional food for workers could be calculated into the production cost at the rate 12 dong/person/days.⁴⁵⁸

Some of these decisions were important steps to improve the situation of the Bai Bang paper company, particularly those involving the specification of the exchange rate and that the state was removing itself from the relations between the enterprise and its suppliers. Overall, the circular exemplified a kind of decision-making that to some extent remains part of the system today, i.e. the situation of each company is considered on an *ad hoc* basis. The circular was sent to all parties involved, urging them to further suggest how the decisions could be applied. The problem was that it was impossible to implement some of the decisions until other changes had occurred in the government administration. In reality the problems were not solved.

The project organisation influenced not only the supply of wood to the mill, but the relationship between all the interrelated parts that needed to come together for its operation. The project structure started to be modified in September 1985, following intense pressure from SIDA in connection with

⁴⁵⁷ Interview with Rosén, long-term interpreter and liaison officer at the project, Hanoi, March 1998.

⁴⁵⁸ Scanmanagement memo, *Information about the viewpoints of Do Muoi regarding the improvement of management of the VPPP and the organisation of the material supply to the VPPP*, 8 March 1985. SM archive.

the new project agreement of May 1985 (see Chapter 8). Scanmanagement was again outspoken in its reactions. In the words of project director Sigvard Bahrke,

The supply of wood will be the critical factor in the future with regards to the production of paper. If wood supply planning and purchasing had been done by the same organisation that is responsible for the paper production, and these operations belonged to the same economic unit, then there would be a good basis for taking optimal decisions. That is not the case at present. Those responsible for fulfilling the mill's requirements for wood report to another ministry than the mill. They will not be affected by the economic, psychological, and other consequences if the mill has to close due to lack of pulpwood. They don't see the mill. They won't hear it when the machines stop. If the expensive mobile equipment in the forest area, meant . . . for the production of pulpwood, is standing idle due to a lack of diesel oil – who cares now? If the wood requirements for the annual production agreed upon cannot be delivered – who's going to take any action to find the missing quantities? If the plantation for the future wood supply is destroyed – who cares?⁴⁵⁹

In February and March 1986, the Council of Ministers made its final decision on the reorganisation of the project and set up two organisations: the Vinh Phu Service Union and the Vinh Phu Paper Union. The latter consisted of six units defined as individual enterprises: (1) Pulp, paper, power and chemical plant; (2) Transport Enterprise; (3) Maintenance Enterprise; (4) Construction Enterprise; (5) Import–Export and Paper Service Company (Vipimex – this meant the end of the role of Technoimport); and (6) Technical Vocational School. Each member enterprise was headed by a director who had the direct responsibility for his unit.⁴⁶⁰ The Vinh Phu Service Union consisted of the principal suppliers of wood for the mill. Not even the blunt arguments of Bahrke could bring about a merger of two unions which, in the eyes of the Vietnamese administrative system, were distinct, and separate.

At this time, the preparations for the 6th Party Congress were underway, and in April the Politburo drafted Resolution 306-BBT concerning the autonomy of state-owned enterprises. The purpose of the resolution was “to eliminate entirely the centralised bureaucratic structure of management and subsidies and to effect the materialisation of a democratic centralism, economic self-accountancy and socialist business”.⁴⁶¹ The resolution established the central role of the director of an enterprise, affirming his power to take independent decisions with regard to the management of the enterprise. The problematic relationship to the macro-level management was not addressed, however.

⁴⁵⁹ Scanmanagement memo, *General comments to the organisation decided for the VPPP project*, prepared by Bahrke, 18 September 1985. SM archive.

⁴⁶⁰ Council of Ministers, no. 48 HDTB, *dekret från ministerrådet avseende etablerandet av Papperskombinat i Vinh Phu* (Swedish translation), 25 April 1986, Sida archive; and Dao Nguyen and Quang Khai (eds.) 1997, pp. 60–61.

⁴⁶¹ Although apparently still in a draft form, the contents of the decree were published in the party newspaper, *Nhan Dan*, 23 April 1986, as a speech by Vo Chi Cong, the secretary of the Central Committee of the Party.

Resolution 306 received much attention in the Swedish camp at Bai Bang. A seminar was arranged on 19 December 1986 – the day after the 6th Party Congress ended – for the Vietnamese and Swedish project participants in Bai Bang to assess its implications. The seminar discussed the management problems in a very open atmosphere.⁴⁶² A Vietnamese speaker informed the audience that the resolution had been worked out on the basis of experiences and opinions from enterprises throughout the whole country. He continued to say that, in Vietnam, as in all other countries in the world, “the basic units” were those working concretely with the production of goods and, at the same time, had to procure the raw materials for the production. Whether the products met expectations in terms of quality and quantity was dependent on the ability of these basic units. The economic management by the state and central authorities had to be founded on the realities at the enterprise level, he claimed. One of the important conclusions of the seminar was that the middle management represented an obstacle to higher efficiency. It was recognised that Resolution 306 was mainly concerned with the enterprise level, and that the macro-management was still left to be dealt with. At the enterprise level, the seminar participants discussed how the decision lines could be shortened and decision taken at lower levels. This would permit the top management to concentrate on long-term planning. A Vietnamese speaker found that Resolution 306 did address this problem, but noted that a problem in this connection was the “difficulty for people to give up their positions, because they all find that they do an important job, and that makes it a slow process”.⁴⁶³

Another section of the discussion dealt with procurement and the role of Vipimex – the import–export company connected with the mill that was established in 1986. A number of concrete cases of obstacles were mentioned by the participants and they illustrate the nature of the challenge. The director general, Trinh Ba Minh, was not allowed to travel. Post was often not delivered, which made it difficult to arrange visits for potential buyers. Procedures supposed to take eight days took eight months. Orders from China had to be cancelled because it took too much time obtaining permissions from the Ministry of Forestry. “How many documents, how many authorities, how many bodies in this country should be pleased with having Vipimex as an exporter. . . [but] they are not helping at all, just refusing. You may understand that under such circumstances we cannot work on exporting.”⁴⁶⁴

The seminar clearly revealed that the dispensations and promises to the Bai Bang project about better macro-management had still not been implemented, and that administration at all levels remained a massive problem. The

⁴⁶² Present at the seminar were, among others, representatives from the State Planning Committee, and the Central Institute of Economic Management which had been authorised to continue Swedish–Vietnamese activities in the area of management. The Scanmanagement director of the project, Ulf Bernmar, chaired the seminar. Parts of the seminar discussion are available in transcript form, but they are very incomplete and lack reference to the speakers. Scanmanagement memo, *Seminarium kring Resolution 306 – företagens ekonomiska självbestämmande*, Bai Bang, 19.12.1986, Sida archive.

⁴⁶³ Ibid.

⁴⁶⁴ Ibid.

bureaucratic excesses could not be curbed by the central authorities, whether due to lack of information or direct resistance.

A Vietnamese view of the reforms at the Bai Bang project

1986 had been a good year for the project in spite of everything, and the production level increased to 22,615 tons. In December, the general director, Trin Ba Minh, wrote contentedly to SIDA to say that the production target was more than fulfilled. The optimism increased, and Scanmanagement was no less pleased. During the summer of 1986, the first results from the attempt to apply new management forms at Bai Bang appeared in a report for discussion before the 6th Party Congress.

Written by Vu Huy Tu, the report presented the main features of the production, the need for raw materials, the various units of the paper union, which the small conglomerate of enterprises connected with the mill had formed, and specifically noted that a considerable social welfare system was about to be established. Importantly, the author described the role of Scanmanagement as a supervisor rather than assistant, advisor, or equal counterpart. “The Swedish experts have supervised and still supervise the operation, training of employees, workers, and management based on a coherent program of transfer of knowledge.”⁴⁶⁵

Concerning the production target, the Tu report claimed that the factory had always fulfilled “the plan”, and the production capacity had increased from 20 per cent in 1983 to 55 per cent in 1986. In 1985, the production target stipulated in the Annual Plan of Operation was achieved for the first time, but it turned out to be a one-time event, until production picked up after 1990 (see Chapter 8). Yet, the output of 22,615 tons in 1986 represented as much as 23 per cent of the total production of paper in Vietnam that year, and showed how important the paper mill was for the economy.

Tu also discussed management. “Economic management under socialism is basically, and in its nature, different from capitalist economic management, but concerning management [at the enterprise level] a number of similar features are present in all basic economic units, especially in relation to forms and methods.”⁴⁶⁶ This was a core issue in the Vietnamese debate: how could the new reforms fit into what remained fundamentally a socialist ideology? One solution was to distinguish between the macro and the micro level. Macro-management still retained an appearance of socialist planning, even if the market played an increasingly influential role.

Scandinavian management experiences, the report further noted, were gradually applied in a selective way, based on the 1985 authorisation by the state to apply the model. A meeting of directors in January 1986 had discussed the paper company – indicating that the paper mill was being discussed for

⁴⁶⁵ The document, written by Vu Huy Tu, has been translated into Swedish. Its status is unclear, but apparently it was part of the political discussion preceding the Party Congress.

⁴⁶⁶ Ibid.

the benefit of the managers from the whole country – and concluded that the orderly management of the factory contributed to the fulfilment of the state plans in a positive way. The report defined management as “processing, combination and utilisation of all resources to achieve the goal”. “As in all other industrial companies in our country, the Paper Union in Vinh Phu defines clearly the goal of the company: To guarantee the victorious fulfilment of the production goal, according to the targets in the state plan.”⁴⁶⁷ Expressing a combination of surprise and pride, the Tu report claimed that there was no difference between Swedish and Vietnamese planning. In one sense, at least, this was right: it was very important also on the Swedish side that the factory to reach the production targets outlined in the plan.

Co-ordinating all the production units and all the required inputs necessitated a very detailed plan and co-ordination. Vu Huy Tu was clearly impressed with the large number of single items needed in the production process, and how they were co-ordinated. Just the lack of one item, say, coal, meant that the factory was unable to operate for 35 days in 1985, which represented a loss of 4,000 tons of paper. “According to economic calculations, each hour of idleness means a waste of 16,000 *dong* in foreign currency, due to depreciation of capital and the wages for the experts”, Tu noted. “To overcome this problem, the factory must make calculations of the production capacity in each link of the production chain.”⁴⁶⁸

The decision-making process at the mill was described as a system based on a principle of combination of concentration and non-concentration. “According to this principle, orders about operations will go vertically in the system from the director . . . to the workers (concentration). Simultaneously, horizontal decisions are taken between equal positions (non-concentration). Only if it appears that the horizontal decision is not possible, will a report go to higher level. . . This principle has enormous importance to reduce [sic] the number of intermediary levels, the number of contact persons and the number of orders from the higher management. The decision-making is much quicker in the daily work and concerning difficulties in the production chain.”⁴⁶⁹

Another area discussed in the report was the annual plan of operations (APO) and the five-year plan, how each specific area was calculated into the plan, and the relationship between plan and market. Each step in the production was analysed in detail, both quantitatively and qualitatively, and in terms of productivity and tax duties.

The report shows that the Vietnamese authorities had quite a good idea of the way in which the management of the mill functioned, and that the mill was considered part of the Vietnamese system in spite of the heavy presence of foreign experts. The mill’s management planning was seen in a Vietnamese perspective and context. It was not considered basically different from the Vietnamese way of doing things because the plan was an important tool; the

⁴⁶⁷ Ibid.

⁴⁶⁸ Ibid.

⁴⁶⁹ Ibid.

more detailed calculations, co-ordination, and adjustments were considered useful refinements. Vu Huy Tu ended the report by stating that, with the implementation of the (draft) Resolution 306 and the practical application of the lessons from its management experiences, the Paper Union would work better and better every day.

It is difficult to know how much of the management experiences at Bai Bang were assimilated by other enterprises. Many features relating to independent economic calculations of the various units could be found in other enterprises at the time or later. The internal organisation was a different matter. In this respect, the mill may have provided some inspiration, but, as a model, it was difficult to transfer.

The *doi moi* experiment 1987–90: Renovation without action

The 6th Party Congress took place in December 1986. Le Duan, the secretary-general, had died in July that year, and the ageing ideologue Truong Chinh had been appointed to succeed him and present the political report at the Congress. The 6th Congress represents the watershed in reform thinking in Vietnam, although this does not appear so clearly in the political report. Only the following year, under the new secretary-general appointed at the Congress, Nguyen Van Linh, did *doi moi* become a leading theme.

The political report of 1986 Party Congress pointed in many ways to a continuation of the policies of the previous Party Congress in 1982. It emphasised agriculture, consumer goods, and exports as the critical issues for further development, likewise the stabilisation of the socio-economic situation and of people's life, and the abolition of the 'bureaucratic centralised mechanism based on state subsidies'. The problem was that these tasks had not been carried out, and the report was severely self-critical. As for economic management, "the new mechanism . . . has not been established in a concerted way. Many obsolete policies and regulations have yet not been changed: a number of new management regulations are still patchy, heterogeneous and even self-contradicting. There are serious manifestations of bureaucratic centralism, while breaches of discipline and violations of organisation rules are rather widespread." It was clearly realised that "we have only pointed out the main orientation for the new mechanism".⁴⁷⁰ The (draft) Resolution 306 was specifically mentioned as having a far-reaching "renovating character". Experimentation and research had been conducted in many branches, localities, and grassroots units, making a direct contribution to the achievements in the past five years.

During 1987 several plenary meetings of the Central Committee were organised to discuss key concepts and to establish the basis for new decrees governing foreign investment, designed to increase the so far very limited foreign investments, the land question, foreign trade, the private, family, and

⁴⁷⁰ 6th National Congress of the Communist Party of Vietnam. Documents, Foreign Language Publishing House, Hanoi 1987, p. 23.

individual sectors, agriculture, and, not least, the management of state enterprises.⁴⁷¹ Letters were circulated in May to all ministries, provincial people's committees, and the Vinh Phu Paper Union at Bai Bang asking them to propose new ideas for economic management reforms. It was specifically requested that new ways of management should be reported, no matter whether they were 'correct according to existing policies or not'. The paper mill was specifically requested to elaborate on the reorganisation of the unions into various, relatively independent, profit-making units. Scanmanagement noticed, however, that there were few signs of real change.⁴⁷² The general economic situation deteriorated towards the end of 1987 after a number of years of improvement, and food production decreased. The press wrote a number of positive articles about the paper mill, especially because of the fulfilment of the plan and the profit generated in 1986. "The successes come partly from certain priorities given to the mill by the government, a good supply of raw materials, the technique of management and quality control passed on by Swedish advisors."⁴⁷³ The supply of raw materials was, however, not 'plentiful' in 1987 in relation to the needs. Moreover, it was predicted that if nothing was done, there would be an acute lack of raw materials for a period of 7–8 years, until the new plantations started to yield.

The mid-term review

According to the 1985 and 1986 agreements, a mid-term review was to be conducted jointly by the Ministry of Light Industry and SIDA in the autumn of 1987. This was quite crucial since it had been stipulated that the outcome of the mid-term review would make it possible to revise, re-orient, reduce, or even stop the Swedish aid programme to Vietnam. Three questions were on the agenda at the meeting held on 14–18 December 1987:

- had the mill achieved sustainable paper production based on local pulp?
- was the organisation of the mill and forestry appropriate?
- had the working and living conditions of the forestry workers' improved substantially?

The instructions from SIDA mentioned that the delegation should underline the importance of the right price relations between wood and alternative means of payment, for instance paper, which were employed due to the shortage of cash. The delegation should, moreover, remark that co-operatives and family production should be given higher importance in the production of wood.⁴⁷⁴ The participation from SIDA/Stockholm, consisted of Börje Ljunggren, Deputy General Director, and Christina Rehlen, by then head of

⁴⁷¹ Fforde and de Vylder 1996, p. 145.

⁴⁷² Scanmanagement 1980, p. 21.

⁴⁷³ Dang Kien, *The Beautiful Flower of Vietnam–Sweden Friendship*, *Vietnam Weekly*, August 1987, p. 5.

⁴⁷⁴ SIDA memo, *Instruktion för halvtidsöversyn i skogsindustriprojektet i Vinh Phu*, 14–18 December 1987, pp. 5–6. Sida archive.

the Industrial Division.⁴⁷⁵ SIDA and Scanmanagement had been discussing the organisation of the meeting – SIDA wanted the Vietnamese to lead the negotiations, while Scanmanagement wanted SIDA to do it. Otherwise, they feared, the ‘real’ issues would not be discussed.⁴⁷⁶ Scanmanagement wanted to focus the meeting on organisational and macro-management issues, but the Vietnamese, who chaired the meeting, focused more on how to secure wood – “wood now” – to the mill. An action plan for the forestry covering the period 1988–90 was outlined.

The Swedish delegation welcomed the Council of Ministers’ Resolution 217 of 14 November 1987, which took the autonomy of the state-owned enterprises an important step further. The Vietnamese delegation informed the meeting about the government’s policy decision allowing the Service Union to pay co-operatives and families in cash or commodities. The Swedish delegation – a bit surprised – welcomed the information, and remarked that an adequate wood procurement organisation would have to be established.⁴⁷⁷

Speeding up the reforms

On 3 December 1987, less than two weeks before the mid-term review, the Council of Ministers had agreed on the mechanism and policies to be carried out in the conventional raw material area in the central region of North Vietnam. The new system allotted land and forests to forest companies, co-operatives, private businesses, and individual families for up to 15 years, and established the right to inherit the land. It also expanded the linkages and business co-operation between different businesses in both state and private sectors. Moreover, the state established a number of incentives in the form of loans and investments in infrastructure, new plantations and welfare services. These measures were to take effect immediately.⁴⁷⁸ The new policy was in fact very similar to the general policy introduced into the agriculture sector with Decree No. 10 of April 1988.

A few days later, on 11 December, the Council of Ministers issued a decree entitled: “On ensuring conditions aimed at keeping the Vinh Phu Paper Union Enterprises operating steadily and running at its full design capacity”. In view of the difficulties the enterprise had encountered in the supply of raw materials, power, and foreign currency for import of spare parts and necessary materials, the Paper Union was instructed to:

- Immediately begin to apply the new mechanism and exercise full autonomy in production and business activities, without state compensation for losses. The enterprise would be responsible for covering losses from production

⁴⁷⁵ The head of the SIDA office in Hanoi had worked hard, but in vain, to ensure the participation of SIDA’s new Director-General, Tham. Tham had never shown much interest in Bai Bang, in contrast to Ljunggren who had followed the project almost from the beginning.

⁴⁷⁶ Scanmanagement 1980, p. 21.

⁴⁷⁷ *Agreed minutes*, Mid-term Review of Vinh Phu Pulp and Paper Mill Project, 18 December 1987, p. 4. Sida archive.

⁴⁷⁸ Council of Ministers, no. 328-CT, signed by Vo Van Kiet, Chairman of the Council, 3 December 1987.



The results of reform – private farmers prepare bamboo chips for selling to the mill, December 1994. Photo: Bror Karlsson/Phoenix

and business activities. Relations between the enterprise and the supply companies were to be regulated by economic relations. The State Planning Committee would in this case determine a production target for 1988, taking into consideration the short supply of raw materials.

- In order to ensure efficiency in production, the cost of all types of paper must be calculated to cover all costs of production and sold at commercial prices without compensations for losses.

- Guarantee the food supply for the forestry workers in a timely and sufficient manner. This was to secure the supply of raw materials since this was directly dependent on the standard of living conditions of the forestry workers.
- Set up its own office for export–import. The enterprise was permitted to export the amount of paper that exceeded the annual production targets.

With this decree, Bai Bang acquired full autonomy earlier than most other companies in the country. At the time, the general environment made it easier than before to transact business activities, but there was still some question about macro-management conditions. Scanmanagement and SIDA had wanted autonomy for the project, but now both the Swedish aid and the management support were decreasing.

1988–89 was a difficult period in Vietnam. The economy was unstable and the rules unclear. One of the Swedish consultants who went to Vietnam to lecture on management questions, Gabor Bruszt, was received by Prime Minister Vo Van Kiet in June 1988. He told Kiet that it seemed difficult for the decrees and directives from the government to penetrate, and that the enterprise managers were afraid to stand up and flag the problems. Kiet answered that the “decisions taken at the 6th Congress had been correct, but the implementation was still in a state of experimentation; inflation and continuous price adjustments made it difficult to carry out the reforms.”⁴⁷⁹ Moreover, pressures from the outside were mounting. As the Soviet Union and the Eastern European socialist countries also ran into crises, aid from these sources dried up, as did trade.

In spite of the general economic difficulties, the total production of felled wood did not change much. The transition meant, however, that more of the production than before took place outside the forestry enterprises. The production was reorganised as trees could be grown on agricultural land bordering on the designated forest land, and the cultivators could sell directly to the market, including the Bai Bang mill. However, until the new system was fully operative, the paper company was squeezed. The predicted shortage of wood was particularly acute for the factory in 1987–89, after which time deliveries again increased.

A similar picture emerged in other sectors. As state support faded, the transitional period meant shortages and difficulties both for people and the company.⁴⁸⁰ After 1989, it became easier to handle the many problems and imbalances at the local level. By the late 1980s, the problem for the paper company was not so much that the fibrous material was scarce, but that the production had increased and more wood was needed. In 1987, the factory had for the first time run at full capacity in periods, proving that it was possible to do so if conditions were optimal. In 1987–88, the low production level was,

⁴⁷⁹ MFA document, letter from Ambassador Lindahl to MFA, 22 June 1988, MFA archive.

⁴⁸⁰ Liljeström, Lindskog, Nguyen Van And and Vuong Xuan Tinh 1998. The situation differed considerably from one place to another, but a general feature was that 1988–89 were difficult years, before the positive effects of the reforms took hold.

for the first time, due mainly to the shortage of wood. In 1987, the factory had to stop the production for 22 days and run on low capacity for another 40 days.⁴⁸¹ The Review Mission even suggested importing pulp. But constraints other than wood were still important. When figures for the delivery of fibrous material are examined (Box 7.4), it appears that the production of paper should have been higher in 1987–89 than what it was. In general, around 134,000 tons of fibrous material should generate around 30,000 tons of paper, depending on the quality of wood. The figures might not be quite correct, but the trend seems clear. The delivery of wood from the VPSU increased considerably until 1987, and only after did it decrease. Deliveries from other sources helped compensate for the decline in VPSU supplies, so that the total amount of wood available to the mill continued to increase until 1987, and then stabilised until 1989.⁴⁸²

Box 7.4: Delivery of fibrous material to the mill from the Vinh Phu Service Union and other sources (1000 tons), and the production of paper, 1984–89

	1984	1985	1986	1987	1988	1989
VPSU	87,000	92,000	120,000	132,000	130,000	120,000
Other sources	11,000	18,000	11,000	15,000	20,000	17,000
total	98,000	120,000	131,000	147,000	150,000	147,000
Production of paper	18,734	22,652	30,499	28,057	23,740	26,157

Sources: Dao Nguyen and Quang Khai (eds.) 1987, p. 152, and *Review Mission September 1990*, p. III/6. Both use data provided by the mill.

The availability of fibrous material for the mill has to be seen in relation to the country's total production of wood for firewood and industrial purposes, which reached a peak in 1987 with 3,709,000 tons, and decreased to 3,246,000 tons in 1990, the lowest year. The procurement for the mill – say, some 150,000 tons – was, after all, small compared to total production. It was reasonable for the Review Mission in September 1989 to comment that the supply of wood need not be a production constraint, provided that the Paper Union (i.e., the company) paid the right prices. The system was altered in that respect. Now the prices mattered.

With full autonomy at the enterprise level, export became crucial for survival. Export had increased in the second half of the 1980s in spite of the bureaucratic obstacles that remained even after official permission to export had been obtained.

Even if export earnings were increasing (see Box 7.5), they were not sufficient to cover the import requirements. As a result, efforts to earn more foreign exchange had to be combined with a strategy to reduce the need for import.

At Bai Bang, the situation in mid-1989 was difficult. P-A. Svenningsson, who was back with Scanmanagement as chief project advisor, found it “chaotic”.

⁴⁸¹ *Review Mission October 1987*, pp. 8–9.

⁴⁸² General Statistical Office, *Economy and Trade*, 1986–91, Hanoi 1992, pp. 142–43.

Box 7.5: Export and income from paper, 1986–90

Year	Export	Income in USD
1986	259 tons	USD 0.1 mill
1987	2,186 tons	USD 1.35 mill
1988	4,900 tons	USD 1.1 mill
1989	6,250 tons (plan)	USD 3.6 mill
1990	9.200 tons	USD 5.8 mill

Sources: *Economy and Trade, 1986–91*, p. 190; *Review Mission October 1987*, p. 60; *Review Mission September 1990*, p. 5.

He noted that the lack of liquidity “has resulted in the lack of home customers. The company has no money, can’t obtain loans in the bank, and can’t pay its debtors. From an economic point of view the company is bankrupt.”⁴⁸³ The Vietnamese management was about to give up, but Scanmanagement advised the continuation production at all costs. The strategy was to produce only to meet orders, sell to full price, and increase the efficiency of production.

A number of changes took place in the company’s Vietnamese administration. Trinh Ba Minh, who had worked at the mill since 1982, was dismissed as director general, officially because of inappropriate outlays for the purpose of buying goods for the employees. It is possible that his dismissal was related to the new situation facing the mill after the Swedes left, but there is no evidence of this. Vu Tuan, who had negotiated the project agreement in the early 1970s and stayed with it since, also retired from his position in the Ministry of Light Industry. Thus, two key persons who had been with the project almost since the beginning, disappeared from the scene.

Scanmanagement was on its way out of the project and of Vietnam. The company was not particularly happy about leaving, as we shall see in the next chapter. Bai Bang had been a good source of income, and the staff had been committed to the project. Scanmanagement was worried not only because it wanted to continue working with the factory. Given the difficult circumstances at the end of the 1980s, the Vietnamese management of the paper company was interested in continued support from Sweden, even if officials at a higher level welcomed seeing the project stand on its own.

“Unfortunately, the economic reforms in Vietnam came too late in the course of the Bai Bang project”, it was said laconically.⁴⁸⁴ Nevertheless, by 1990 the paper mill had basically changed from an aid-sponsored bureaucracy to a market oriented enterprise. However, the macro-management was still not fully reformed, and more steps had to be taken in the 1990s before the enterprise could operate entirely under market conditions.

⁴⁸³ Scanmanagement memo, minutes from Board meeting of SM, summer 1989. SM archive.

⁴⁸⁴ Scanmanagement 1990, p. 27.

Chapter 8

Phasing out – moving towards a ‘Sustainable Vietnamese Operation’

A basic notion of development aid is that it should be temporary. It represents an injection of money and knowledge in a development process over a limited time, beyond which the recipient should be able to continue on its own. Yet it has always been very difficult to determine exactly when and how to phase out aid. The Bai Bang project is no exception.

This chapter tells the story of the Swedish exit from the project. The Swedish Parliament endorsed in 1985 a programme of SEK 500 million over a five-year period as a final contribution to achieve a ‘sustainable Vietnamese operation’. Never before – or later – has SIDA invested so heavily in a planned phasing-out strategy. The commitment this time was generated by several factors: SIDA’s fear of ending up with a ‘white elephant’ in Bai Bang; fading support for Vietnam in Swedish public opinion; a consultancy firm wishing to maximise its income; and a Vietnamese government painfully realising the failure of its centrally planned economy and the requirements of operating a “Swedish” industrial enterprise.

In 1996 the “Sweden–Vietnam Friendship Project” finally attained the legendary goal of producing 55,000 tons of paper annually without any injection of Swedish aid. It was a success for both sides, but in large part due to historical coincidence rather than careful design. The economic reforms in Vietnam (doi moi) started to take effect at the same time as Sweden was disengaging and removed some of the critical bottlenecks, which until then had slowed production.

The phasing-out strategy was nonetheless significant. While the cost was probably excessive, the process showed the value of formulating a deliberate

exit policy and of exiting slowly. Had SIDA settled for a quicker exit, Bai Bang would probably not have survived the turmoil of the late 1980s. Who were the architects of this strategy on the Swedish and Vietnamese side? And did they consider a less expensive solution?

There were relatively few sources available to document the Vietnamese role on this aspect of the project. Hence the story must be told mainly as seen from the Swedish side.

The preamble: Deepening involvement

Ironically, perhaps, the phasing-out strategy started from a process of deepening involvement. The 1974 agreement had stipulated Swedish assistance until “the stage of normal operations” had been reached, which was generally interpreted as being soon after the machinery had been installed and successful test-runs made. Normal operations, however, required the reliable and adequate supply of raw materials and a properly skilled work force. None of these factors were in place in 1982 and, as we have seen, SIDA’s response to the problems facing them in the early 1980s was to get more involved rather than disengage. Numerous side-projects were established, and the Swedish contingent at Bai Bang developed into a formidable work force with executive functions, although formally remaining advisers. The expansion occurred without directly straining SIDA’s own administration insofar as SIDA had removed itself from the project management role of the 1970s. It also absorbed sizeable amounts of the annual aid allocation to Vietnam, which cried out for new projects.

The deepening involvement seemed at one level to legitimise itself and be accepted in SIDA as normal. In a confidential memo at the end of 1982, SIDA’s Industry Division admitted that it should have started preparations for the operational phase much earlier and for an extensive long-term involvement of SIDA. Reflecting on the forthcoming contract renewal with Scanmanagement, the aid official noted that with “this contract we probably lay the foundation for co-operation for perhaps 10–15 years”.⁴⁸⁵ When SIDA’s Director-General Anders Forsse discussed the project with a parliamentary committee in April 1983, he estimated that SIDA support would continue for another 10 years or so, mainly in the form of advisers.⁴⁸⁶

Some SIDA documents in the early 1980s affirm that the assistance aims at enabling Vietnam to take over “at the earliest possible time”. But there is no mention of how to accomplish this except by relying on training through Scanmanagement. The predominant focus was on “fulfilling optimum production targets”.⁴⁸⁷ The first two management contracts with

⁴⁸⁵ SIDA memo, *Förhandling av driftskontrakt för Vinh Phus Pappers- och Massafabrik*, Industry Division/Hearne, confidential memo, 16 November 1982. Sida archive.

⁴⁸⁶ MFA memo with minutes from Forsse’s presentation, 12 April 1983. MFA archive.

⁴⁸⁷ *Terms of Reference for Management Support to the Vinh Phu Pulp and Paper Mill Project in Vietnam*, 5 May 1983, p. 1. Sida archive.

Scanmanagement (1980 and 1983) likewise contained no plans for phasing out. The 1983 Review Mission only indirectly touched on the issue by making a link between mill productivity and Swedish support. The failure to meet production targets should not be “solved” by lowering the targets, it was argued. That would logically require a reduction of Swedish support as well, and it would be better to spread the support over a longer period while waiting for a solution to some of the current problems.⁴⁸⁸

Problems on the production side partly accounted for the absence of an exit strategy in the early 1980s. The aim was to reach designed capacity first, and then gradually phase out. The principal focus was on the white paper rolls at the end of the production line. Yet the production figures for both pulp and paper were “very disappointing”, the Review Mission in October 1983 concluded. The mission reported problems internal to the mill – both of a technical and motivational nature, but argued that the transfer of knowledge process (ToK) was working well and was enthusiastically supported by those involved. The level of theoretical knowledge of most maintenance workers seemed adequate, but practical experience of solving problems on the job was lacking. Most Vietnamese counterparts had an “acceptable level of experience and training for their positions”.⁴⁸⁹ The problem was general worker discipline and motivation. However, even if these internal problems were dealt with, “very little additional pulp could have been produced because of shortages of coal, wood, and most particularly, limestone”.⁴⁹⁰ In line with its conclusion that the key constraints were extraneous, the mission strongly endorsed the supporting projects that had been proposed – i.e. housing, transport, vocational school, and wood supply. Further investments in operations, by contrast, would not be cost-effective as long as the infrastructure supporting Bai Bang remained weak.

The situation described by the Review Mission comprised conflicting implications with respect to exiting. One was that an early Swedish exit would risk leaving a “white elephant”, and fears of this nature were continuously haunting SIDA. A contrary logic would be to cut losses and get out. With the massive criticism against Bai Bang in Swedish media, cost escalations and poor results, it might not have been surprising if the Swedish government had opted for an early exit. The Parliament had already approved two very large allocations to complete the project – in 1974 when the cheque was SEK 770 million, and in 1980 when the total grant was raised to SEK 2,000 million. Both previous grants had been given on the understanding that they would cover the whole bill. By 1983, the mill was declared technically adequate, yet production was only one-third of capacity. Why not leave it all to Vietnam at that point, particularly when they had most of the requisite skills to operate it? If the restraints were external to the mill, it was nevertheless uncertain whether a prolonged Swedish presence would remove the bottlenecks.

⁴⁸⁸ *Review Mission October 1983*.

⁴⁸⁹ *Ibid.*, p. 6.

⁴⁹⁰ *Ibid.*, p. 3.

To end an aid relationship typically requires some form of outside pressure since the parties most directly involved tend to favour its prolongation. That includes those on the recipient side who directly benefit, expatriate consultants and other advisors, and the desk officers and their section leaders in the donor administration. Their combined interests often create an aid relationship that becomes progressively entrenched, creating a form of dependency. External factors are often necessary to change this trajectory. Many elements of this model were evident in the Bai Bang case, but support from the Parliament was not open-ended. There had been vocal criticism of various aspects of the project. Finally, but significantly, there was a deadline which called for a formal decision on how to proceed for the period after mid-1985, when both the project period envisaged in the 1980 agreement and the management contract with Scanmanagement expired. When reviewing options for the future in 1984, SIDA did so with an eye to these factors, as well as the principle of aid which held that the purpose of the endeavour was to turn Bai Bang over to the Vietnamese “as soon as possible”.

Formulating an exit strategy: Five years and SEK 500 million

The decision-making process which led up to the last project agreement in 1985 shows a rather unfocused SIDA struggling to find its line of reasoning. The agency was under pressure from the ambitious Scanmanagement which, when requested to propose a phasing-out strategy, advocated a large dose of its own consultancy services. On the other side were the Vietnamese authorities who pressed for a large hardware component. SIDA's Industry Division opted for a good deal of both and managed to convince Parliament that only this way could the worst scenario, i.e. the shutdown of the mill be avoided. Simultaneously, critics of Bai Bang in Sweden brought up the deplorable working conditions for forest workers. It was an ideological sore point for the Social Democratic government to be on the defensive with respect to labour rights. Demands from the Ministry for Foreign Affairs further complicated SIDA's negotiating strategy with the Socialist Republic of Vietnam (SRV). To the last, it seemed, Bai Bang was a headache for SIDA, and phasing out became an end in itself.

It took until 1984 for the exit theme to figure prominently in the internal correspondence between the Industry Division and the Development Co-operation Office (DCO) in Hanoi.⁴⁹¹ Nine months later the basic framework was settled in the form of the simple formula: Five years and SEK 500 million. The obvious questions are: why these figures in particular, and how were they justified?

⁴⁹¹ This is the official English term for the SIDA office at the Swedish Embassy in Hanoi. In Swedish it is referred to as *Biståndskontoret* or Bk.

When the DCO writes home in January 1984, reminding that the Scanmanagement agreement was to expire on 30 June of the following year and that a decision on prolongation would have to be taken before end of September, the aid officer adds: a new agreement should “show how the Swedish assistance could gradually be reduced”.⁴⁹² He suggests a two-year perspective with the possibility of extension. About the same time the Board of Directors of Scanmanagement is informed by the Industry Division (ID) that it wants a proposal for a new programme after June 1985, and possibly for as long as five years. “Our bargaining position is strong”, the chairman of Scanmanagement tells his Board members.⁴⁹³

SIDA formally writes to Scanmanagement (SM) in March 1984, outlining an approach to the new agreement.⁴⁹⁴ Acknowledging that achievements so far in terms of production of paper and transfer of knowledge had not been satisfactory, it was considered unrealistic to terminate Swedish aid at that point. Without further justification, SIDA asks SM to plan for a five-year period, with the gradual scaling down of its manpower input. The plan should contain specific production targets for the mill, with the aim to achieve full capacity in 1988, and SIDA asks for a specified method for the phasing out.⁴⁹⁵ SM should not take for granted that their contract would be extended, the letter said. This would much depend on the quality of the proposal, and SM’s ability to recruit experts with the right qualifications and relevant developing-country experience.

It is important to note that the Industry Division at this point stressed the need for a “method”, meaning that phasing out is more than reducing budgets and manpower. We do not know who suggested the five-year term at this point, but ID clearly followed the approach of “better too much than too little”. The exit theme, however, was not only an issue for the mill itself. What about forestry and all the side-projects that now had come on stream? On the forestry side, SIDA lacked clear ideas and expressed its bewilderment in the letter to SM: “After nearly ten years involvement in forest activities there is still on the Swedish side no comprehensive view on how the forestry questions should be handled.”⁴⁹⁶ The hope was that SM could come up with a long-term strategy for forestry as well, and not only this: SM was also advised of

⁴⁹² SIDA memo, from Gill, Development Co-operation Office (DCO), Hanoi, to Industry Division, 10 January 1984. Sida archive. (Our translation).

⁴⁹³ Private information. The chairman was the former Project Director in Bai Bang, Svenningsson.

⁴⁹⁴ Letter to Scanmanagement from Industry Division/Göransson, 13 March, 1984. Sida archive.

⁴⁹⁵ SIDA makes special reference to the Long Term Plan 1984–88 (LTP 88) approved in December 1983. In this plan the target for 1988 is set at 43,000 tons (p. 54). As a response to the poor achievements in production terms, SIDA engaged a World Bank forest industry expert – and member of several review missions – to look at the consequences of lowering the production targets (Ewing Andrew [1984], *Vinh Phu Pulp and Paper Project. Economic Consequences of Revised Production Levels*). His calculations of various rates of return, ignoring historical costs and benefits, show the obvious. The faster production can be increased, the better the returns. More interesting though are his future projections. He brands the current production plan (LTP 88) as unrealistic, and estimates that 1987 would be the earliest date at which the Mill could produce over 30,000 tons, and that full capacity of 55,000 tons would not be reached until 1996. History proved him right.

⁴⁹⁶ Letter to Scanmanagement from Industry Division/Göransson, 13 March, 1984. Sida archive. (Our translation.)

another of SIDA's headaches at the time, where to draw the line for Swedish assistance towards downstream and regional constraints, e.g., paper distribution and coal production. In Sweden there was an active debate on the objectives of Bai Bang: was regional development or paper production the primary goal?⁴⁹⁷ The nature of SIDA's requests to SM at this important juncture of the project clearly underscored the comment by the Chairman of Scanmanagement, namely the dependency of ID on SM as a key adviser.

This role of SM was strengthened even further with the recruitment of Sigvard Bahrke as the new Project Director in January of 1984. SIDA involved itself very directly in the process, being concerned that a senior person with corporate management experience was needed in the project. Christina Rehlen at the ID went as far as recommending Bahrke, the former General Director of a large parastatal forestry company (ASSI) and a long-time member of SIDA's Board.⁴⁹⁸ He was not an engineer or a "paper man", like his predecessors. But with his high-level managerial and political experience he came to play an important role in securing future support for the project.

His job description signalled the new focus. The Project Director was to be the same independent local Swedish chief as before: responsible for all SM's activities and project staff and reporting directly to the Board of Scanmanagement; and with the power to authorise the use of all Swedish-financed goods. In his general function he was to "by means of systematic transfer of knowledge . . . enable the foreign assistance to be withdrawn at earliest possible time".⁴⁹⁹ In discussing the job description SIDA strongly emphasised that organisational issues had to be a main task for the new director. It was SM's responsibility "to penetrate the Vietnamese administration and try to adapt it to forms that better suit the needs of the mill".⁵⁰⁰

During the spring of 1984 it appears that nobody in SIDA took a strategic leadership in the formulation of an exit methodology, and it is Bahrke that emerges as the key thinker and orator. He had limited previous developing-country experience, but was familiar with the aid discourse from SIDA's Board. He coined the new motto: *Uthållig vietnamesisk drift* – Sustainable Vietnamese Operation; and formulated the principles for the phasing-out strategy: a planned and irreversible handing over of sections in the mill backed by a systematic transfer of knowledge (ToK) programme. Typical of his style is his "I have a dream" speech presented to an audience of senior project-related people in Hanoi in June 1984.⁵⁰¹ It is political and visionary, charting how "[Y]ou *can* turn our project into a success" (Bahrke's emphasis). Note the use of "you" and "our". What Bai Bang lacks, Bahrke said, is order and discipline, motivation for the individual workers, and an organisation based on powers

⁴⁹⁷ Memo from MFA/*U-avdelningen*, M. Fahlén, 19 April 1984. MFA archive.

⁴⁹⁸ Interview with Rehlen, Stockholm, July 1998. (Per Gundersby of Scanmanagement says it was his suggestion. Interview, Oslo, August 1998.)

⁴⁹⁹ Scanmanagement, *Job Description Project Director (draft)*, 20 January, 1984, Sida archive.

⁵⁰⁰ Letter to Scanmanagement from Industry Division/C. Rehlen, January 25, 1984. Sida archive. (Our translation.)

⁵⁰¹ Bahrke, Sigvard, "I have a dream", manuscript, 1984. Sida archive.

to operate. Motivation is the key issue for the whole project: “If you walk in the plant, if you visit the forests, you notice the lack of engagement, you notice the absence, the passivity, the negligence, thefts, and even sabotage to equipment and operations. If these attitudes are not changed, all other efforts would be in vain.” His list of problems is interesting: they are not of the kind that aid can easily remedy. Neither Bahrke nor SM, nor SIDA, had pointed out this aspect.

When Scanmanagement presented its proposal to SIDA in May it allowed for a good bargaining margin.⁵⁰² SM, which had no incentive for an early phase-out, stuck to the idea of five years, except for the forestry part, where it argued for a ten-year programme. The total price tag was hefty – SEK 1,100 million. Adding this on top of the SEK 2,000 million already spent was indeed a bold proposition. “This reflected our professional judgement”, according to Per Gundersby, the founder of Scanmanagement, “but surely we also wanted to get as much as possible out of SIDA”.⁵⁰³ The proposal included two scenarios – one with support to the mill for five years and forestry for ten (called Alternative 1, amounting to SEK 888 million), and the other stopping at five years for both (called Alternative 2, amounting to SEK 662 million). In addition to these two alternatives were all the approved side projects, plus the proposed new forest plantation project (amounting to SEK 236 million in total).

SM admitted to SIDA that their proposal was somewhat top-heavy, as it exceeded what is referred to as the cost frame – calculated at SEK 528 million, based on “a reduction by one-fifth every budget year” of the current budget. It is not clear whether this arithmetical logic came from SIDA or from SM, but the result was pretty close to the later almost sacrosanct figure of SEK 500 million.

According to Scanmanagement the risk of not reaching sustainable production was all related to constraints on the Vietnamese side. There was no mention of risks on the Swedish side, even though SIDA did ask SM to identify its own limitations. The main problems had to do with poor discipline and management, and insufficient and erratic raw materials supply. The factory also had poorly developed market links. Interestingly, lack of knowledge was not seen as a major constraint. In fact, SM stated that the basic trained and technical competence was in place.⁵⁰⁴ The plan sets targets for handing over sections in the mill (see Box 8.1), but SM refrains from setting production targets. The argument is that the core objective is sustainable Vietnamese operation without foreign assistance, and not specific production targets.⁵⁰⁵ This view can be interpreted as a way for SM to relieve itself from the responsibility of production failure, but, at the same time, it is a logical shift in emphasis of the role of the expatriates, given that transfer of responsibility to the Vietnamese is the main objective.

⁵⁰² Scanmanagement, *Förslag till svenskt stöd till Vinh Phu projektet*, 7 May 1985. Sida archive.

⁵⁰³ Interview with Gundersby, Oslo, August 1998.

⁵⁰⁴ Scanmanagement, *Förslag till svenskt stöd till Vinh Phu projektet*, 7 May 1985, p. 2.

⁵⁰⁵ *Ibid.*, p. 6.

Box 8.1: Transfer plan for the mill

Sections of the mill	85/2	86/1	86/2	87/1	87/2	88/1	88/2	89/1	89/2	90/1
Vehicle workshop										
Central store										
Material supply dept.										
Pulp mill										
Electrical section										
Vehicle store										
Utilisation of equipment										
Mill transport										
Instrument section										
Construction section										
Paper mill										
Chemical plant										
Power plant										
Financial systems										
Mechanical section										
Goods handling										
Mill training										
Mill management										

■ Expatriate personnel in charge

Source: Svensson 1998, taken from the 1985 project agreement.

The focus on production remained strong in SIDA, however, arguing that sustainable production must relate to some minimal levels of rational production from a technical and economic point of view. Quality of the paper is also a relevant target, they stressed. But first and foremost the response from SIDA was a rejection of the cost estimate. In its formal reply to SM in September 1984, the Industry Division stated that total support to both mill and forestry – including the proposed plantation project as well – could not exceed SEK 500 million.⁵⁰⁶ According to Rehlen of the Industry Division, it would not be possible to defend in Parliament anything more for Bai Bang proper. The Parliament would first of all question the overall costs, but production targets and the timing of phasing out would also be important issues. Rehlen asked SM to come up with a revised plan that could be argued for accordingly, and suggested either reducing the number of years or cutting manpower inputs across the board. Surprisingly, SIDA asked directly, “what is it that makes us go for either five or ten years? Why not three or eight just as well?”

What is portrayed as a rational deductive analysis, in the best of the SIDA tradition – starting with the needs, from which inputs are calculated and justified in terms of time, resources, and costs, in fact happened the other way round. SIDA said, start with five years and today’s budget level. SM so did and added a wide bargaining margin for good measure. Nowhere can we find any specific justification of the five years by SM, nor of the specific level of

⁵⁰⁶ Letter to Scanmanagement from Industry Division/C. Rehlen, 19 September 1984. Sida archive. Notably, the plantation project was later approved as a separate project without reducing the SEK 500 million. There was no room for this component within the 500 million, Folkesson explained (interview, Stockholm, August 1998).

manpower input at any point in time. Cutting, therefore, was mainly a job of arithmetic.

Surprisingly, the Industry Division decided to start moving a new project proposal through its own system before getting any revisions from SM. There was obviously a premium on time, but it also seems that ID wanted bargaining leeway in the internal process. The first step was the Management Board (*Direktionen*) by the end of September 1984. In a comprehensive proposal (*Idépromemoria*) ID argued that costs would be in the range of SEK 6–700 million.⁵⁰⁷ This is couched in broad terms, with an emphasis on the lack of industrial experience and the need to introduce Western business management principles. Success – i.e. sustainable Vietnamese operation – is clearly linked to the ToK process and the need to ensure a minimum production level set at 25,000 tons. The otherwise well-argued proposal is surprisingly weak in its risk analysis. The fundamental constraints on production – raw materials and motivation of the labour force, as stressed by other observers – are really downplayed. SIDA also struggled with the dependency–responsibility logic, and seems to lack a consistent argument. In the document it is argued, on the one hand, that with regards to the mill, it would be risky to reduce dependency on Swedish support too quickly, while on the other hand, with respect to forestry, it says that “continued support in the form of Swedish personnel and goods do not necessarily lead to enhanced Vietnamese responsibility or increased wood supply”.⁵⁰⁸ The proposal does not explain why there should be any difference.

In the cover letter to *Direktionen*, ID set forth the following more or less leading questions and received the following answers:

- Should we terminate all support? The Management Board said no.
- Should we adopt a staggered phasing-out, with five years for the mill and ten for forestry? The answer was yes.
- Should we approve a realistic amount, or set a lower budget with the likelihood that more support must be added in the end? The committee wanted a realistic amount.
- Should we get involved in rural development at all? SIDA’s management was in favour of this.⁵⁰⁹

Direktionen had been given a fairly rosy picture. ID claimed for instance that there was a joint mill organisation and that Technoimport had taken over the procurement, omitting to mention that these were only reforms on paper. Management endorsed Industry Division’s proposals, but was advised to improve its argument before meeting the SIDA’s Board, which was scheduled for early October.

⁵⁰⁷ SIDA memo, *Idépromemoria*, Industry Division, 11 September 1984. Sida archive.

⁵⁰⁸ *Ibid.*, p. 11.

⁵⁰⁹ SIDA memo, *Föredragningspromemoria*, Industry Division, 20 September 1984. Sida archive.

When ID issued its second and revised proposal (*Idépromemoria*), surprisingly, the anticipated revisions from SM were still not incorporated, in what appears to be a deliberate move.⁵¹⁰ ID was probably aware of the content of SM's revised proposal by then, or could have waited for it to arrive, which was only the next day. There is no change in the budget – SEK 662 million – but the threshold for sustainable operation is raised to 30–35,000 tons. In addition, the risk assessment has improved, focusing on workers' remuneration, generation of foreign exchange, and wood supply.

Whereas Direktionen gave its support without much questioning, Anders Forsse, the Director-General, and Rehlen anticipated a much more difficult meeting with the Board. They decided to call in Bahrke to assist, and evidently it had an effect. Its former member impressed the Board when he outlined his exit strategy:

One has to ensure with a reasonable degree of certainty that sustainable Vietnamese operation has been established, beyond which Vietnam can do what they want. Roles and responsibilities in the process must be clearly defined. If operations stop after the Vietnamese take over, Sweden should withdraw and not return. This process requires a minimum budget, which, if not provided by the Riksdagen [Swedish Parliament], then moving from project support to import support should be considered in order to offset SIDA's direct responsibility.⁵¹¹

The Board came down in support of the project, but not without the usual opposition from the Conservative Party representative – Margaretha af Ugglas. Partly as a result, the Board insisted on further cuts in the budget. In addition, Sweden should play it tough in the negotiations with Vietnam, reflecting exactly the Swedish perception of key constraints, namely that there was a major shortfall in fibrous raw material looming on the horizon, and that the mill management required more decision-making autonomy. These issues had to be formulated as conditions for continued support.

With the verdict from the Board, ID had to look at what SM proposed in the form of cuts.⁵¹² This had obviously been a difficult exercise for SM, as the new proposal starts by reaffirming their commitment to the earlier proposal. It is impossible, SM stated, to quantify the risk of not reaching the designated production target (30–35,000 tons) with reduced Swedish aid, but they indicated that SIDA's proposal implied unacceptable risk levels. They went as far as to suggest that if SIDA could not go along with their proposal, Sweden had better give its aid as import support and withdraw from the project as such. The rationale behind this proposal is not clear, unless it was a subtle form of ultimatum from SM.

⁵¹⁰ SIDA memo, *Idépromemoria*, Industry Division, 3 October 1984. Sida archive.

⁵¹¹ From copy of Bahrke's overheads, Sida archive. (Our translation.)

⁵¹² Scanmanagement, *Svenskt stöd till Vinh Phu projektet från juli 1985 del 2*, dated 2 October 1984, Sida archive, and submitted to SIDA on 4 October. Sida archive.

Scanmanagement outlined three new alternatives for SIDA, one of which is the import support, all of them with a SEK 500 million bottom line. The first alternative (called Alternative 3, following 1 and 2 as the earlier proposals) is based on five years for the mill and five for forestry, where most of the cuts come in forestry and the plantation programme. The second (Alternative 4), reduces support to the mill to three years but makes no cuts in the plantation programme. For both alternatives, SM suggests to reduce the already approved transport project, which, they argue, is not necessary for sustainable Vietnamese operation.⁵¹³ The proposal concludes by saying: “If support is provided until mid-1990 or longer the chances of sustainable Vietnamese operation will increase.”⁵¹⁴ We see clearly how SM wanted to maximise its role in the continuation of the project. They appeared more reluctant to make cuts in manpower inputs than equipment, which further underlines that profit considerations clearly motivated their proposals. This by itself is not surprising coming from a private consultant, but the desire to perpetuate itself was probably reinforced by the fact that the SM consortium was established for the exclusive purpose of serving Bai Bang.

After the Board meeting, ID issued an attachment to its October proposal, commenting on the revised proposals received in the meantime from SM.⁵¹⁵ Surprisingly, and contradicting in a way the messages to SM, SIDA’s conclusion was that the first proposals from SM (Alternative 1 and 2) were the only realistic ones. Hence, the cost estimate was kept at a minimum of SEK 600 million, and, in what seems to be a subtle political game, the Review Mission was called upon as the final arbitrator.

The review mission undertaken in November 1984 came down in support of the earlier formula of ID, based on five years and SEK 500 million. What appeared as a major cut of 100 million, was probably on “instruction” from SIDA. The report gave no convincing rationale. The analysis of the problem, in contrast, was quite clear:

[Since 1982,] overall production levels have been disappointingly low, primarily because of interruptions in the supply of domestic raw materials, and secondly because of lack of motivation among the Vietnamese workforce which can be related to their very difficult living conditions (p. 50). . . Millions of kronor have been wasted, and, to some extent, are still being wasted (p. 51).⁵¹⁶

Nevertheless, during the previous six months there had been notable improvements, the mission noted, and with “the possibility of success now in sight” it strongly recommended that further Swedish assistance be given to the project.⁵¹⁷ Further aid should not be unconditional, however. In fact, “the

⁵¹³ Ibid., p. 8. See also Chapter 5. Rehlen (personal communication to the study team) argues that SM’s faltering support for the transport project, related to the fact that they were not to get the contract.

⁵¹⁴ Ibid. p. 14. (Our translation.)

⁵¹⁵ Dated 29 October 1984. Sida archive.

⁵¹⁶ *Review Mission November 1984.*

⁵¹⁷ Ibid., para. 19.

only time when real leverage in the project itself can be applied [is] . . . while future support is being discussed.” The mission recommended a list of “conditions for negotiations”, all relating to supply and management of raw materials.

Part of the mission’s mandate was to look at the Scanmanagement proposals for phasing out. While admitting that “there is no ‘right’ level of support”, the mission settled in favour of the alternative also endorsed by SIDA (i.e. Alternative 3) as “a reasonable compromise between risk and economy”,⁵¹⁸ and one that entailed “neither too many people nor too few”.⁵¹⁹ Remarkably, there was no further explanation of this choice, only a statement of high uncertainty associated with all alternatives:

*Even with 100 Swedish advisors working in the mill, there is no guarantee that this [i.e. reaching a production level of 30–35,000 tons with Swedish support] could be achieved. On the other hand, if all of the advisers left in the middle of 1985, it is quite conceivable that within five years the Vietnamese organisation could achieve these objectives on its own. The chances of success are, of course, higher with more Swedish support, and lower with less support. However, there is no guarantee at any level.*⁵²⁰

The report’s point on conditionality was echoed by the SIDA office in Hanoi. Commenting on the report, the office complained about the failure of MoLI to restructure the organisation “to direct and handle the mill, forestry, import and other project activities” as agreed to. It reiterated another basic principle which SIDA had promoted all along, that is, a unified organisation in which the expatriate advisers worked with designated counterparts and not separately. This was necessary to effect a transfer of knowledge and reduce “the number of expensive Swedish experts”.⁵²¹

In December 1984, SIDA/Hanoi instructed the mill management and Scanmanagement to prepare budgets within a total frame of SEK 500 million over the five-year period 1985–1990, and this time excluding plantations.⁵²² Until now discussions had mainly taken place on the Swedish side, but already at this point both MoLI and Ministry of Forestry had flagged their reservations against the content of SM’s Alternative 3. They wanted more hardware, and fewer Swedish advisers.

Negotiating the phase-out strategy

Visiting Stockholm in May 1984, the Minister of Light Industry, Nguyen Chi Vu, requested broader aid and trade relations. The Swedish response was politely hesitant, as a participant later recalled.⁵²³ It was noted that both

⁵¹⁸ Ibid., p. 54.

⁵¹⁹ Ibid., p. 58.

⁵²⁰ Ibid., pp. 53–54.

⁵²¹ Letter from DCO to MoLI, 11 November 1984. Sida archive.

⁵²² Contrary to the advice of the Review Mission, SIDA decided to keep the plantation issue separate.

⁵²³ Interview with Edgren, Stockholm, June 1997.

governments had overestimated the strength of Vietnam's economy and its development potential. "We should not set unattainable goals, which give the impression of failure." It was now important to show the Swedish public that Bai Bang could work. To Sweden, Bai Bang had priority before anything else.⁵²⁴

Later in the year (September) SIDA proposed a 20 per cent cut in the annual aid allocation to Vietnam. This was mostly justified on technical grounds: funds remained unutilised from the previous year and major projects, like Bai Bang and the hospitals, were entering a less capital-intensive phase. The political reality, however, was a growing disappointment in Sweden with the co-operation, also among Vietnam supporters in the Social Democratic Party.

In December 1984 annual consultations on the aid programme were held in Hanoi. Numerous issues relating to Bai Bang were on the agenda – foreign currency earnings for import, workers' pay and incentives, and appointment of key personnel. As on several previous occasions, the most "frank" discussion centred on forestry. The two parties had agreed in 1983 to carry out a comprehensive fibrous raw material inventory, using aerial photography and field surveys. Prior to the meeting, the Embassy in Hanoi had suggested in an internal memo that Sweden should threaten to withdraw aid unless the SRV complied.⁵²⁵ Following the suggestion, SIDA threatened to postpone renewing the aid allocation for the following year unless Vietnam immediately released aerial photographs of the whole raw materials area. From Stockholm, Narfström issued a strongly worded letter to MoLI to this effect, setting a short three-week deadline. Furthermore, he wrote that Vietnam must present a revised organisational structure for both forestry and industry before the end of January 1985. There was no mention of a financial framework in these discussions, but SIDA presented a document entitled "Aims and Principles for Future Support to the Vinh Phu Project" which outlined the conditions for a five-year programme of continued support:

- The period is fixed and final, after which all activities will be financed by Vietnam.
- A detailed mid-term review with the option of changing or terminating Swedish support.
- Specified annual minimum production targets with the option of reconsidering aid in the event of recurrent underachievement.
- Gradual phasing out of expatriate positions.
- All expatriates must have at least one counterpart.
- Gradual reduction of Swedish funds for imports of spare parts.
- Swedish financed equipment should not be used for constructing roads in remote forest areas.⁵²⁶

⁵²⁴ Memo from MFA, notes from the meetings in January, M. Fahlén, 15 May 1984. MFA archive.

⁵²⁵ Telex from DCO to Industry Division/Rehlen, 1 October 1984. Sida archive.

⁵²⁶ Annexed to the Agreed Minutes from annual consultations, 6 December 1984. Sida archive.

By early 1985 Vietnam had not met the first condition set by Sweden for negotiating a new agreement. Swedish experts had not yet been allowed to see the aerial photographs. For military reasons, this would require a decision at the highest level of government. It was a parallel situation to that in the early 1970s, when the Vietnamese were concerned that the photos might reveal military intelligence useful to the Americans. Now, Sweden wanted to count trees in an area close to China, with which Vietnam recently had been at war. The organisation issue raised by SIDA was pending as well. During his visit to Vietnam in January 1985, the Swedish Foreign Minister brought up both issues. Soon, there was to be yet a third condition set. At the same time, Larsson and Birgegård submitted their report on the working conditions of forestry workers in the raw materials area.⁵²⁷ The contract terms and working conditions they documented revived the concerns that had been raised in Sweden earlier.⁵²⁸ The term “forced labour” was again being used, reviving Swedish criticism of the project.

On the defensive, the Ministry for Foreign Affairs and SIDA first presented the matter as a minor issue and a situation common to many developing countries where people struggle for survival. They argued that the severe criticism was not justified if the conditions for the workers in Vietnam were compared to the situation in many other countries aided by Sweden.⁵²⁹ The element of force implicit in the Vietnamese government’s labour policy, according to MFA, did not constitute a serious violation of human rights. However, when the issue was raised in Parliament and the conservative opposition attacked the Government for not protecting labour rights in its aid policy, Lennart Bodström, the Foreign Minister, backed down and promised that the issue would be raised with Hanoi. A third “condition for negotiation” was then formulated: Vietnam must do something to improve the living conditions of the largely female workforce in the forest brigades.

Probably the most significant effect of this issue was not the later development efforts to aid the forest villages (e.g. the Living Conditions Project). Rather, it was the indirect impact on SIDA’s commitment to phase out. Surfacing only a few months before the renewal of the project agreement, the debate on forestry workers forced SIDA to pay increased attention to the modalities of phasing out.⁵³⁰ When dealing with the Parliament, SIDA had to be very convincing that a reliable exit strategy was in place. The vigilance of the opposition on the issue continued almost to the end of the project, allowing SIDA’s Industry Division, no time for complacency.

The critical mood was evident in February 1985 when Edgren, State Secretary of Foreign Affairs, met with the Parliamentary Standing Committee on Foreign

⁵²⁷ Larsson and Birgegård, *Skogsarbetarnas villkor i Bai Bang-projektet*, Bistånd utvärderat nr. 2/87, SIDA, 1987. The report was first submitted in January 1985.

⁵²⁸ See chapters 5 and 6 on the debate following Minister Carlsson’s statement to the press during the inaugural ceremony of Bai Bang in November 1982 that working conditions in Vietnam was a domestic affair.

⁵²⁹ Memo from MFA/*U-avdelningen*, 1 February 1985. MFA archive.

⁵³⁰ Interview with Rolf Folkesson, Stockholm, August 1998.

Affairs (*Utrikesutskottet*) to defend continued support to Bai Bang. He argued that the project meant supporting a poor country where aid also reached the poor; moreover, he points out that Sweden should not use aid as a means to protest against Vietnam's invasion of Cambodia six years earlier. The government had already signed agreements to spend SEK 200 million on Bai Bang for a period after July 1985. Edgren also underscored that Swedish withdrawal would make Vietnam even more dependent on the Soviet Union. As for the workings of the mill, the issue of wood supplies in the longer term was a worry, but, in the meantime, the mill had not yet stopped because of lack of wood.

There had been some progress on the forestry issue after the meeting between Foreign Minister Bodström and Do Muoi in Hanoi in January the same year. Vietnam agreed to give Sweden access to "samples of aerial photos"; in response, the Ministry for Foreign Affairs requested access to 1,200 of a total of 2,000 photographs, asking for permission to use them also for field inventory. During the spring, Scanmanagement obtained enough photos to please SIDA, although the photos were never allowed to leave the archive at the Forestry Inventory and Planning Institute. As for the condition relating to organisation, MoLI and SIDA agreed on some guiding principles that only vaguely accommodated the Swedish concern to have a fully integrated industry-cum-forestry enterprise.

Issues regarding the forestry workers were somewhat easier. Small improvements in payment procedures, access to housing, food rations etc. could be implemented without confronting major vested interest in the Vietnamese political and administrative system, although it did challenge the principle of sovereignty, a policy matter that was at the core of Vietnamese socialism.

As a result of these negotiations SIDA's Board in May 1985 recommended that the government undertake a five-year package to Bai Bang consisting of SEK 330 million for the mill and SEK 170 million for the forestry part. Of the latter, 50 million would be approved for the first year; the remainder would be conditional on implementation of the new mill organisation and further improvements in living and working conditions for the workforce.

While Ambassador Ragnar Dromberg in Hanoi recommended a shorter contract, SIDA negotiated a full five-year agreement, but with only one year's support to forestry.⁵³¹ Sweden committed additional support to forestry (not specified) subject to (a) implementation of a new organisation and (b) *substantial* improvements in the living conditions and remuneration of forestry workers, before July 1986. SIDA required an organisation that would give the project management (e.g. the General Director of the mill) greater decision-making authority in relation to ministries, provincial government and forest enterprises.⁵³²

⁵³¹ Ambassador Dromberg voiced doubts about the new organisational structure, especially with regard to procurement, and found it premature to sign even the mill agreement. (Cable from Embassy to MFA, 5 May 1985, MFA archive). The dilemma was whether to sign only a one-year contract first, or make it five years from the beginning with special conditions for the last four years. The ambassador supported the first option, SIDA the latter.

⁵³² MFA/*U-avdelningen, Förhandlingsrapport*, 25 June 85, MFA archive.

Sweden signed the agreement in May 1985 although it had obtained very little in terms of reorganisation. The Vietnamese merely offered guidelines for the development of a new organisation which provided a new name – Vinh Phu Pulp and Paper Union Enterprise (VPU) – and merely stated that it might *possibly* organise forestry activities as well. Co-ordination remained the function of a Steering Committee, and first and foremost the Council of Ministers. One important change, however, was that Vietnam agreed to make VPU directly responsible for international procurement. The experiment with Technoimport had failed. But again SIDA appears to have pushed for an unrealistic target: after only 1 1/2 years, the new procurement unit, later to be renamed Vipimex, was supposed to be operating without assistance from SM.

The budget for the five-year project period (based on SEK 330 million for the mill and SEK 50 million for forestry) is presented in Box 8.2. SIDA agreed in part with the demands of MoLI and MoF with respect to the manpower–hardware issue, and reduced manpower to roughly 50 per cent of the total budget. An estimated 80 per cent of the budget would in any case return to Sweden as procurement of services and goods.⁵³³ Scanmanagement criticised the reductions on the personnel side. The hardware component was already three times too high, Bahrke told Scanmanagement’s Board of Directors. The Board nevertheless decided to accept the contract for continued engagement on the new terms.

Box 8.2: Project budget 1985–1990

	Specification	MSEK	Per cent
	Personnel (whole project)	179	47
Mill	“Hardware” incl. a Reserve Fund	158	42
Forest	“Hardware”	11	3
Other	Swedish camp	22	6
	Procurement services (SM)	5	1
	SIDA follow-up	4	1
Total		380	100

Source: *Specific Agreement on support to Vinh Phu Pulp and Paper Mill including forestry activities*, 31 May 1985, Annex I (certain cost items subsumed under broader headings by us). SM’s fixed overheads are included in personnel costs (unlike in earlier budgets) which gives a more realistic picture. The cost of the Swedish camp is shown separately.

From the above, we find several reasons that may explain the large phasing-out package:

- A package of this size was needed to give leverage in the negotiations with Vietnam.
- In the small circle of Swedish consultants and aid bureaucrats, it was difficult to scale down an operation like Scanmanagement.
- Vietnam pressed for more hardware.

⁵³³ MFA, press release, 31 May 1984. MFA archive.

- Lack of Swedish confidence in the Vietnamese organisation made SIDA reluctant to relinquish its overseeing capacity.

The benefit of hindsight and careful reading of the reports written at the time suggest that a leaner Swedish engagement in the phasing-out period would have been feasible. The general consensus among observers, most prominently articulated by the 1983 Review Mission, was that the critical factors constraining production were *not* of a nature that would be remedied by keeping a large contingent of Swedish advisers. Instead, the constraints were on the raw material supply side – non-fibrous raw material and coal, in particular – and workers’ motivation. Arguably, a large continued Swedish presence in the form of numerous advisers might have prodded the Vietnamese towards further institutional reform in these areas. Yet, a more likely explanation for the large budget may be found in the convergence of interest among core actors:

- MoLI and the Mill management wanted as much hardware as possible;
- SIDA–ID was afraid of the “white elephant” and felt professionally incapable of challenging Scanmanagement’s risk analysis; and
- Scanmanagement took what it could get.

Implementing the exit strategy

Turning Bai Bang into a completely Vietnamese operation depended, according to the Swedes, on a successful transfer of skills and an orderly transfer of responsibility. The two concepts used were Systematic Transfer of Knowledge (ToK) and the Transfer Plan (TP). The TP was successful in managing a gradual withdrawal of consultants. The history of ToK is more complicated – it is, in fact, as long as the project itself, and it went through both significant failures and successes. The costs were formidable.

Designing the transfer

The Vietnamese government clearly shared SIDA’s concern and wanted transfer of management responsibility to take place as early as possible. MoLI appears to have been somewhat reluctant but was under pressure from the State Planning Commission.⁵³⁴

When the project agreement was signed in May 1985 and the deadline of June 1990 was set, the emphasis for the Swedes changed from production to phasing out. The Terms of Reference for Scanmanagement were clear:⁵³⁵

- To assist the Vietnamese party in reaching sustainable production, independent of further Swedish support, as from January 1990.

⁵³⁴ Interview with Phi Hung, Hanoi, November 1997.

⁵³⁵ *Terms of reference for Management Support*, 22 May 1984, para 5 and 5.3. Sida archive.

- To transfer knowledge to the Vietnamese personnel in a systematic way, while production was continuously progressing.
- The accomplishment of production targets, however, was the sole responsibility of the Vietnamese.

The role of the expatriates was now more clearly defined as advisory. The duty of SM was to assist the Vietnamese in reaching sustainable production, where “assist” is defined in SM’s contract as “to actively pursue the systematic transfer of knowledge, to give advice in daily on-the-job situations . . . to initiate ideas and stimulate technical and managerial creativity.”⁵³⁶ Bahrke’s title was changed from Project Director to Chief Project Adviser.

Within this framework, the design of the exit strategy is largely the work of Scanmanagement – and the Project Director Sigvard Bahrke in particular. When SM had intense discussions over the summer of 1984 on how to respond to SIDA’s request for scaling down, Bahrke told his Board in Stockholm that this was not merely an economic matter: “We have to develop our phasing out principles,” he argued. The aim should be to find “an honourable way for Sweden to get out of the project”. A key factor would be to place greater pressure on Vietnam.⁵³⁷ Bahrke’s high profile in shaping the future strategy even raised concerns among SM’s management.

When Bahrke later was used in SIDA’s lobbying campaign directed at the different political parties in Parliament (February 1985), his thoughts were further developed. He summarised them as follows:⁵³⁸

- All activities shall contribute towards reaching the goal of Sustainable Vietnamese Operation.
- Methods and systems to be introduced must be sustainable after Swedish exit.
- Transfer of responsibility section by section following an irreversible plan known to everyone. No Swedish return to sections that have been transferred.
- If the mill stops due to Vietnamese take-over, this will cause Sweden to speed up its withdrawal.
- The final bill is presented now. Sweden will entertain no extras.

Bahrke used the “driving lesson” as his favourite analogy when explaining the transfer process. He likened the role of the Swede in Bai Bang with that of a driving instructor (see Box 8.3). The analogy was well received and is remembered by many even today when explaining the Swedish exit strategy.

There is, however, an ambiguity in the terms of reference for SM that is reflected in a muddled organisational form. SIDA continued to hold the reins and SM was not yet to relinquish its watchdog function. The Chief Adviser still had the *authority* to decide on the utilisation and maintenance of Swedish-

⁵³⁶ Ibid., pp. 9–10.

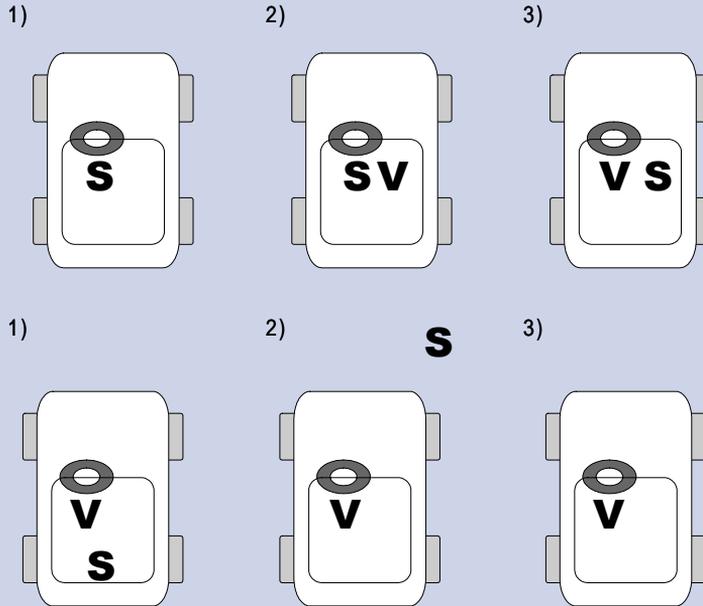
⁵³⁷ Board meeting in August, 1984, personal information.

⁵³⁸ From presentation by Bahrke, February 1985, overheads. Sida archive.

Box 8.3: The driving lesson

S = Swede, V = Vietnamese

- 1) S in the driving seat – early construction period (1974).
- 2) V to learn being spectator.
- 3) V drives, S instructs and controls (1985).
- 4) V drives alone, S sleeps in the back. A few Swedes were sent home.
- 5) V drives alone, S supervising traffic from the outside.
- 6) V operates alone (1990).



Sigvard Bahrke, Bai Bang 1985

financed equipment.⁵³⁹ The same goes for other senior advisers, until a complete transfer of responsibility in a particular section had taken place. In other words, SM's personnel were advisors and controllers at the same time.

The agreement stipulated, on SIDA's insistence, that all expatriates should work within the Vietnamese organisation and no separate SM organisation should exist (with the exception of internal personnel administration and back-up services in Stockholm and Hanoi). To every expatriate there should be one or more Vietnamese counterparts. What it meant to be part of the company organisation and, at the same time, a temporary adviser to it, is not at all clear. The dualism is made more explicit when the agreement declared that "[t]he accomplishment of production targets is, however, a sole Vietnamese responsibility". How is it possible to have decision-making authority on

⁵³⁹ E.g. *Job Description* issued in January 1986. Sida archive.

utilisation and maintenance of equipment and be part of the industrial organisation, without sharing any responsibility for what it does?

Vietnam is not the only aid recipient country where such muddled forms of organisation developed. It reflected simple conflict of interests. Vietnam could not accept that foreigners functioned in line-positions within a national organisation. SIDA, for its part, needed control and faced accountability at home; moreover there was also genuine concern with local capacity. The donor, therefore, could not accept that expatriates functioned entirely as advisors. It is impossible to assess the consequences of such dysfunctional organisation in terms of inefficiency and delays, but clearly it was a design leading to proliferation of responsibility and diffusion of blame.

One interesting feature of this design was the attempt to create institutional incentives to accelerate the process. SIDA had introduced a bonus-system in the 1985 negotiations: if transfer of a section was implemented earlier than planned, for each man-month saved in terms of expatriate fees, the Mill would receive SEK 30,000, transferred from SM's budget to the Reserve and Investment Fund. The General Director was authorised to decide on the use of such amounts. SM would get a similar bonus.

This bonus was paid out once, in 1986. During the second half of 1985, SIDA recorded savings on expatriate costs to the tune of some SEK 500,000. The General Director, Trinh Ba Minh, suggested importing foreign commodities (radios, iron sheets, and clothes) to be distributed among workers. This led to one of many incidents, showing how difficult it was for the Vietnamese political system to accommodate reforms being pushed from below. MoLI wanted to use the fund for spare parts. Scarce foreign exchange should not be used for individual perks. SIDA put pressure on the Council of Ministers and Do Muoi himself had to intervene to finally get the goods for the workers released from the harbour police.

A timetable for the transfer of each section in the mill and forest component was developed (see Box 8.1, and there was a similar chart for the forestry part) and made part of the project agreement. This was an important step, to ensure actual commitment. As a control mechanism, it was stipulated that SIDA and MoLI should be informed six months prior to the final transfer of each activity and agree upon the details.

Interestingly, a list of minimum sustainable production levels was also included in the agreement.⁵⁴⁰ This was considered a way to put pressure on the state planning machinery for adequate allocations of inputs. SIDA reserved the right to terminate, in part or in whole, its support, if the Mill failed to reach these levels. What happened later followed the old pattern. The agreed minimum level was met only once – in 1986. After this came a long downturn, with production in 1989 almost 10,000 tons below the level identified as “sustainable”. SIDA, however, never terminated even a part of the aid.

⁵⁴⁰ The following levels were determined: 1985 22,000 tons; 1986 26,000 tons; 1987 30,000 tons; 1988 33,000 tons; 1989 35,000 tons; and 1990 35,000 tons.

Another interesting feature of the transfer plan was the sequence of different sections to be involved. The first sections to be handed over were the vehicle workshop, the central store, and the material supply department, as early as at the end of 1986. The last to go were the mill training and the mill management sections. It is difficult to understand why SIDA was so eager to get the Vietnamese to take responsibility for international procurement (i.e. material supply) before anything else. There had been a similar preoccupation in the 1980 agreement, but it never worked for Technoimport. It would soon be realised that neither would it work for the new Vipimex, and the support had to be extended formally for two more years and informally until SM left.

There is a pattern in this story: the Vietnamese technicians and managers cope quite well with the industrial process itself, but fail to handle the support functions on which the mill depends. This was largely because the system in fact did not allow them to perform these functions, whereby SIDA and Scanmanagement came to the rescue. In retrospect it could be argued, therefore, that Sweden should have adopted a different transfer sequence: the top level management should have gone earlier, not last, while the external service functions should have been retained the longest. This would have saved costs, and most likely would have encouraged the Vietnamese management.

The Transfer Plan was implemented largely as planned, although the reduction in Swedish manpower was slower than anticipated. Expatriate advisory positions were often extended by some months. There is also a certain ambivalence in the whole transfer mechanism, in that the authority of the expatriate is not fully removed – viz. an official transfer letter stating:

*Scanmanagement will by this finally refrain from all executive performance and only act as advisors. If, however, in any situation there is an obvious risk of damage to costly equipment or of injuries to people connected to the Project, Scanmanagement's advisors may intervene.*⁵⁴¹

The transfer process involved detailed progress reports from each adviser, but DCO also expressed concern as to whether these were really shared with the Vietnamese counterparts and followed-up by the management. The Swedish and the Vietnamese organisational “worlds” remained apart throughout the project.

For the most part of the project, Vietnam did not argue in detail with the expatriate manning schedule. This was considered mainly a Swedish affair. In 1988, however, Ministry of Forestry (MoF) writes to SIDA requesting that the set-up presented by SM be substantially reduced, claiming that it was higher than what SIDA and MoF had agreed at the mid-term review.⁵⁴² MoF argued that many of the Vietnamese counterparts were now qualified to manage on their own. Many Vietnamese in interviews point to the lack of confidence among the Swedes in their capabilities. Combined with the control

⁵⁴¹ Joint letter from Scanmanagement and VPU to MoLI and SIDA. *Transfer of decision rights for the Mill equipment*. 25 June 1987. Sida archive.

⁵⁴² Letter from Ministry of Forestry/Tran Son Thuy to DCO, 9 May 1988. Sida archive.

function of the expatriates, this acted as a disincentive to show responsibility in the counterpart relationship. MoF also stressed that there should be no recruitment of expatriates without experience in tropical forestry.

In a later company history commissioned by the now Bai Bang Paper Company (Bapaco) it is said that in 1985 all operations of the mill and wood supply “were going very well”, except for the knowledge transfer programme. The biggest problem was the application of the Scandinavian Management model.⁵⁴³ This points in the same direction. The challenge of achieving a “sustainable Vietnamese operation” in the five years from 1985 was, to a limited extent, related to what was in the heads of the individuals in terms of technical knowledge and experience. It was first and foremost about the environment within which the company should operate – about establishing a market-oriented enterprise.

The start of the new phase in the project was quite promising. In December 1986 Minh proudly wrote to SIDA that they had “over-fulfilled our production task” – reaching 30,700 tons. “SIDA’s bonus given to our employees because of the results in 1985 has proved to be a very strong motivation.”⁵⁴⁴ This suggested the main problem could be the lack of workers’ incentives. But it was a problem not easily resolved, and it was not the only one.

The many review missions offered a more complex analysis. The message of the 1985 Review Mission echoes those of previous missions: “the mill equipment and personnel have the capacity and capability to produce at substantially higher levels, provided that there is adequate raw materials and motivation”.⁵⁴⁵ The mission reports two seemingly contradictory views held by the Vietnamese managers. On the one hand, they suggested allocating a greater share of the Swedish budget to new investments, reducing the total expatriate manning by 10–12 per cent. On the other hand, they wished to retain the expatriate staff on procurement longer than planned. The Vietnamese Mill management obviously found little risk involved in cutting the number of advisers in other sections.

The October 1987 Review Mission was also optimistic and recommended phasing out expatriates faster than planned. There were no critical problems within the plant. “In those cases where Vietnamese staff have taken over complete responsibility for operational units, there has continued to be progress”.⁵⁴⁶ Raw materials and foreign currency are the two problem areas, to which the mill management is advised to pay attention.

How to transfer knowledge

Training was included in the project design from the beginning, but it suffered from the lack of a clear strategy. It was assumed that the construction period

⁵⁴³ Dao Nguyen and Quang Khai (eds.) 1997, pp. 58–59.

⁵⁴⁴ Letter from VPU/Minh to SIDA, 27 December 1986. Sida archive.

⁵⁴⁵ *Review Mission November 1985*, p. 9.

⁵⁴⁶ *Review Mission October 1987*, p. 1.

would give ample time to mobilise and train the Vietnamese manpower required for subsequent operations, but no plans were put in place to achieve this. It was only late in the project that the idea of a permanent vocational school, modelled after Swedish experiences, was realised (1986). First and foremost, provision of adequately skilled manpower was seen as a Vietnamese responsibility. The view of the then DRV was that the mill should be operated solely with Vietnamese manpower straight from commissioning.

SIDA estimated in early 1974 that some 900 people would have to be trained for the mill alone and five to ten times that number for forestry-related work. The emphasis ought to be on training personnel for operations, while training for the construction phase should come second.⁵⁴⁷ WP-System would be responsible for planning the training programme. The 1974 agreement, signed in August, does contain a brief reference to the “training of DRV personnel engaged in the project”, but, surprisingly, in the contract with WP-System signed shortly thereafter, training of Vietnamese personnel is not mentioned at all.

This is not to say that no training was carried out during the WP-System period. On the contrary, a plethora of short courses and training sessions was carried out – most of it related to construction work. An estimated 30,000 people benefited from this training.⁵⁴⁸ But it was not until about 1983 that the concept of a ToK *programme* really took off. In the meantime, the idea of a vocational school for securing new recruits to the mill had been accepted. Starting from a conventional training programme based on formal courses, there is in 1983 a call for a different approach, aimed at making the individuals appointed for various positions fit for their particular job. The *systematic* ToK, as it is called hereafter, was developed by Scanmanagement and based on the following key elements:⁵⁴⁹

- development of organisational charts and manning requirements,
- formulation of job descriptions and identification of knowledge requirements for each position,
- formulation of individual training plans for candidates to positions, involving a grading system to measure progress,
- defining key tasks to concentrate on, and
- evaluation.

In May 1984 SM reported on the progress of ToK. The programme had been favourably appraised by the review mission the previous month, which found that it “appears to have been an outstanding success”. Although it was probably premature to draw conclusions after only few months of implementation, the positive effects of a more structured approach could already be observed. Internally, SM was more hesitant, and in meetings at

⁵⁴⁷ SIDA memo, *Insatspromemoria*, 29 January 1974. p. 26. Sida archive.

⁵⁴⁸ WP-System 1983.

⁵⁴⁹ Scanmanagement, *Transfer of knowledge status report*, May 1984. Sida archive.



The Vocational School in Bai Bang proudly claims to provide the highest quality of training in Vietnam. Photo: Bror Karlsson/Phoenix

Board level, the method was characterised as very complicated, with some participants complaining that it did not function properly.⁵⁵⁰

The ToK method rested on two pillars.⁵⁵¹ Conceptually, the most important element was the counterpart system – learning by working together. The efficiency of this is difficult to measure. “At present the managers and the advisors are sitting in the same offices and it is difficult to determine which influence the advisors have on the daily decision making.”⁵⁵² The other pillar is formal training in different forms, which is the most visible and the main subject of the progress reports.

The benefits of these methods depended greatly on how well the Vietnamese and their foreign advisers communicated. The language and cultural barriers were fundamental. More Vietnamese had now been trained in English, but the cultural distance remained. Many of the Swedes had no previous experience working as advisors in cross-cultural settings. We are not aware of any assessment of the quality of teaching and the *cross-cultural communication*. The Review Missions never had members with this as their speciality. People in the project, on all sides, were almost without exception engineers, foresters, or professional administrators.

As the ToK dimension became more pronounced, *recruitment* in Sweden became more difficult.⁵⁵³ Not only had SM to look for people with the right industrial

⁵⁵⁰ Personal information.

⁵⁵¹ Vinh Phu Paper and Pulp Mill/Karlsson. *Transfer of knowledge for forestry*, 7 November 1985. Sida archive.

⁵⁵² *Review Mission November 1986*.

⁵⁵³ Interview with Ehnemark, Stockholm, August 1998.

experience, but also with relevant training and development experience. The pool in Sweden was small and had already been heavily exploited. Economic upswing at home made companies reluctant to release employees for work in Bai Bang. Södra Skogsägarna left the Scanmanagement consortium in 1984, mainly because they needed their people in Sweden.⁵⁵⁴

In retrospect, it is clear that the Vietnamese learned fast. How much can be attributed to the ToK system is difficult to say. SIDA at the time was in no doubt: “we fully agree that the transfer of knowledge is the most important aspect of the Swedish support to the project at this moment”; but the efficiency of what is going on is also questioned.⁵⁵⁵ In April 1986 SIDA commissioned a special mission to review ToK.⁵⁵⁶ The concern is whether the training meets actual needs; in other words, would the lack of knowledge constrain the transfer to Vietnamese operation to a greater degree than factors such as workers’ incentives, the political culture of Vietnam, and ready access to markets and support services? The mission reported a general consensus among staff that skills, attitudes, and overall work performance had improved considerably during the last years. This may partly be attributed to the ToK programme, which had systematically focused on technical and managerial shortcomings.

Interestingly, the special mission observed that among mill workers in the production, “gaps in technical knowledge are minor”.⁵⁵⁷ The highly mechanised production is by now (1986) a Vietnamese business with Swedes acting mainly as trouble-shooters. In management and support sectors (spare parts supply, repair and maintenance, transport etc.) which are labour intensive in nature and more sensitive to management constraints, the need for ToK appears to be the greatest. At the same time the authors noted that shortcomings in management, among Swedes as well as Vietnamese, may well reflect an inability to apply acquired knowledge rather than lack of knowledge as such. Extensive training by Scanmanagement in modern industrial management methods had taught the Vietnamese to be aware of problems of bureaucratic and slow decision-making, of leaders avoiding risks and reluctant to give orders, and lack of horizontal communication and co-operation between departments in the mill. Such management problems, moreover, were viewed as more important on the support sector side than in the production proper. To the question on what would happen if Swedish advisors were to leave more or less immediately, the respondents said that the support sectors would be more hurt than production. Production could decrease and become more “manual” – real problems would not occur unless there was a major breakdown.

⁵⁵⁴ Four years later the old partner writes to SM that they are “tired of SM picking managers from Södra.” (Letter from Södra to SM, 7 June 1988. Scanmanagement archive). They will not give leave of absence any longer, stating also that those who come from Bai Bang had not developed professionally or personally.

⁵⁵⁵ Letter from Industry Division/Leijon to DCO, 17 December 1985. Sida archive.

⁵⁵⁶ Hamilton and Hultin 1986.

The special mission noted that in discussions with Vietnamese staff the words “spare parts” and “push” were frequently used in describing the most valuable role of the Swedes, and where problems would be felt if they left. “Spare parts” referred to the wider connotation of the Swedes as trouble-shooters and providers of solutions to special technical problems, often involving supply of new spares. The word “push” was used to identify the role of Swedish advisors in facilitating co-operation between mill departments. When Vietnamese bureaucratic management hindered a quick and flexible response, Vietnamese managers deliberately used Swedes as “go-betweens”. This role of the expatriates was particularly important in the support sectors, where they had a heavy operational burden as “pushers” and “spare-parts” providers, to make things move. Consequently they had less time for systematic ToK in the areas where the needs were the largest. In production, the advisors were only to a small extent still doing formal ToK, and spent most of their time as informal on-the-job advisors.

In *forestry* the Swedes had never had a role similar to their role in the mill. Supply of fibrous raw materials had remained a Vietnamese management responsibility throughout. Expatriates had never formalised operational responsibilities, and never got full insight into operations. They were involved in trials and experiments, in planning advice and training. Swedes functioned as auxiliary staff, useful but not vital. The special mission reported that the gap between knowledge and practice seemed greater in the forestry sector, also creating greater institutional constraints. Vietnamese staff seemed less concerned with problems in the event of an early Swedish withdrawal. The Swedes had no role as “pushers” in forestry, although their role in machine maintenance and supply of imported spares was clearly valued.

The special ToK mission concluded that the process was more or less on track and that phasing out of aid by 1990 should be possible, but that the project would benefit from some amendments to the programme. In retrospect, the findings of the mission, we would argue, warranted some bolder recommendations, as, for example:

- As lack of knowledge was not a serious constraint, the number of advisers could be reduced more quickly than initially planned.
- A facility for trouble-shooting could be maintained, but more on an on-call basis.
- The focus on institutional constraints to efficient management should have been sharpened, recognising that in this respect Vietnamese political reforms were more important than Swedish aid.

In conclusion, it is important to note that the Vietnamese workforce and management were very well trained at the end of the 1980s, thanks to the persistent efforts of SIDA and Scanmanagement towards building a modern industrial culture. This is also greatly appreciated today. The achievements after the Swedes left “has shown the firm knowledge received from the experts and due to that Bapaco has been much easier to mingle in our new economic

management system.”⁵⁵⁸ To outside observers, it also seems clear that the ToK process could have been designed differently, and with lower costs. The main reasons why this was not done at the time can be explained variously:

- The Vietnamese authorities either were indifferent to or resisted models based on a unified organisational structure. The counterpart model grew out of the necessity to accommodate this view, not that it was purposely selected as a proven method in institution-building.
- SIDA/Industry Division was reluctant to relinquish *de facto* control for fear of a major aid scandal. SIDA was therefore in need of a major Swedish presence to accompany Swedish funds and hardware.
- Scanmanagement was in a very strong negotiating position *vis-à-vis* SIDA, with a monopoly on this type of service in Sweden. Commercial motives were particularly strong, as SM existed only for Bai Bang. All the parties above suffered from lack of personnel with professional experience in organisational development.⁵⁵⁹
- The technological bias was too great in a project which met its most difficult challenges in all other areas.

The role of the Swedish media

The Swedish media – press, radio and TV – played a major role in forming public opinion about the project, and overwhelmingly in a negative way. Contrary to expectations, this media-storm never, in any major way, affected events in the project’s history. Probably the most important effect was the impact it had on attitudes within SIDA. While it took its toll on working morale and contributed to the sentiment of “Bai Bang never again”, at the same time it convinced SIDA officials that we could not afford to fail in Bai Bang. The project had placed SIDA’s prestige on the block, and threatened to seriously discredit aid among the Swedish public. In this way, the media had its role in keeping a succession of Swedish governments firmly committed to the project. Yet the heated debate, on labour conditions in particular (see Chapter 6), also reinforced a growing conviction in SIDA that the five-year phasing-out plan under no circumstances should be prolonged, despite the economic crisis of the late 1980s and the lobbying of Scanmanagement for an extension.

For the rest, the media debate is mostly an internal Swedish affair, framed in the context of domestic politics, and overly Swedish focused. Pierre Frühling’s studies,⁵⁶⁰ and later Anne Pandolfi’s (commissioned for this study)⁵⁶¹, analyse these aspects in particular. But the case of Bai Bang also illustrates the problems SIDA had to come up with a proactive information strategy. Again and again it was caught on the defensive, finding itself stoking the fire rather than

⁵⁵⁷ Ibid., p. 2.

⁵⁵⁸ Dao Nguyen and Quang Khai (eds.) 1997, p. 98. (The quote is from the official English translation)

⁵⁵⁹ Bahrke represents an exception, and the critical role he played proves the point.

⁵⁶⁰ Frühling 1978, 1981 and 1984.

⁵⁶¹ Pandolfi 1998.

containing it. Bai Bang taught SIDA the necessity of an active information policy; bringing out the successes, not hiding the problems, and explaining the background. From a fumbling start in the mid-1970s, when much was still covered by secrecy, SIDA – together with WP-System and Scanmanagement – after a while invested considerably in information officers, study tours for journalists, commissioned studies, newsletters, etc. The lessons are mixed. The case of Bai Bang is also the attestation of how difficult it is to bring the topic of development aid to the media, and have it presented in a meaningful way. It is not surprising that when Bai Bang reached full capacity output in 1996 the news never hit the headlines in Sweden.

Frühling discusses the role of the media from 1973–1983. He describes how national and local newspapers, television and radio presented the project, at the same time as he puts it in the historical context of what was happening in Vietnam. In the beginning the articles were positive, but in 1974 questions started to arise about problems with production materials, transportation, and qualified workforce. The headlines became bigger and bigger and increasingly negative and scandalous. Two aspects characterising the Swedish news media are what Frühling calls “reductionism” and “ideologising”. By reductionism he means that the factory is reduced to represent “the Swedish-built paper factory” with apparently no ties to Vietnam. Simultaneously Vietnam becomes a symbol of all communism and Asians. By “ideologising” he means the strong political aspect that is linked to the project. Frühling argues that the media have manipulated the topics in political questions, and supports this argument by the fact that the Bai Bang project was ignored during important periods of development. Crucial problems, such as maintenance, are disregarded, while the media preferred spreading “unfounded rumours” when the topic is on the agenda. Frühling also notes that the media did not report in a neutral way, probably because readers would have ignored them. He fortifies his arguments by referring to the lack of interest in the media for the aid to India and Bangladesh, where the difficulties of aid distribution were probably much larger.

A number of interviews with “Bai Bang-Swedes” were also published, but Frühling thinks that these unnecessarily alienate Vietnam with their “exoticism” and “total privatising”. The reports become exotic in the sense that fragments of the culture are emphasised without context and explanation, and what he describes as total privatising refers to the focus on bad water, bacterial infections, and an all-encompassing bureaucracy as if it was something only the Swedish had to endure.

Pandolfi’s report surveys the various ways in which the mass media dealt with the Bai Bang project from 1980 to 1996. She examines the same forms of news media as Frühling, ranging from newspapers, interviews with journalists, to radio and television. The questions raised are mainly about the development of the theme, how the journalists, who were important actors in the debate, presented the problems, and how important the political aspects were. The study is both quantitative and qualitative in the sense that the articles and

broadcasts are categorised according to the theme they dealt with, the type of article (news article, debate, etc.), classification of the political perspective of the sources (conservative, liberal, etc.), in addition to an analysis of the content including whether the material is positive, negative or neutral towards the Bai Bang project.

There is a shift in themes along the way, but all the time Bai Bang remains strongly political. The two main topics seem to be forced labour and explicit technical problems such as the environmental hazards that the projects encounter. The culmination of the forced labour controversy extended from 1982 to 1987; afterwards the main theme was the environment. After the exit of the Swedish consultants in 1990 the debates slowed down.

The main topic is that Bai Bang is the largest and most expensive Swedish aid project, in addition to the fact that it was delayed, that it was more costly than anticipated, and that few things worked out as planned. It was, moreover, situated in Vietnam, which at the time was very controversial. The richness of metaphors applied to the factory, like “the monster in the paddy fields”, reduces the project to a symbol of failure in Swedish aid projects. The original symbolism of the paper, as a medium to spread knowledge and therefore freedom, is lost in the debates because it becomes a luxury product in connection to the forced labour controversy.

Both authors write about the changing view of Vietnam and the Vietnamese which became increasingly negative as they did not keep to the agreements they entered into, did not invest enough work in the project, the workers were stealing, and the government seemed to be at odds with itself. The situation worsened when Vietnam invaded Cambodia. At the same time the Swedes are branded as “too optimistic”, badly organised, and naive.

There seems to be a general shift in style between the two periods, in that Frühling thinks that the newspapers were more scandal oriented in the period 1973–1983. Pandolfi agrees with this although she argues that the period she deals with is more nuanced because of more factual information about the local context. The situation in the forest made the matter more complex, propelling journalists away from the reductionism mode. In the 1990s the focus concentrates more on the form of the aid, and to what extent aid can further democracy, or if one should only focus on questions of poverty reduction.

Pandolfi notes that there are many matters that have not reached the people to the extent that they should, for example the fact that the project also cost the Vietnamese a large amount, only focusing on how much Sweden spent. This is a part of the main criticism that Pandolfi raises because all the reports were seen from the Swedish point of view, totally ignoring how it was viewed by the Vietnamese. Swedish journalism has often been criticised for being too “nationalistic”, and this is just another example of the same.

SIDA meeting the deadline

We have argued above that there are reasons to question the volume and design of the Swedish support. Many would also argue today that the duration was excessive – that the Swedes stayed for too long.⁵⁶² A careful review of the data suggests a different conclusion; namely that Bai Bang was critically dependent on major elements of Swedish support for the full five-year period. As suggested above, this was not primarily a need for Swedish advisers.

The reform process in Vietnam, while positive and, in a fundamental sense, a lifesaver for the mill, also turned out to be difficult. Even long after the departure of the last Swede, despite all the preparedness imparted through Scandinavian management training, Vipimex did not manage to do all its foreign procurement. Producing export quality paper needed extra support not to mention marketing it abroad. By contrast, in mid-1989, when VPU was technically bankrupt (unable to sell because local buyers had no money and the banks would not give credit), Scanmanagement provided the necessary cushion.

The most interesting question is not whether SM and SIDA should have stayed for a shorter period, but why they did not stay longer? Why did SIDA actually observe the deadline of June 1990?⁵⁶³ Judging from the earlier history of Bai Bang and many aid projects in general, it would not have been a surprise had Sweden extended further. In the following we shall look at the four main factors: critics in Sweden, the relationship to Vietnam, the relationship between Scanmanagement and SIDA, and relations within SIDA.

Critics in Sweden

The first hurdle for SIDA and MoLI was to ensure compliance with the conditions for further support to forestry beyond 1986. The opposition in Sweden had clearly not been satisfied with the project agreement. The formulation of Swedish conditionality was too vague, especially with respect to forestry workers, they claimed. “The forestry workers have been let down.” The issue was intractable for the Swedish authorities who were thus put in an uncomfortable and defensive position. The Foreign Minister, for instance, could only point out that the Ministry had entered the words ‘substantially improved’ during negotiations, whereas SIDA had suggested only ‘improvements’ in the living conditions. He also told the Swedish press that he had been very concrete in his discussions with responsible Vietnamese ministers, and the Ministry on several occasions had instructed SIDA to be more alert to the issue.⁵⁶⁴ A side effect in SIDA was to reinforce the conviction that Bai Bang was a headache that it would like to get rid of.

The relationship to Vietnam

In Hanoi, the SIDA office (DCO) was frustrated, and felt that the Vietnamese Ministry of Forestry (MoF) was not responsive on the organisational issue of

⁵⁶² The leader of several review missions, Arnesjö, was of this opinion. Telephone interview with Arnesjö, August 1998.

⁵⁶³ In actual fact, June 1990 was only the exit of the last Swedish adviser, not the end of all support to Bai Bang.

⁵⁶⁴ E.g. letter from MFA/Edgren to SIDA/ Director-General Carl Tham, 23 July 1985. MFA archive.

how to integrate forestry and industry.⁵⁶⁵ In December 1986, the DCO complained to the management of the mill about the lack of progress, violating the agreement that implementation of a new organisation should have started by the end of October. The head of MoLI, Minister Nguyen Chi Vu, for his part, told the Swedish ambassador that he expected that Council of Ministers soon would decide that responsibility for the wood supply to the mill be placed under him. However, the tug-of-war was intense on the Vietnamese side, and Vu did not get his way in the end. SIDA went as far as to suggest a high-level seminar to try to bridge the gap between MoLI and MoF, but without success.

The Cambodia question also intruded here. The Swedish government decided in April 1987 to link any extension of aid after 1990 to Vietnam's withdrawal from Cambodia. In a sense it was a non-issue because by then SIDA was firmly committed to be out by 1990 anyway. Yet the Stockholm decision was made just before the mid-term review, predictably making the Vietnamese authorities wonder if or why Sweden had changed policy – using aid as a lever in foreign policy. They reiterated what both Foreign Minister Nguyen Co Thach and Pham Van Dong had earlier promised Lena Hjelm-Wallen, Minister for Development Corporation, that Vietnam would pull out at the latest by 1990, which in fact they did.

The mid-term review of December 1987 is satisfied with what Vietnam had done with respect to reorganisation and living conditions, and discontinuation of aid was out of question – although it was never a real threat. The Swedish delegation appreciated the difficulties in reforming the economy, but nevertheless continued the ritual of pushing for unrealistic production targets. “Nothing less than the minimum level should be accepted”, although VPU remained far below.⁵⁶⁶

It is of interest to note that SIDA, as late as at the end of 1989, was discussing the need for an agreement with Vietnam to allow expatriates to remain in line positions after 1990. The sentiments at SIDA were mixed: On the one hand, June 1990 should be the closing date for SM, while, on the other hand, many at SIDA did not believe that the goal of sustainable Vietnamese operation would have been achieved by then.

The relationship with Scanmanagement

The relationship between SIDA and SM was clearly a continuous negotiating process. This started early but intensified in the course of the phasing out. The most difficult questions related to the extension of man-months of SIDA-approved expatriate positions and the line to be drawn between these and SM staff paid from SM's fixed overhead contract.⁵⁶⁷

⁵⁶⁵ Telex from DCO to Industry Division, 3 October 1986. Sida archive.

⁵⁶⁶ SIDA memo, *Midterm Review. Summary and conclusions by the Swedish delegation*. DCO, Hanoi, 14 December 1987. Sida archive. The minimum targets set in 1985 remained unchanged.

⁵⁶⁷ Letter from Industry Division/Rehlen to Scanmanagement, 25 January 1984. The letter reflects disagreements over SM's manpower dispositions and the Swedish project organisation. SM is accused of trying to save on its fixed general administrative overhead, by assigning SM-internal tasks to SIDA-approved expert positions. Sida archive.

While SIDA became involved in detailed discussions with SM on manpower, Vietnam appeared to be on the sidelines. The SIDA–SM agreement had to be formally vetted by Vietnam, but as a matter of convenience this was simply done by modifying the next Annual Plan of Operation.⁵⁶⁸ A small incident which illustrates SIDA's watchful eyes on Scanmanagement is the following: SIDA's Industry Division picked up from SM's own Newsletter (*Info-bladet*) that SM is making temporary arrangements for the post of advisor to the Transport Manager, whereupon ID promptly orders SM to find a better solution and even suggests names.⁵⁶⁹

Another complaint related to the consulting fees. SM was well paid, no doubt, but records do not support claims of exorbitant fees. In 1985 the average annual charge of an expatriate person-year was SEK 360,000 (excluding housing). With all personnel related costs included (e.g. SM's fixed overhead plus travel) SM actually invoiced SIDA about SEK 55,000 per person-month in regular positions, which equals an annual cost of SEK 610,000. Scanmanagement was expensive, but not in any way far above normal expatriate costs at the time.⁵⁷⁰ SM accepted an overhead of 75–80 per cent on gross salary in Bai Bang, which was lower than what, for instance, Jaakko Pöyry normally charged (100 per cent). With the large number of long-term contracts, this was nevertheless good business.

In Vietnam, the dialogue between the SIDA office and the consultant was often problematic and during the last five years controversies became increasingly frequent. One reason was lack of continuity. DCO changed its staff frequently. The heads of the office were mostly people with a different background than industry and technology, and the same applied to many of the programme officers. It was also a factor that many of them were women, while SM was a male organisation throughout. SM was unhappy with what they considered lack of commitment at DCO. There were conflicts over DCO reporting requirements (considered formalistic and excessive by SM), and some people in SIDA started questioning the role of the Review Mission, as being too closely associated with the project (in 1986 the mission included a former staff member of SM and thus clearly had conflicts of interest). Sonja Björkén, who joined DCO in September 1987 from outside the organisation, took upon herself to press the exit issue against those who doubted the 1990 date in both SM and SIDA.⁵⁷¹

The relationship between the consultant and SIDA/Stockholm was easier. In ID there were people with a long-standing exposure to the project and industry was close to their heart.

Scanmanagement, for its part, had difficulties accepting that 1990 was the end. This was partly motivated by the severe problems in 1987 and 1989 when production dropped, but also by SM's hopes of staying in business beyond

⁵⁶⁸ Letter from DCO to Industry Division, 10 October 1984. Sida archive.

⁵⁶⁹ Letter from Industry Division/Rehlen to SM, 19 December 1985. Sida archive.

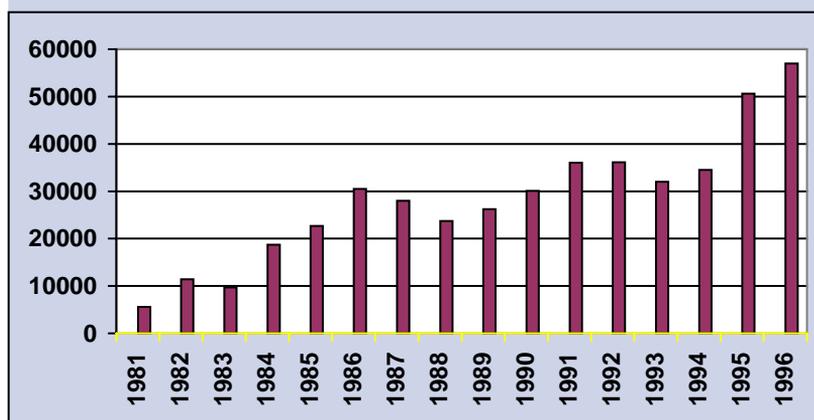
⁵⁷⁰ Data from SM's monthly invoices in 1985. SIDA and Scanmanagement archives.

⁵⁷¹ Interview with Björkén, Stockholm, July 1998; and letter from DCO/Björkén to Scanmanagement, regarding *Manning Schedule*, 20 December 1988. Sida archive.

that time. It is highly likely that we will continue after 1990, Svenningsson told SM's Board in September 1987.⁵⁷² The same year, SM prepared upon SIDA's request its "Prospects of the Mill and Forestry" and a strategy plan for the future.⁵⁷³ The tone was rather pessimistic, indicating that the mill was likely never to reach the designed capacity (Box 8.4 shows the actual production figures).

In October 1988 SM argued that the advisers had been pulled back too early from production. The pulp mill is a particular problem. Together with VPU they asked for an extension but SIDA stuck to the Transfer Plan. There were, however, doubts also internally in SM as to whether a Swedish adviser would be the proper remedy, since it was recognised that most problems have their cause beyond what Sweden was in a position to influence.⁵⁷⁴

Box 8.4: Produced paper ton/year – Bai Bang paper mill



Source: VPPPM and Bapaco records.

In 1989 the worst crisis was over and production started picking up again. The review mission in September was optimistic – too optimistic in fact according to SM. They realised, however, that the deadline was firm, and made an effort to smoothen the transition in order to preserve their goodwill. SM started seeking other avenues for a continued engagement, and tabled a ten-million proposal for an educational programme.⁵⁷⁵ At the same time they completed on their own initiative an assessment of the future prospects of VPU (written in Swedish for SIDA). The conclusion leaves no hope for VPU:

It is our definite understanding that interrupted support to VPU and VPSU very soon will limit the mill's capacity to produce paper on a large scale. As soon as within a year production will sink below 10,000 tons and the export quality will be practically nil.⁵⁷⁶

⁵⁷² Personal information.

⁵⁷³ Scanmanagement, *Prospects of the Mill and Forestry Unions VPU and VPSU*, October, 1987.

⁵⁷⁴ Discussion in Scanmanagement's Board meeting, November 1988. Personal information.

⁵⁷⁵ Scanmanagement/Svenningsson, proposal submitted to DCO, 20 February 1989. Sida archive.

⁵⁷⁶ Scanmanagement, *Vinh Phu Paper Union after 1990*, 11 February 1989, p. 14 (our translation). Sida archive.

Scanmanagement's Per-Axel Svenningsson, closing down his house in *Vietboda* (the Swedish name of the expatriate housing estate) in June 1990, told a Swedish journalist: "We must not leave Bai Bang to its own destiny."⁵⁷⁷

Relations within SIDA

Donor organisations are often criticised for their frequent rotation of staff and weak institutional memory – and SIDA is generally no exception. However, management personnel in the Bai Bang project at head office does represent an exception. At the Industry Division there was an unusual continuity in key staff. Christina Rehlen stayed with the project for 15 years – three of them in Hanoi. Westring held the post as head of the Vietnam Group for five years. The various heads of the division have all been close to the project for several years. Jan Cedergren and Gösta Edgren, key programme officers in the early period, came back in key roles in the turbulent mid-eighties. There is ample evidence to conclude that this continuity helped the battered ship through many storms.

The downside of continuity is that officials may identify too closely with the project. The sense of ownership of Bai Bang in ID was clearly strong, and during the last phase this led to rivalries on two fronts within SIDA. Firstly, in the relationship to SIDA/Hanoi (DCO), and secondly to the Agriculture/Natural Resource Division (LANT).

DCO represented the contrast to the Industry Division. With the exception of the periods when staff from ID served in Hanoi, a range of newcomers entered the scene. These were mostly people whose professional background and aid philosophy pointed in directions other than industry. They lacked background knowledge about the project, and often about Vietnam as well, but precisely for that reason sometimes could see things from new perspectives. The consultants, as noted, generally found it more difficult to work with DCO than with ID, which was considered less critical and picky.

Already in 1983 SIDA found it necessary to issue a special instruction outlining the division of responsibilities between DCO and the Industry Division, with respect to Bai Bang.⁵⁷⁸ In line with the general policy at the time of decentralising decision-making, DCO was to deal with *all* matters within the framework of agreed annual plans and budgets. But when the instruction went on to list matters where prior consultation with ID, nevertheless, was required, the list was long. The instruction was formulated by ID and basically said that ID was to be in charge. The legacy of the special task force – the Vietnam Group – still remained.

During the spring of 1988 there was a hefty exchange of letters between ID and DCO concerning the approval of SM's recruitment of a senior management advisor. DCO claims to represent the view of the management of the mill, blaming ID for supporting SM without prior consultation with DCO. This represents a typical conflict of authority in donor organisations.

⁵⁷⁷ *Sundsvalls Tidning*, 9 July 1990. (Our translation)

⁵⁷⁸ SIDA memo, issued by Industry Division and DCO, 20 May 1983. Sida archive.

The relative strength and influence of the field office versus the sector office at headquarters can dictate the outcome of important decisions. In Bai Bang, ID managed to hold the reins for a long time, which may explain why it was such a slow process for SIDA to realise that the greatest challenges to the project were not technological or logistical but rather sprung from political, institutional and social conditions in Vietnam. The wood supply is a case in point (cf. Chapter 5), and the discussion on the causes of the raw material problem led to a new challenge to ID from inside SIDA.

For several years, as we have seen, SIDA had gradually been expanding the aid to Bai Bang beyond the scope of what was strictly speaking an industrial venture. SM brought into the project the Swedish heritage of the industrial community (*brukssamhälle*), where the mill-owner was the patron taking responsibility for the education, housing, and social welfare of his workers and their families. The problem of getting wood for the mill, however, could not be solved within the ambit of the industrial community. It was related to the living conditions in a vast rural area – the so-called Raw Material Area (RMA).

A new kind of aid expertise got involved in the project around the mid-1980s. This had already begun with the “forced labour” discussion from 1983 onwards. Coincidentally, the issue of living conditions in the villages of the RMA emerged together with an upsurge of interest in integrated rural development within SIDA, and the donor community at large. The Agricultural Division (LANT) gained in influence, and engaged itself in the Bai Bang debate. Reporting on a study tour to the area in October 1984, Reidar Persson writes to his home office (LANT) that SIDA had to promote rural development in connection with Bai Bang. He went as far as to say, “without some development in the rural areas surrounding Bai Bang the future of the project is bleak.”⁵⁷⁹

The outcome was the creation of the Plantation and Soil Conservation Project, managed in SIDA by LANT. This represented the new fashion, for which funds were available outside the SEK 500 million ceiling imposed for Bai Bang in 1985. The project came to last for a second and third generation.

Mission accomplished

In June 1990 the last Swedish adviser packed up. The mill’s production was no higher than by mid-decade when the phasing out started.⁵⁸⁰ Vietnam, however, was in the midst of dramatic changes. Scanmanagement’s forecast was gloomy,⁵⁸¹ but outside observers were slightly more optimistic.⁵⁸² SIDA is more than anything tired of Bai Bang. The phrase “Bai Bang never again”, was a common theme in the corridors. SIDA left behind a small helping hand for spare parts and some new advisers.

⁵⁷⁹ Letter to SIDA/LANT from Persson in Vietnam, 23 October 1984. Sida archive.

⁵⁸⁰ 1985: 22,652 tons of paper (41 per cent of capacity) compared with 26,157 (48 per cent) in 1989.

⁵⁸¹ Scanmanagement/Svenningsson, proposal submitted to DCO, 20 February 1989. Sida archive.

⁵⁸² IMC 1990; and *Review Mission September 1989*.



*The machine hall with the two paper machines. Mission accomplished.
Photo: Heldur Netocny/Phoenix*

Then, in 1996 the mill finally reached its designed production capacity.⁵⁸³ Two factors seem critical in this respect. One was the rapid dismantling of the centrally planned economy. This could hardly have been foreseen in the early 1980s, but radically changed the context of operations. From a situation where the mill management, SIDA, and Scanmanagement fought a constant battle to make the environment fit the demands of the mill, they could now gradually focus on how the mill should adapt to its environment. After years of pushing towards greater influence in the state planning system for the control of the mill's resource inputs, the focus could be shifted towards the basics of enterprise management: survival in the market place.

The reforms gave the answer to the central question that had been looming in the background during the earlier phase of the project and gradually come to the fore: How should a “made-in-Sweden” factory survive without the ability to earn its own foreign exchange and import its own spares? But it was also the match between these reforms and the training provided under the euphemism of “Scandinavian management” which laid the foundation for the achievements of the 1990s. The Swedish advisers had been allowed to preach the essentials of market economy: competitiveness, marketing, cost efficiency, quality and profits. Celebrating the 15th anniversary of the official opening of the mill, the Vietnamese management recognised the significance of this training, if mostly indirectly.

The company history commissioned on this occasion presents the long and thorny road towards fulfilling the production potential of the plant. While expressing gratitude for the generous Swedish support, the book first and

⁵⁸³ Annual production was 57,027 tons.

foremost presents Bai Bang as a Vietnamese project.⁵⁸⁴ There are two high points in this history: the ability of the mill to boost production after Scanmanagement left in June 1990, and the 1994 restructuring of the company led by the current General Director Tran Ngoc Que. The last Chief Adviser, Per-Axel Svenningsson, is quoted as saying upon his departure: “if Sweden lets Bai Bang take care of itself from now on, its future will be at risk.”⁵⁸⁵ Later the same year the then General Director, Nguyen Trong Khanh, proudly reports to Svenningsson and SIDA that “the production of the third quarter . . . is the highest production so far. What do you think about this?” The message is that the Vietnamese staff had been ready for a long time to manage the mill, but could not realise its potential due to the biggest problem of all – “the central planning, bureaucratic and subsidy mechanism in economic management and administration of state affairs.”⁵⁸⁶

This is, of course, difficult to verify. What is worth emphasising, is that the company in 1990 harboured enough talent and human resources to meet the challenges of a turbulent period of market adaptation. In 1992, Bai Bang Paper Company faced increasing domestic prices on inputs and from rising taxes. The “multinational” nature of its equipment created growing problems in maintenance and spare-parts supply. The Swedish Support Fund, established in 1990 with leftover funds, had been exhausted. The company had to intensify the work to replace imported spare parts with locally manufactured ones. Tran Ngoc Que, a man of the mill who came to Bai Bang already in 1979 and was appointed General Director in May 1992, embarked on a major restructuring programme.

The success of Que was broadcasted on television throughout Vietnam when at 10 a.m. on 23 December 1996, a long whistling of the company siren announced that 55,000 tons annual production had been reached for the first time. It had taken 15 more years than Jaakko Pöyry had initially projected in their feasibility study.⁵⁸⁷ The total price tag had come to SEK 2,700 million in current prices (see Box 0.1 in the Introduction). Asked by local media how this could be achieved with the same equipment and people, Que explained: “I asked everybody for unity, co-operation, and put them in their right positions for encouraging themselves.”⁵⁸⁸ He was, of course, helped by increasing prices on the world paper market and new tariffs to protect the domestic paper industry, but the echo of “Scandinavian management” was still audible. Swedish self-confidence had been replaced by the “Vietnamese” version of the same. A Hanoi newspaper quoted workers in Bapaco saying: “We should not let the modern and biggest paper mill in our country decline, otherwise we deserve to be accused and ashamed.”⁵⁸⁹

⁵⁸⁴ Dao Nguyen and Quang Khai (eds.) 1997.

⁵⁸⁵ *Ibid.*, p. 71.

⁵⁸⁶ *Ibid.*, p. 55.

⁵⁸⁷ Pöyry 1974, para 3.0.1.

⁵⁸⁸ Dao Nguyen and Quang Khai (eds.) 1997, p. 167.

⁵⁸⁹ *Ibid.*, p. 85.

Chapter 9

Conclusions

Originating in the international solidarity movement during the Vietnam War, Bai Bang soon became a troubled aid project. Time schedules were exceeded and the original budget of SEK 770 million expanded to a total of about SEK 2,700 million (in current prices). There was acerbic criticism in Sweden of the economic as well as the social and political costs. It became the most costly and one of the longest lasting projects Sweden has ever undertaken. The paper mill did not reach full production capacity until the mid-1990s, some 25 years after the planning process started. The element of failure seems obvious, and has indeed dominated conventional wisdom on the matter in Sweden.

In Vietnam, the name Bai Bang is widely known as the trademark imprinted on the writing paper and schoolbooks used throughout the country. The name also designates a modern, well-run factory north-west of Hanoi which employs around 3,000 persons and is the centre of a prosperous-looking town that has grown up around it. There are also some elements of success that are less immediately apparent. Bai Bang involved more than producing paper and generating local development; it was a case of successful transfer of technology and a workable strategy to phase out aid. Vietnam and Sweden accomplished what, in retrospect, and partly also at the time, seemed nearly impossible – constructing a complex industrial venture through development co-operation between a Western state and a communist country in times of war and economic crisis.

The history – a summary of main findings

It may seem bizarre that a paper mill was to become the lasting monument to Swedish–Vietnamese solidarity, and, equally, that the Swedish government launched an aid project despite war, lack of knowledge of local conditions, and with a Marxist-Leninist state administration as its counterpart. The problems this entailed were clearly anticipated by SIDA, which only reluctantly undertook the project.

The decision in 1969 to aid North Vietnam reflected the political climate in Sweden at the time. There was a groundswell of national sympathy for the victims of the Vietnam war, a strong solidarity movement, and a national political constellation which caused the Social Democratic government to define a pro-Hanoi policy that could pre-empt the radical left. But why choose a paper mill when the country was devastated by war and poverty? Why not infrastructure or social development projects to help reconstruction and development? The choice was largely a Vietnamese decision, and in line with prevailing socialist doctrines. The Vietnamese viewed industrial development as the principal engine of growth that would lift the country out of economic backwardness, and they wanted Western technology to help construct the socialist revolution. In Stockholm, the Swedish government observed the policy principle according to which the recipient government had a legitimate right to determine the uses of aid, and could only acquiesce in the Vietnamese choice. Thus, ideology on both sides converged to support the idea of a paper factory.

The substantial cost and time overruns of Bai Bang should not have come as a surprise. The planning phase in the beginning of the 1970s was an early sign. In Vietnam, the demands and destruction of war, the physical bottlenecks, the bureaucratic rigidities, the closed nature of the political and social system which only reluctantly released information, particularly in wartime, made planning slow and cumbersome. But the process was also slow because the goal – constructing a modern paper factory in a remote region of North Vietnam in the early 1970s – was extremely ambitious. In order to make the idea slightly more realistic, SIDA reached for elaborate feasibility studies that also prolonged the planning period.

The structural restraints of both a material and political kind became more obvious during the construction phase. The task of rebuilding and reunifying Vietnam after the American War placed enormous demands on resources, particularly skilled labour and transport capacity. Bai Bang was only one of several projects struggling to meet deadlines within the narrow physical limits set by poverty, war, international isolation, and underdevelopment. The nationwide shortages were probably worsened rather than relieved by the central planning mechanism in Vietnam's unreformed communist system. Bureaucratic rigidities and a centralised decision-making process made for a slow and cumbersome process that led to waste, delays, and apparent misallocation of resources. Bai Bang experienced it all in various ways.

Sweden had overrated Vietnam's professional aptitude. To speed up the process and compensate for the weaknesses of the physical and political restraints in Vietnam, Sweden added more manpower of its own, including Swedish construction workers. This, of course, greatly added to the costs. While the period of rapid inflation that set in during the second half of the 1970s was the single most important reason why the initial Swedish budgets were exceeded, additional time and project components accounted for a substantial increase in real cost.

But the main reason why the total budgetary cost of Bai Bang to Sweden by 1995 was over three times the amount specified in the initial project agreement

was that Sweden extended its involvement to include support to the running of the mill. This amounted to over ten years of assistance that had not been envisaged in 1974. The successive decisions in the 1980s that prolonged Swedish involvement suggest that the so-called “investment trap” was at work. Having sunk so much prestige and money into the project, Swedish authorities could not withdraw until they were able to demonstrate some measure of success. This also partly explains why Sweden decided to maintain its aid to Vietnam in 1979–80 when the country was widely condemned and internationally isolated because of its invasion of Cambodia. Sweden stayed on, even under a centre–right coalition government that previously had included some of the staunchest critics of aid to Vietnam.

The Vietnamese, for their part, had invested considerably in the project as well. It was their first Western aid project, it was the prestigious outcome of Swedish–Vietnamese solidarity during the American War, and it was one of the largest, modern industrial ventures in the North. They could not afford to have it fail. Until the late 1980s the Vietnamese government was reluctant to see the Swedes leave, even though it went against established norms and practice to have a donor remain involved in managing the enterprise after construction was completed.

What were the criteria for failure or success in the 1980s? Both sides celebrated the mill’s performance in 1986 when production targets for the first time were met. These targets were in reality set at the equivalent of half the production capacity of the mill. Nevertheless, in a country that was slowly emerging from renewed war and profound economic crisis, it was considered a major achievement.

The immediate reasons for the low production levels were obvious and repeatedly analysed: shortages of raw material and labour, and low productivity of labour. These problems were systemic in nature and affected the whole country. For instance, there was a shortage of labour because extreme poverty made the workers spend time generating income from “the family economy” (small-scale gardening and husbandry); the working and living conditions were so poor that they affected morale and work performance. As for lack of input supplies, the mill management was continuously worried about shortages of wood and coal. The supply of fibrous raw material – wood and bamboo – was a major concern throughout, causing Sweden to invest substantially in forest roads and plantations and to promote new species (e.g. pine and eucalyptus). It was not until the economic reforms in the late 1980s, however, which allowed farmers to sell directly to the mill, that the wood yard in Bai Bang filled up. Ironically, perhaps, the mill rarely shut down for lack of wood, because other constraints, such as lack of coal, caused the mill to produce far below capacity. Vietnam’s central planning mechanism could not solve, and probably aggravated, shortages of essential supplies to run the factory. The problem was clearly related to what the Vietnamese called macro-management rather than absolute physical shortages.

Given the structural nature of the restraints on production, even substantial Swedish support in the form of management and additional components could do little to improve the situation. Still, to some extent the aid did help Bai Bang get through the difficult 1980s by dealing with bottlenecks materially (e.g. through supplementary food programmes to improve workers' morale and productivity), and politically (by bringing the matter to the attention of the highest political authorities.)

In this sense, the political origins of Bai Bang proved a blessing. It gave the project a high profile that secured attention at the highest political level in Hanoi. The Vietnamese government officially defined the mill as a priority project, which helped cut through red tape and conferred special privileges designed to facilitate construction and, later, production. After Vietnam started on the path of reform in 1979–80, the project acquired new political significance as an experiment in “modern” management. Bai Bang became a valuable tool – a sort of “showcase” – for the reform-oriented segments of the Party. That was another reason why the government wanted the donor to remain involved in the operations phase. In 1984, Bai Bang was given an official status as experimental model in “new” management which, in effect, followed capitalist principles.

The high-level political attention and special privileges accorded Bai Bang helped save the project in the sense that, by the mid-1980s, it was a functioning paper factory, although producing below capacity. But the economic liberalisation of the 1980s was needed to create structural harmony between management at the enterprise level and the national economic environment. After a rough transition period, by the mid-1990 the enterprise was producing at full capacity under market conditions. The structural adjustment brought about by Vietnam's own reforms thus saved the project in a more fundamental sense.

The measure of success which the aid project achieved overall can be attributed to three principal factors: first, the staying power of both governments in terms of consistent and long-term commitment to the project; second, a solid core (i.e., a well-constructed and well-managed mill);⁵⁹⁰ and third, an eventually favourable external context (i.e. the economic reforms in Vietnam).

⁵⁹⁰ The impact evaluation of the Bai Bang project (Centre for International Economics 1998) confirms this general consensus among previous reviewers of the project, but there is one major exception. The installation of only one coal-fired power boiler is considered “a major design fault” (*ibid.*, p.xvi). The need for maintenance causes frequent stoppages at the boiler. In general, coal-fired boilers are difficult to maintain, and low quality coal adds to the problem. Because of these stoppages, the mill's biggest constraint in production is shortage of steam. Some of the people involved in the design of the mill, Ngo Dinh Truong, project manager for MoLI from 1973 to 83, and Nguyen Trong Khanh, working with the project from 1972 and later General Director, claim that the Vietnamese side, in the negotiations during the early 1970s, did suggest two boilers, since this was common in Japanese and Chinese mills. On the Swedish side, neither Cedergren, who was in SIDA's Industry Division at the time, nor Spangenberg, head of Pöyry's planning team, recall this as an important matter in the negotiations. Spangenberg argues that it would have been difficult to justify the cost of two boilers for a mill of this modest size. Cedergren points to the fact that SIDA at the time was very cost conscious and declined a number of requests from the Vietnamese side for additional equipment – an additional boiler would have been only one of many such requests.

The systemic incompatibilities between the Vietnamese Marxist-Leninist system and Swedish social democracy mattered less than might have been expected. The project was implanted in Vietnamese soil and had to adjust to Vietnamese realities. In the period before the reforms, it struggled along as did other state enterprises, although with clear advantages. The Swedes, however, remained an important part of the project, and “adjustment” meant dealing with Swedish realities as well. Throughout the project life, a series of conflicts of expectations and demands arose from the enormous distance that separated the Vietnamese and the Swedish side. This distance was created by fundamental differences in social, cultural, political, and economic matters. Because the distance was so great, adjustment was difficult, painful, and slow. Both Vietnam and Sweden underrated the difficulties of communication.

Bai Bang received major attention from Swedish media – press, radio and TV – throughout the period of Swedish involvement. The project was presented in an overwhelmingly negative way, but this did not affect project development in any major way. Ironically one consequence was to reinforce Swedish staying power. Bai Bang had placed the prestige of Swedish aid on the block, and Ministry for Foreign Affairs and SIDA could not afford to fail. Yet the media pressure also prodded SIDA to stand by the five-year plan for phasing out that had been agreed, and contributed to the the prevailing conviction that Sweden should never again undertake a project of this kind.

Types of lessons

Two types of questions were identified in the original mandate of this study: (a) what did SIDA as an organisation learn, and (b) what can be learned more generally with respect to the policies and practice of development co-operation that are relevant to both donor and recipient? At a later date it became evident that the subject of SIDA’s organisational learning would be so complicated and demanding that it could not be treated as an addendum to the history of the project, and should be studied separately, if at all. The terms of references were subsequently limited to the more general policy lessons.

Only a few points regarding organisational learning can be briefly noted here. A general impression is that the learning experience within SIDA was principally of the “Nevermore” variety, as Ernst Michanek had titled a personal note written after negotiating the draft project agreement with North Vietnam in Hanoi in March–April 1974. SIDA never again undertook an industrial project as large and complicated as Bai Bang. Officials in SIDA and the Ministry for Foreign Affairs who were closely involved with the project still become animated when discussing Bai Bang today, almost thirty years after it was first conceived. All reiterate the view that Bai Bang was a special case, a product of an era that will not be repeated. The literature on general aspects of Swedish aid, however, is surprisingly silent on “the lessons of Bai Bang.” A 1977 study of Swedish development assistance in the industrial sector has no direct references to experiences from Bai Bang, even though Gösta

Westring – who, in 1974, was appointed to lead the “Vietnam Group” in SIDA – was one of the authors.⁵⁹¹ Neither did a study of the administration of foreign aid in 1978 incorporate any lessons regarding the impact of Bai Bang, although a separate report on the topic was written (also by Westring) and appended to the study. Westring’s main conclusion is that SIDA in future projects should not assume as direct a responsibility for delivering goods and services as it did in Bai Bang through its contract with WP, the consultant.⁵⁹² Bai Bang is only briefly and descriptively mentioned in Olav Stokke’s 1978 history of Swedish development co-operation.⁵⁹³ These are early studies, and it would be interesting to see whether they are representative.

Another kind of learning – what we have called type (b) above – is learning in the general sense of drawing lessons from history. In this study, it refers to conclusions drawn from the history of Bai Bang which relate to central and recurring themes in development co-operation and which have wider applicability. This is the most obvious way in which Bai Bang can provide lessons. As a project – an industrial venture between a communist and a capitalist system that spanned wars, peace, and economic liberalisation in Vietnam – it will never be replicated. There will never be another Bai Bang to which the lessons can be applied. On the other hand, because of its size and complexity, the adversities it encountered, but also the privileged status it enjoyed on both sides, Bai Bang presents in extreme form some critical issues in development co-operation. As such, it serves as a magnifying glass for observing both problems and solutions.

The implications gleaned from the history of Bai Bang will be discussed below with reference to the following themes:

- nature and objectives of aid
- relationship between donor and recipient
- cross-cultural communication
- accountability
- use of consultants
- planning methodology
- institution building
- phasing-out strategy

One issue will not be discussed: the question of alternative investments and alternative cost. It is frequently asked whether the funds spent on Bai Bang could have been used in ways which would have resulted in greater social

⁵⁹¹ The only reference to Vietnam in the study is that the government had just passed a law opening for foreign private investment and had expressed interest in co-operation on large infrastructural projects, including ship-building, iron and steel production, and building of diesel engines. (SOU 1977b, p. 67) These items were also on the list of projects presented to Sweden in 1969.

⁵⁹² SOU 1978.

⁵⁹³ Stokke 1978.

benefits and/or been more cost-effective. For that kind of money, Vietnam surely could have imported paper for several decades, etc. Some of these issues are addressed in the companion evaluation to this study.⁵⁹⁴ In relation to the present study – which examines the decision-making process – the important point is that there was in fact very little discussion of alternatives. The selection of a paper mill as the first project of Swedish–Vietnamese development co-operation was taken early (1970–71), and it was largely the result of a political decision in the sense that a paper mill was what the DRV wanted, and the Swedish government allowed Vietnamese priorities to prevail. Since other alternatives were hardly considered, there are no lessons to be drawn here except the obvious one that early choices of this kind reduce the rationality of the planning process.

The nature and objectives of aid

Particularly in the early phase, the basic concept of aid was understood differently by the Vietnamese and the Swedish side. The general Vietnamese view was that the Swedish government had promised aid as a gesture of political solidarity during the war, and Hanoi had a say in how it was used. But there was some suspicion of other motives, including those of Swedish industry, and an underlying uncertainty about why the Swedes were so interested in Vietnam. Hence, Hanoi approached the relationship in the tradition of *realpolitik* as a power relationship.

The Vietnamese were correct in that political motives were important elements in the Swedish commitment to provide aid. They were partly wrong with regard to the industrial factor: Swedish industry was initially reluctant to get involved in Vietnam because of the fear of adverse US reactions; in the end it benefited handsomely from the project. Some 80 per cent of goods and services procured abroad for Bai Bang were bought in Sweden. This was anticipated; when approving the project agreement in May 1974, SIDA's Board specified that almost half of the funds allocated should be used for procurement in Sweden. But the Vietnamese misjudged the Swedish side in two important respects. The ethical rationale that underpinned Sweden's large development aid was not readily understood. Given the political origins of the project, they also found it hard to comprehend SIDA's emphasis on technical, economic, and social criteria, which dominated during the planning stage.

The tension that arises in situations where donor and recipient have different concepts of aid is well captured in the “Nevermore” (*Aldrig mer*) note which Michanek wrote on his return from the Hanoi negotiations on the project agreement in April 1974. “To give aid is difficult, and to receive gifts is equally difficult”, he reflected. “But we do not want to admit that ‘development co-operation’ is this difficult. How can an aid relationship freely entered into between two independent parties be so full of suspicion? My counterpart talks about friendship but treats me as an enemy. Of course, we score some

⁵⁹⁴ Centre for International Economics 1998.

points. The Vietnamese have poverty and war. We have money and resources. It is an uneven struggle and we win. But it is an awful feeling. . .”

Bai Bang’s origins as an expression of political solidarity raise the broader question of whether this is a proper use of aid resources. The answer requires a political judgement that this study cannot give. However, the consequences are suggested by the Bai Bang experience. There were internal contradictions of economic versus political criteria for project development, problems of defining objectives, problems of accountability, and considerable risk and uncertainty arising from the conflict that provoked international expression of solidarity in the first place. Hence, strong and consistent political backing on both sides was necessary to make the project a reality. It seems safe to conclude that, without such backing, the project would not have been completed.

There is a broader implication for other development ventures that may be unconventional, innovative, unusually ambitious, or entail high risk and uncertainty, although their rationale is related to development rather than partisan politics (e.g. development of backward regions, development of national legal and penal systems, introduction of new forms of technology). Unconventional projects of this kind seem, like Bai Bang, to require continuous political backing to overcome the negative aspects of unconventionality.

The Bai Bang case demonstrates, moreover, the importance of defining objectives in complex, multi-purpose projects. One issue concerned the technical efficiency of constructing a paper factory, as compared to its socio-economic impact. For instance, the construction phase partly turned into a *de facto* educational programme as technicians trained to work on the factory were reallocated or disappeared for employment elsewhere. The same applied to equipment. The broader socio-economic gains of the alternative uses were hard to assess; in any case they were not registered as a project spin-off because technical education was not among the project’s objectives. In project terms, the disappearance of workers and equipment registered as a net loss. Similarly, the initial definition of a project tends to determine whether technological solutions should be adapted to the resource environment and social organisation, or vice versa. If defined as social development, the project logic is to subordinate and integrate technology to social parameters. If the starting point is to produce paper, the technological bias is given. The consequence in the Bai Bang case was exemplified in the forestry sector, where inappropriate technology was introduced and social consequences neglected. Project learning to adjust for mistakes was slow and painful, and recipient policies at any rate provided limited room for manoeuvre.

Relationship between donor and recipient

In Vietnam, there was from the beginning a presumption of solidarity and equality in the aid relationship despite extreme material inequalities. The Vietnamese took the lead in defining the project, bargained hard on its terms,

and constantly stressed that project implementation must respect Vietnamese regulations and national interests. When aid was first discussed during the war, the DRV proposed to pay for part of it by exporting Vietnamese goods to Sweden. Given that a Vietnam devastated by war produced little that could be sold in Sweden, the proposal probably reflected an effort to place the relationship on an equal footing, and was interpreted as such by Swedish officials.

In Sweden, the concept of “recipient responsibility” similarly reflected the centrality of equality and solidarity in development co-operation. When aid with North Vietnam was first discussed, in the late 1960s, “recipient responsibility” had become a dominant concept and found its most pronounced form in the advocacy of programme rather than project aid during the discussion of *länderval* (i.e. choice of country).

In fact, the term “responsibility” had two quite different dimensions. While the recipient might be responsible for setting priorities and ensuring implementation, the donor was still responsible by virtue of having entered into the aid relationship, and accountable at home. The inherent contradictions of “recipient responsibility” were soon brought out in the Bai Bang case. The project was economically costly, politically sensitive, and difficult to carry out – at best highly uncertain – given the novelty of the task. SIDA soon reacted by wanting to establish controls. Michanek again diagnosed the problem in his “Nevermore” note in 1974. The start was wrong, he concluded. Sweden was too eager and let North Vietnam decide too much. The Vietnamese chose a project direction that Sweden would not have selected, and extracted all they could from a willing donor. The Swedish side had to set limits, Michanek concluded, otherwise it would turn into a disaster.

The 1974 project agreement on Bai Bang incorporated significant elements of Swedish controls. Yet, as construction commenced, it became apparent that the concept of “recipient responsibility” carried a hidden expectation on the Swedish side of what the recipient would do – in effect, imposed an implicit role definition which the Vietnamese disputed. At the next crossroad – the extension of the project agreement in 1980 – SIDA officials had switched terminology from “recipient responsibility” to “concerned participation”. The term legitimised stronger donor involvement during implementation in order to ensure completion. Conditionality was applied to the revised agreement even though Vietnam’s failure to provide its share for the construction on time (manpower, supplies, transportation) was not all due to administrative rigidities and inefficiencies, but had structural causes. Vietnam’s economy was in crisis, and the situation was compounded by another war – this time with two of its neighbours (China and Cambodia).

The conditionality strategy did not work. Sweden’s principal demand in the 1980 negotiations was to shift from a *de facto* dual administration to a fully integrated project organisation. This was felt to be more effective, and would also enhance formal Swedish executive authority. A *de facto* dualism continued, however. Similarly, in the 1985 negotiations to extend the project agreement,

SIDA introduced conditionality to integrate the organisation of the wood supply and the mill management. It was another attempt to influence the Vietnamese administrative system, and it did not work. It was like punching a pillow. Vietnam's bargaining position did not seem to play a role – it was weak in 1980 and stronger in 1986. Arguably, there is a lesson here with respect to the limitations on donor attempts to influence organisational structures that reflect fundamental administrative and political systems in the recipient state.

Bai Bang also shows that aid projects can produce social change in subtle ways and without formal conditionality. Operational demands set by the task of running an effective enterprise which was designed and closely watched by consultants drawn from the Swedish private sector generated a management code that became known in Vietnam as “Scandinavian management”. On the project level this took many forms: demands for enterprise autonomy to export in order to finance import of spare parts; innovation, flexibility and initiative by Vietnamese managers trying to remove bottlenecks by making illegal transfers between sector; and Swedish-led staff seminars to discuss the nature of rational decision-making, the logic of individual responsibility and the advantages of remuneration in relation to efficiency and quality of work. A version of democratic-capitalist principles, “Scandinavian management” preceded, and probably contributed to, the national reform process, *doi moi*, which was formally approved by the Party congress in 1986. Micro-level reforms thus had macro-level effects, as long assumed by orthodox theories of modernisation in Western social science.

Cross cultural communication

The cultural and political divides between Sweden and Vietnam were, of course, formidable. North Vietnam in the 1970s presented particular challenges to Swedish experts and officials working in Bai Bang. It was a closed and rigid Marxist–Leninist system where contact with foreigners, above all Westerners, was strictly regulated and limited. Vietnam's history had taught its people to be wary of foreigners. The country was at war when the project started and during much of the construction phase. In the early years, there was no social contact between Swedes and Vietnamese. “If we happened to meet outside the workplace, we did not greet each other”, a Swede later recalled. The situation gradually improved, and markedly so with the liberalisation in the late 1980s. But during the construction and early operations phase, communication in all senses of the word was highly restricted.

Development co-operation under such conditions requires, at the very least, investment in language and cross-cultural communication. Although it was not foreseen that several hundred Swedes at one time or another would end up working at Bai Bang over a 15-year period, neither side made early or significant investment in communications.

A small programme for Vietnamese technicians was started in Sweden in 1972, and included language as well as technical training. It was a modest

start. The project language was English, and under the 1974 agreement Vietnam had the responsibility for providing interpreters. North Vietnam, of course, had been colonised by China and later France, and had very few English-language speakers. More English-speaking interpreters became available after South Vietnam in 1975 was unified with the North, but not in sufficient numbers. In 1976, for instance, there were four interpreters at the project site where 60 Swedes and 3–400 Vietnamese were trying to communicate in the complicated technical language required by the construction of a modern paper mill. Many Swedish technical experts had limited command of English. Not until the early 1980s did SIDA invest in a Vietnamese language-training programme for Swedes who would subsequently act as interpreters.

Investment in cross-cultural communication is equally important in these kinds of situations. In the event, Swedes assigned to the project were given only rudimentary preparatory courses. One study showed that for 8 of 10 Swedes in the construction phase, North Vietnam was their first developing country experience.

Accountability

Although little information is available to outside observers, two kinds of accountability issues can be identified on the Vietnamese side. One is concerned with the demands on local resources typically entailed by a very large foreign aid project, and which raises issues of the distortion of priorities. Bai Bang was given official government priority in the competition for resources within the central planning system, its workers and managers enjoyed special privileges, and it absorbed most of the Swedish aid resources. It became “a cuckoo in the nest” and a precedent for inequalities that provoked criticism and concern in the Party, to which the government was accountable. Those most concerned were probably Party members who had not favoured the opening to the West and were later critical of the reforms. A telling anecdote, recalled by one official, is that Vietnamese managers who came from Bai Bang to government meetings were told to park their cars away from the regular car park. Their new Japanese cars might provoke envy.

The implications of other kinds of preferential treatment were more serious, as demonstrated by an incident in 1977. Widespread hunger had made the government block Haiphong harbour for all unloading except food supplies. The Swedish ambassador intervened and negotiated an exception to unload construction equipment for Bai Bang. Arguably, a lesson here is that both sides must be sensitive to the distorting effects that a large foreign aid programme may entail.

The Vietnamese government dealt with this kind of accountability issue by justifying preferential treatment with reference to the political importance of the project. The political nature of the project was frankly recognised.

The Vietnamese central planning system also imposed accountability requirements in the form of reporting and meeting targets. The result was considerable ritualism that complicated communication. For instance, once the schedule for completing the construction of the factory had been included in the national five-year plan, it could not be changed by the Ministry of Light Industry or at the management level. As a consequence, the Vietnamese and the Swedes at the project site at one stage were operating with two different Master Implementation Schedules – the Vietnamese schedule was a year ahead of the Swedish one because it could not be adjusted to reflect the delays that occurred on a regular basis.

On the Swedish side, the accountability issues differed. Unlike in Vietnam, there was increasing reluctance in Sweden to openly recognise and defend the project with reference to its political rationale. This change was reinforced by the particular nature of the Swedish political-administrative system in that the administration (e.g. SIDA) is supposed to be politically neutral and enjoys protection from political interference. Once the idea of giving aid to North Vietnam was transformed into a project under SIDA's administration, the development rationale became paramount. The change in rationale also reflected the fact that by the time the project was ready for implementation, "the American war" in Vietnam was over and the solidarity argument had lost some of its force.

SIDA, of course, was accountable in a general sense to the Swedish public, and took it upon itself to defend the project against mounting and diverse attacks. The usual strategy was to argue that the problems experienced at Bai Bang were inherent in development co-operation. This was hardly correct; in fact, Bai Bang faced particular problems that are typical of large, solidarity-inspired projects, including the mix of political and economic criteria for judging achievements. To deny this was in effect to mystify a condition, which the Vietnamese government openly acknowledged. In the tradition of socialist development co-operation, Hanoi officially named Bai Bang a "Vietnam–Sweden Friendship and Co-operation Project".

A lesson here maybe that projects with a strong political rationale should probably be recognised as such and defended in those terms. Failure to do so may undermine credibility and accountability.

Accountability on the Swedish side also involved issues of reporting within the project system. A particular problem was related to the fact that the operator – i.e. SIDA's consultant on the project site – was also the main source of reporting. This naturally created systemic biases.

Use of consultants

An estimated 40 per cent of the funds allocated by Sweden to Bai Bang were spent on Swedish manpower at the project side and at consultancy headquarters at home. In this sense, it became a consultancy-intensive project to an extent that had not been envisaged in the original planning stages.

The large budget set aside for consultants reflects the cost of Swedish manpower and the long period of Swedish presence – 15 years rather than the originally anticipated five. Beyond this, the heavy use of consultants expressed a problem-solving strategy: as new problems appeared, one principal SIDA response was to fill up with more Swedish consultants. While as a matter of policy, the Vietnamese government and MoLI insisted that this was a Vietnamese project with Swedish assistance, the Vietnamese readily accepted this until the mid-1980s. They occasionally questioned the qualifications of a particular expatriate, but seemed to regard the manpower staffing on the Swedish side as a Swedish matter. When SIDA in 1985 prepared to phase out its assistance, the Vietnamese accepted this protesting, in fact, that the phase-out strategy contained too many expatriate consultants at the expense of equipment. The change in attitude reflected growing confidence in their own ability to run the mill, and a political normalisation that had nullified the original rationale for the project.

It is questionable if the large number of expatriates was necessary. Problems identified by successive Review Missions in the 1980s referred to incentives of workers and external bottlenecks. Swedish experts were clearly not a proper instrument for addressing these problems. Admittedly, the Review Missions rarely recommend adding more Swedish experts, but neither did they draw the more interesting conclusion that the level of expatriates probably could be reduced, and that a less intrusive Swedish presence might actually improve Vietnamese performance. Both Swedish and Vietnamese observers noted that the heavy Swedish presence at the project site probably had contributed to a sense that this was “a Swedish project”, thereby reducing Vietnamese incentives to manage it as efficiently as possible.

Nor was that conclusion conveyed to SIDA by the consultant. SIDA was highly dependent on the consultant to assess the need for types and levels of expatriate input, and the consultant naturally wanted to maximise his own role and income. Recognising the problem of biases in reporting, SIDA engaged advisory groups and review missions throughout the term of the project, but they appear to have shared the assumption that a strong Swedish presence was a basic problem-solving strategy. This was hardly surprising given that members of the review missions had the same professional and national characteristics as the consultant and SIDA officials involved. Almost all were Swedes from the forestry or paper industry. Sources of alternative thinking were not represented, e.g. from the fields of management, organisation, and anthropology; there were no representatives from the third world; and no Vietnamese (the latter point might be easier to explain). In the absence of a strong Vietnamese involvement, and with no other major checks and balances on reporting, alternative frameworks for assessing the need and use of Swedish experts were not developed.

Planning methodology

Both Vietnamese and Swedish authorities had an inflexible approach to planning. Vietnam wanted a blueprint design on the table before starting construction. This was a logical consequence of their central planning process which required that given amounts of supplies and manpower required for the project be specified in advance. It was also a way to pin down in concrete terms the anticipated Swedish support. For SIDA, the approach reflected the agency's customary risk aversion strategy, formulated in the *Metodhandbok* (Manual of Methods). This was magnified in the case of Bai Bang so as to compensate for the high degree of uncertainty and risk in the situation, and led a demand for elaborate and detailed feasibility studies. .

Nevertheless, the outcome after four years of planning in the early 1970s was a quite general project agreement. As it turned out, it was not possible for SIDA to get a satisfactory feasibility analysis done (i.e. as prescribed by the manual) or for the then-Democratic Republic of Vietnam to have ready a blueprint design by the time of the project agreement. A main reason was the very limited access to information – much of which was classified with reference to the war. Moreover, SIDA increasingly recognised that it was moving into uncharted waters and therefore needed flexibility to deal with issues as they arose.

The unintended result of the planning process was that two seemingly similar approaches ended up creating mutual irritation and frustration. Vietnamese authorities wanted a quick and detailed agreement, but got neither. SIDA invested four years and SEK 5 million in the planning process, but with limited results. The alternative would have been to acknowledge that the situation entailed much uncertainty and little accessible information and to sign a general agreement at an earlier stage. Thus, tension and political criticism might have been reduced. In Vietnam, critics of the opening-to-the-West strategy were watching for signs of difficulties; so were their conservative counterparts in Sweden.

The more general lesson is that in planning, one size does not fit all. A process-oriented planning is more appropriate for situations with limited information and high risk and uncertainty. This would be relevant to many contemporary situations of post-war reconstruction or transitions from relief to development. Indeed, if Bai Bang had been planned today, it probably would have been characterised as the “post-war reconstruction” project, which in fact it was, and approached accordingly.⁵⁹⁵

A separate issue is what kind of information is needed to plan an industrial venture like the Bai Bang paper mill. Sweden emphasised technical inventorying, probably reflecting the technological bias of the project. Social and organisational capacity was equally important – for instance, factors influencing the harvesting and transporting of wood to the mill rather than a

⁵⁹⁵ The case for developing special procedures and criteria for aid to post-war reconstruction has been made e.g. by the World Bank (see World Bank 1998).

technical inventorying of trees – although this data would probably have been equally difficult for a foreign donor to access. In the early years, North Vietnam did not even give SIDA details of its national five-year plan. Ideally, however, assessment of the social and economic context should have been integrated into the project planning and management, particularly when it became evident that these represented major restraints on production (e.g. in the forestry sector).

The project also showed the importance of personal relations in making up for the deficits of planning and overcoming restraints of an organisational or communicational nature. In the planning phase, for instance, the Öberg–Kha axis was probably the only effective, high-level channel of communication. On the industry side, the project clearly benefited from the technical competence and long-term involvement of a handful of key persons on both sides.⁵⁹⁶ In SIDA's Industry Division, the same individuals worked on the project for several years, likewise in the home offices of the main consultants, Jaakko Pöyry, WP, and Scanmanagement. In Vietnam there was continuity in project management, and a number of Vietnamese stayed with one phase or other of the project for nearly a lifetime. The Bai Bang case also demonstrates that even the rigidities of Vietnamese central planning could be circumvented by persons with innovational and brokerage skills to remove bottlenecks. For instance, Scanmanagement's Bahrke generated new ideas for the Swedish–Vietnamese division of labour in management and during the exit process. On the Vietnamese side, General Director Trinh Ba Minh similarly charted new courses and dared break some rules.

Institution building

From the beginning, the government of North Vietnam saw modern technology and transfer of knowledge as a central part of the project. Partly for that reason, it chose project rather than programme aid. On the level of human resource development, the project contained several components: a small programme of technical and language training in Sweden; numerous short courses and seminars; a major, semi-formal on-the-job training at the project; and, later (1986), the establishment of a vocational training school.

A comprehensive evaluation made in 1986 rated the project as an effective transfer of knowledge process, and the conclusions have validity beyond the Bai Bang case. The evaluation gave credit for the success to both sides. The Vietnamese were highly motivated to learn and responded most effectively to the practical on-the-job training. The formal training (e.g. in short courses and more theoretical counterpart training) was less successful, partly due to language barriers and the lack of pedagogical skills among the expatriates.

Institution-building also involved organisational development – i.e. training in enterprise management and the introduction of “Scandinavian” systems

⁵⁹⁶ Cf. Riksrevisionsverket 1988. The book emphasises lack of institutional memory. Continuity of personnel on Bai Bang reduced this kind of obstacle to organisational learning.

of management and administration. The process is well illustrated by changes observed in the procurement function.

If it was not clear from the beginning, it became evident in the early 1980s that Bai Bang could not always remain a privileged enterprise in the competition for resources in Vietnam, particularly foreign exchange to import spare parts. The emphasis on modern technology had created a dependence on foreign spare parts, which bordered on the extreme. Around 100,000 different kinds of spare parts were at one time registered at the factory, mostly from different suppliers in Sweden. Recognising that Vietnam's lack of both foreign exchange and knowledge of foreign markets could become a major constraint, SIDA wanted procurement to be one of the first functions for the Vietnamese to take over (cf. the 1980 project agreement). It turned out, however, that international procurement was the last function that Vietnamese could handle without Swedish assistance. In the meantime, the new paper company had to learn some tough lessons.

After operations commenced in 1980 the Swedish side pressed the Vietnamese authorities to give the mill management autonomous powers to export so as to finance import for spare parts. This was difficult, however, and the response at the project level was initially to bypass the central planning system. It was a genuine reform that subsequently was institutionalised. The early beginnings indicate what it took to effect such change. A Swedish aid official smuggled paper samples in his attaché case to Singapore to make contact with buyers. When an order for paper finally came in, the rolls were loaded on lorries for trucking to the port. However, the logs on which they rested were stolen – Vietnam in the early 1980s was barely coming out of a deep economic crisis – and replaced with sharp stones that damaged the rolls. A second shipment made it intact to Singapore, where the Swedish procurement advisor had to buy clothing for his counterpart Vietnamese sale agents who only had loose pants and sandals.

Gradually, the mill management built up and institutionalised the export and procurement functions. It turned out to be essential for the survival of the company, both at the time the factory was hit by the collapse of the domestic market in the late 1980s, and later when it had adapted to the new market economy.

Phasing out

Bai Bang was the first Swedish aid project to include a detailed and deliberate design for phasing out assistance. It turned out to be an effective strategy that rested on several legs, and has broader applicability. Phasing out took a long time (five years) but it was well funded (SEK 500 million). The strategy was based on (a) a clear timetable for transfer of responsibility (with bonus for advancing the schedule); (b) irreversibility; (c) management training in the interim period; and, (d) a reserve fund left behind for spare parts and other contingencies (SEK 40 million).

The Vietnamese side responded positively to the systematised and orderly transfer process. The Vietnamese mill management and the Ministry of Light Industry more generally were clearly ready to take over. At the national level, the reforms were underway and the economic crisis was receding. The original political rationale for Swedish presence had faded. Under these circumstances, the phase-out strategy relieved tension that had steadily mounted over the unclear division of labour and responsibility between the two sides. The director of the mill, Nguyen Trong Khanh, later proudly announced that production had increased after the Swedish management advisors had packed up and left in 1990. The departure of the Swedes was hardly the immediate cause, but Khanh's statement was a tribute to a successful exit from the aid project.

An overall assessment of the Bai Bang legacy for contemporary development co-operation is that aid projects inevitably entail risk. No amount of planning can entirely eliminate risk, and the requirements of rational planning need to be relaxed in situations with high risk and uncertainty – e.g. during post-war reconstruction, in innovative projects, or conventional projects in particularly foreign environments. If rational planning had prevailed, there would in all likelihood not have been any Bai Bang. Yet despite its controversial aspects and undoubted costs, the project also had important positive results. It took time for these to work themselves out. And that is the second general lesson of Bai Bang. Large and complicated projects must be given time.

Should development co-operation invest in high-risk projects? The Bai Bang experience suggests that planners sometimes should make a leap of faith, but that money, time and perseverance are subsequently required. Bai Bang consumed all of those in formidable amounts. This was still no guarantee of success. In the end, the project was probably saved by broader historical developments over which neither planners nor mill managers had any control, that is, the economic reform process that unfolded in Vietnam during the second half of the 1980s.

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Persons interviewed

Name	Date	Main institutional affiliation and responsibility in connection with the project	
Abelin, Stig	29.08.97	SIDA	Head of Hanoi office 1976–78
Adermalm, Lars	18.03.98	Scanmanagement	Interpreter. Liaison Officer
Arnesjö, Bengt	11.08.98	Consultant to SIDA	Member of several Review Missions during the 1980s – industry
Bahrke, Sigvard W.	26.08.97 22.10.97	Scanmanagement	Project Director/Chief Adviser in Bai Bang 1984–86
Bentz, Mårten	11.08.98	Consultant to SIDA	Member of Review Missions and project preparation and review teams – forestry
Björkén, Sonja	02.07.98	SIDA	Programme Officer in Hanoi 1987–89
Carlman, Rolf	28.06.97	SIDA	Programme Officer in Hanoi 1984–85
Cedergren, Jan	17.08.98	SIDA	Industry Division 1972–76; Head of Industry Division 1982–84
Dahlqvist, Rune	12.08.98	WP-System	Planning Engineer, 1977–79, subconsultant to WP 1980–83
De Vylder, Stefan	29.08.97	Consultant to SIDA	Studies on Swedish aid to Vietnam
Do Muoi	21.03.98	Government of Vietnam	Secretary General of the Communist Party
Ekéus, Rolf	25.05.98	MFA	Development Cooperation Unit
Edgren, Gösta	27.06.97 19.03.98 29.08.97	SIDA/MFA (State Secretary)	Industry Division; State Secretary mid-1980s; ambassador in Hanoi from 1998
Ehnenmark, Christer	25.08.97 14.08.98	Scanmanagement (from Jaakko Pöyry)	Head of Stockholm office 1980–1990
Ekgren, Lars	26.06.97 22.10.97	SIDA	Industry Division
Elding, Bo	23.10.97	SIDA	Industry Division, Vietnam Group
Eriksson, Rolf	27.06.97	SIDA	Head of Hanoi office, 1991–94
Falk, Håkan	25.08.97	SIDA	Personal assistance to Director-General
Folkesson, Rolf	18.08.98	SIDA	1980–88 – Industry Division; Programme Officer Hanoi
Forsse, Anders	27.08.97	SIDA	Director-General 1979–1985
Frühling, Pierre	26.08.97	Consultant to SIDA	Studies on media debate

Name	Date	Main institutional affiliation and responsibility in connection with the project	
Gundersby, Per	28.08.98	Jaakko Pöyry	Member of Board, Scanmanagement
Hallenius, Tore	22.10.97	WP- System	General Director
Hamilton, Henning	11.08.98	Consultant to SIDA	Member of Review Missions, special studies – forestry
Hermansson, Harry	28.08.97	WP-System	Head of procurement
Hjemdahl, Kenneth	16.03.98	WP-System/SIDA	Head of planning in Bai Bang; Programme Officer SIDA/Hanoi 1985–87
Klackenberg, Lennart	17.08.98	MFA	Development Cooperation Unit
Lam Van Minh	January 1998	MoLI	Board of construction of fibrous material for paper
Landqvist, Niels	24.10.97	Swedish paper industry	Member of the board of the Swedish Pulp and Paper Association
Le Van Oanh	17.03.98	MoLI/Bapaco	Assistant to General Director
Lindberg, Tord	28.08.98	Interforest	Forestry component of Bai Bang
Lindskog, Eva	24.06.98	Scanmanagement	Interpreter
Mai Dinh Hong	18.03.98	Forestry Research Centre, Bai Bang	
Michanek, Ernst	23.10.97	SIDA	Director-General 1965–1979
Narfström, Petter	23.10.97	SIDA	Chief Engineer
Ngo Dinh Truong	13.03.98	MoLI	Project manager for Bai Bang 1973–83
Nguyen Ba Hoc	19.03.98	MoC, Erection Company	Director 1976–81
Nguyen Dinh Doanh	January 1998	MoLI and Scanmanagement	International Department (MoLI) Human Resources Section (SM)
Nguyen Hoang Phuong	12.03.98	MoLI	
Nguyen Huy Phon	20.03.98	FIPI	Deputy Director
Nguyen Trong Khanh	11.03.98	MoLI/Bai Bang	With the project from 1972; General Director of VPU 1988–93
Nguyen Van Hung	January 1998	SPC	Head of Industry Department
Nguyen Van Kha	11.03.98	SPC	Former Vice-chairman
Nguyen Van Nam	18.03.98	MoF	Director of International Department
Norrbin, Clay	27.08.98	Scanmanagement	Vocational Training School
Oberger, Bengt	22.10.97 23.10.97	SIDA	Programme Officer, planning phase of the project
Otterstedt, Petter	25.08.97	Interforest	Forestry component of the project
Persson, Reidar	27.08.97	SIDA	Agriculture Division
Pham Hao	12.03.98	SPC	1970–83
Pham Van Ba	18.3.98	MoLI	Head of capital construction for Bai Bang
Phi Hung	29.11.97	SPC	Head of Foreign Economic Relations

Name	Date	Main institutional affiliation and responsibility in connection with the project	
Rehlen, Christina	07.07.98	SIDA	Industry Division and SIDA/Hanoi 1974–89
Rosen, Göran	19.03.98	Scanmanagement	Interpreter and liaison officer
Sandgren, Claes	28.08.97	Consultant to MFA	Study on Swedish aid to Vietnam
Skjöldkvist, Hans	17.08.98	WP-System	Project Director, Stockholm office 1975–83
Spangenberg, Magnus	28.08.97	Jaakko Pöyry	Head of feasibility study team
Svenningsson, Per-Axel	25.10.97	Scanmanagement	Member of SIDA Review Missions; Project Director in Bai Bang; Chairman of Board Scanmanagement
Svensson, Ulf	14.08.98	MFA	Development Cooperation Unit
Tran Ngoc Que,	17.03.98	MoLI/Bapaco	Former Vice-Director of construction 1970s; at present Director General of Bapaco
Trinh Ba Minh	16.03.98	MoLI/VPU	Director General 1982–88
Vu Tat Boi	29.11.97	Government of Vietnam	Office of Government, 1975–95
Wachtmeister, Wilhelm	21.04.98	MFA	Head of Political Section 1968–74
Wahlqvist, Ola	17.08.98	Scanmanagement	Advisor on management
Westring, Gösta	28.08.97	SIDA	Industrial Division 1974–78 – Vietnam Group
Öberg, Birgit	26.08.98		Wife of former ambassador to Vietnam Jean-Christophe Öberg
Åstrand, Hans	28.08.97	WP-System	Investment Officer in Bai Bang 1981–83

Terms of reference for the process evaluation of the Bai Bang project

1. Background

Evaluations of development cooperation projects and programmes are often concerned with assessing ongoing or recently completed activities. Evaluations of long-term effects of development cooperation are less common. The need for improved understanding and knowledge of the more fundamental conditions for sustainable development makes it important to study how viable projects and programmes are after Swedish assistance has been completed. In this context, the Department for Evaluation and Internal Audit at Sida⁵⁹⁷ is to start a series of evaluations focusing on the effects of development cooperation projects where Swedish assistance has been completed.

The series will start with evaluating the Bai Bang project in Vietnam. There will be two separate evaluations of the project. One evaluation will assess the impact of the project in Vietnam, as seen today six years after donor assistance has been completed. The other evaluation will analyse the decision-making processes and their effect on project designs and output, during the project's lifetime and what Sida and Swedish development assistance have learnt (or not learnt) from the processes. The latter evaluation is the one outlined below.

The overall objective of the Bai Bang project was to raise the standard of living of the Vietnamese people by satisfying the country's need for paper consumption with domestic production.

To meet this objective, Swedish development assistance focused initially on investment in a pulp and paper mill. As the project advanced, other needs were identified, and in the end Swedish assistance also encompassed, for example, social infrastructure, such as housing and roads. The project started in 1974 and when Swedish support was phased-out in 1990, the total Swedish contribution amounted to SEK 6.5 billion in 1996 prices.⁵⁹⁸

⁵⁹⁷ The four Swedish development cooperation organizations – SIDA, SwedeCorp, BITS and SAREC – were merged into a new organization, Sida, on 1 July 1995. In these terms of reference, Sida refers both to the former SIDA organization and to the new Sida.

⁵⁹⁸ In current prices 2.7 billion Swedish kronor. Prices fixed at the January 1996 year level: 6.5 billion Swedish kronor (Swedish consumer price index, KPI).

The Bai Bang project is probably the development cooperation project best-known to the Swedish public. It plays an important role in the history of Swedish development cooperation and it was much debated in media and in political fora over the years. The lifetime of the project covers important political and economic changes internationally and in Vietnam, as well as changes in development paradigms. In order to understand the process in which the Bai Bang project evolved it is necessary to assess the project in its political and social context. For further information about the project, please see the enclosed Pre-appraisal for an evaluation of Bai Bang.

2. Purpose and Scope of the Evaluation

One purpose of the evaluation is to describe the factors that were important in the decision-making processes during the project's lifetime and analyse how these factors interacted in the processes (including the role of the public opinion and the media). The evaluators are also to assess how project designs resulting from these processes affected the output of the project. Another purpose is to assess what Sida and the Swedish development cooperation administration have learnt (or not learnt) and can learn today from the Bai Bang project.

3. The Assignment

(A) Analysis of the decision-making processes and their effect on project designs and output during the lifetime of the Bai Bang project

The evaluators are to describe the project and its development from the selection of the project in 1973 and onwards. All critical decisions for the project's future, such as the decisions to add sub-projects, are to be analysed. The analysis will include the roles of different stakeholders in the process. In the review the evaluators are to assess the following issues:

- (1) Describe the process in which the Bai Bang project was selected and designed in 1973–1974. Identify important and decisive factors for decision-making (technical, organizational, political, development paradigm etc) and describe the process leading up to the decision to start the project. What were the roles of and the relationship between the different stakeholders (e.g. Swedish and Vietnamese governments, Sida, consultants) in the process?
- (2) Identify the critical decisions successively made (1975–1990) during the project's implementation. What were the important factors for decision-making in each of these decisions? How was the process leading up to the decisions conducted and what were the roles of and the relationship between the different stakeholders?
- (3) Taking the period (1973–1990) as a whole, is it possible to identify a general pattern of important factors in the decision-making processes? If so, describe this pattern.
- (4) In what way did the initial and subsequent project designs affect the output of the project? As a basis for analysing the relationship between project designs

and output, the evaluators may use information from the impact evaluation of the Bai Bang project.

(5) The evaluators will identify whether the strengths and weaknesses of the Bai Bang Paper Company today (the mill only, without sub-projects) may be assigned to previous decisions on project design. The analysis will be based on information from the impact evaluation of the Bai Bang project.

(6) What factors contributed to Swedish assistance to the Bai Bang project being phased out in 1990? What was the role of stakeholders in the process? Why was the project not phased out earlier or later?

(7) The evaluators are to summarize the results of previous analyses of the media debate on the Bai Bang project (1973–1983)⁵⁹⁹ and also to analyse the debate between 1983–1995.

When did peaks in the debate occur? What caused them?

How did the debate affect public opinion about Bai Bang and Swedish development cooperation in general?

How did Sida handle the critique internally and externally? In what way did the media handle information about Bai Bang?

Did the interchange between Sida, the public opinion and the media constitute a factor influencing the design and development of the project? If so, in what way?

(B) Lessons learnt (or not learnt) from the Bai Bang project

Given the analysis above of the decision-making processes and their effect on project designs and output, during the lifetime of the Bai Bang project, the evaluators are to assess what lessons Sida and the Swedish development cooperation administration have learnt (or not learnt) from the project. What impact did the Bai Bang project have on Sida and the Swedish development cooperation administration?

(1) Does the analysis of the decision-making processes, project designs and output provide any lasting lessons learnt about the conditions for and limitations of development cooperation in general?

(2) Did the project result in changes of working methods and/or policies for Sida? (For example, as regards identifying and designing industrial projects; the decision-making process for projects; managing and monitoring projects?)

(3) What can the Bai Bang project teach Sida and Swedish development cooperation administration about phasing out assistance? (For example about the timing of phasing out?)

(4) Did Sida and Swedish development cooperation change its policy for handling information and its way of dealing with media contacts, as a result of experiences from the response of public opinion to the media debate on the project?

⁵⁹⁹ Frühling 1978, 1981 and 1984.

(5) Looking at the project from today's perspective, assessing the information collected and the questions given above, are there any lessons Sida and Swedish development cooperation administration could have learned but did not?

4. Methodology, Evaluation team and Time schedule

The Bai Bang project was initiated more than 20 years ago. The methodology part of the evaluation should include a discussion concerning problems of collecting information retrospectively, e.g. when interviewing people about their actions 20 years ago.

The evaluation will be based on documentation (including the descriptive pre-appraisal) and data on the Bai Bang project, e.g. at Sida, the Swedish Ministry for Foreign Affairs and major consultants. Interviews will also be conducted, both in Sweden and in Vietnam.

The evaluation team will start with a preparatory phase, before embarking on the main phase. This phase will lead to a full-scale proposal on methods to be used, with the concepts to be used clearly defined and in operation.

The evaluation team will consist of professionals with experience in:

- political science concerning decision-making processes,
- studies of organizations and organizational learning,
- business administration
- analysis of the role of media in public debate,
- evaluation of development cooperation projects.

The team leader will have considerable team-managing experience.

A draft report is to be presented no later than 31 January 1998.

5. Reporting

The preparatory phase will lead to the presentation of an inception report describing methods to be used and a plan for the collection and analysis of data.

The evaluation report is to be written in English and should not exceed 50 pages, excluding annexes and executive summary. The outline of the report must conform to Sida Evaluation Report – a Standardized Format (see Annex 3, p 71 of Evaluation Manual for Sida). Annexes to the report are to include Terms of Reference, persons contacted/interviewed and literature and main documents consulted.

Five copies of the draft report are to be submitted to Sida no later than 31 January 1998. Within two weeks after receiving Sida's comments on the draft report, a final version in five copies and on diskette is to be submitted to Sida.

Subject to decision by Sida, the report will be published and distributed as a publication within the Sida Evaluations series.

The evaluation report is to be written in WP 6.1 for Windows or a compatible format and should be presented in a way that enables publication without further editing.

The evaluation assignment includes production of a summary according to the guidelines for Sida Evaluations Newsletter (Annex 1) and the completion of Sida Evaluations Data Work Sheet (Annex 2). The separate summary and a completed Data Work Sheet are to be submitted to Sida along with the final report.

Recent Sida Evaluations

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A Leap of Faith

Sweden's protest against the Vietnam War was given tangible form in 1969 through the decision to give economic aid to the Government of North Vietnam. The main outcome was an integrated pulp and paper mill in the Vinh Phu Province north-west of Hanoi. Known as Bai Bang after its location, the mill became the most costly, one of the longest lasting and the most controversial project in the history of Swedish development cooperation.

In 1996 Bai Bang produced at its full capacity. Today the mill is exclusively managed and staffed by the Vietnamese and there are plans for future expansion. At the same time a substantial amount of money has been spent to reach these achievements. Looking back at the cumbersome history of the project the results are against many's expectations. To learn more about the conditions for sustainable development Sida commissioned two studies of the Bai Bang project. Together they touch upon several important issues in development cooperation over a period of almost 30 years: the change of aid paradigms over time, the role of foreign policy in development cooperation, cultural obstacles, recipient responsibility versus donor led development etc.

The two studies were commissioned by Sida's Department for Evaluation and Internal Audit which is an independent department reporting directly to Sida's Board of Directors. One study assesses the financial and economic viability of the pulp and paper mill and the broader development impact of the project in Vietnam. It has been carried out by the Centre for International Economics, an Australian private economic research agency. The other study analyses the decision-making processes that created and shaped the project over a period of two decades, and reflects on lessons from the project for development cooperation in general. This study has been carried out by the Chr. Michelsen Institute, a Norwegian independent research institution.



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