

# **Accounting Development in a French Colony and the Role of the State: The Case of Vietnam**

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## Abstract

**Purpose** – The purpose of this paper is to examine the development of accounting practice in Vietnam from the French colonial (1858 – 1945) until 1975, when the country was politically independent.

**Design/methodology/approach** – Using interviews, archival records and secondary resources, the development of accounting in Vietnam is discussed in the context of the changing balance in the relationships of the state, the market and the community.

**Findings** – The findings indicate that, parallel with different political and economic conditions in two parts of Vietnam, accounting practices in North Vietnam (DRV) and South Vietnam (RVN) were different. Whilst accounting practice in the former moved towards the model adopted in socialist countries, accounting practice in the latter remained influenced by French rules. This situation is arguably unique in Vietnam before its political independence in 1975, compared to other neighbouring countries in Southeast Asia. Most importantly, the case of Vietnam indicates that the development of accounting practice was not initiated and influenced by the French, nor the Americans, in the colonial and post-colonial periods. The role of the ‘state’ is predominant in the development of accounting in the post-colonial period in Vietnam.

**Research limitations/implications** – The results are based on archival sources and the past experiences of interviewees, who were involved in the policy making and played a key role in the development of accounting in Vietnam.

**Practical implications** – The significant issues identified would be of interest to accounting policy makers in Vietnam and should also be of interest to those researchers interested in the professionalisation of accounting in developing countries.

**Originality/value** - Vietnamese accounting development is different to that in most other Southeast Asian countries due to the direct involvement of the Vietnamese Communist Party. The Vietnamese experience offers comparative studies with other countries which do not have a colonial heritage, such as China, and with other ex-colonies.

**Key words:** Vietnam, French colonial influence, post-colonial influence, centrally-planned economy, ASEAN, Vietnamese Communist Party (VCP)

## 1. Introduction

This paper provides a historical study on the development of accounting practice in Vietnam in the colonial and post-colonial periods. It considers the changing balance in the relationships of the state, the market and the community, in which the state played an influential role in the development of accounting.

There has been much academic debate and research on the creation of indigenous professions as an essential element of modernization in ASEAN (Association of Southeast Asian Nations) countries, which were colonies of the European and US powers such as the Philippines (Dyball and Valcarcel, 1999; Dyball, Chua, and Poullaos, 2006; Dyball, Poullaos and Chua, 2007); Malaysia (Susela, 1999; 2010); Brunei Darussalam (Yapa, 1999, 2003); Sri Lanka (Yapa, 2006; 2010); Cambodia (Yapa *et al.* 2007; Yapa and Jacobs, 2010); and India (Verma and Gray, 2006; Verma, 2010). A number of theoretical perspectives have been drawn from these studies to understand the historical context and sociology of professions underpinning the development of accounting in those ex-colonies.

Historically, before the French, bookkeepers in Vietnam relied on the Chinese abacus and there were limited or no financial records or controls. Vietnam was under French colonial rule for more than eighty years, from 1858 to 1945. The country gained independence from the French as a result of the August Revolution in 1945<sup>1</sup>. Subsequent to their defeat at Dien Bien Phu in 1954, the French completely withdrew from the country. Vietnam was then divided into two from the 17<sup>th</sup> parallel at the signing of the General Accord at the Geneva Conference of 1954. North Vietnam was influenced by China and the Soviet Union, whereas South Vietnam was influenced by the US from 1954 to 1975. The country was politically unified in April 1975 at the end of the war. Since its political independence in 1975, the country has undergone fundamental changes in political and economic policies to transform it from a war economy, to a centrally-planned economy, and then to a market-oriented economy (Than and Tan, 1993; Tran-Nam and Pham, 2003). Amongst the many fundamental changes in policies, the change in accounting practice has been one of the major changes in the government's direction

since the commencement of the open-door policy and economic renovation (Doi Moi) in Vietnam in 1986.

Geographically, Vietnam is a country with clear borders and with two large river systems dominating the country, the Red River in the North and the Mekong Delta in the South. The country has a long history and a well-educated population. Currently its population is approximately 85 million, with a 1.2 percent annual population growth rate. The Vietnamese economy has the third highest growth rate in the Asia – Pacific region after China and India and is the 13<sup>th</sup> most populous country in the world (Narayan and Godden, 2000; Narayan *et al.*, 2000; Respondek, Tran and Nguyen, 2010).

In its Socio-Economic Development Plan 2006 – 2010, Vietnam aims at raising the economy to middle-income status. The classification of the World Bank (WB) of a country moving from “low income” to “lower middle income” is when its per capita gross national income reaches US\$976. In 2008, Vietnam stood at US\$890, according to the WB. The country’s GDP growth is expected to accelerate to 6.5% in 2010 and to 6.8% in 2011 (ADB, 2010).

Given its colonial history, it would be reasonable to expect that the French would have contributed to initiating the establishment and development of the accounting profession in Vietnam. However, this was not the case. The development of accounting in Vietnam in the colonial and post-colonial periods was not established by the French during their domination, but rather by the independent Vietnamese Government to serve the needs of the post-war economy for building socialism. It is, therefore, observed that the case of Vietnam provides a contemporary study on the development of accounting in response to changes resulting from colonial and socialist influences during the colonial and post-colonial periods. This paper aims to examine the regulation of accounting in Vietnam from the mid 19<sup>th</sup> century to 1975, in order to indicate how development differed from Western countries and other ex-colonies. It is argued in this paper that the Vietnamese Communist Party (VCP) played a dominant role in accounting development in the post-colonial period.

The paper is divided into four parts. Part one discusses the theoretical framework. Part two investigates the French colonial influence on accounting. Part three discusses

influences on accounting in the post-colonial Vietnam. Part four summarises and concludes the paper.

## **2. Theoretical framework**

This paper draws upon the theoretical framework in Puxty *et al.* (1987)'s work, which was developed from the work by Streeck and Schmitter (1985). In their study, Puxty *et al.* (1987) analysed the role of accountancy in regulating social and economic activities in society, using three organizing principles – the state (hierarchical control), the market (dispersed competition), and the community (spontaneous solidarity) – as the framework to show how these three organizing principles applied to the regulation of accounting and how they existed in relation to one another.

The definitions of the state, the market and the community in Puxty *et al.* (1987)'s work are as follows. The state represented the hierarchical control authority, with allocational decisions made through enforced 'public policies' to ultimately back up the state's monopoly of legitimate coercion. The market operation was seen to maximise the profits of economic entrepreneurs and to satisfy the customers' expectations. Finally, the community was motivated by the esteem of their followers who sought a sense of belonging to and participation in the group, to satisfy their mutual needs for a shared effective existence and a distinctive collective identity. Streeck and Schmitter (1985)'s work also introduced the fourth factor – the association (or organizational concentration) represented by social order – in contrast to the state, market, and community. However, Puxty *et al.* (1987) argued that it was better to understand the properties of an associative model of social order as an outcome of the intersection of state, market and community, rather than as an independent factor.

Following Puxty *et al.* (1987)'s approach, the three ideal-typical principles of coordination and allocation have been used in subsequent studies. For example, Hao (1999) analysed the regulation of financial reporting and accounting and auditing practitioners in China (excluding Hong Kong) in the post-1987 period, when China adopted the policy of openness to the outside world. In addition, Seal *et al.* (1996) described the overall structural changes of accounting and auditing legislation in the

Czech Republic in the post-1989 transition. Also, Yapa and Jacobs (2010) examined the accounting transition in Cambodia in the post-1953 period, when Cambodia was politically independent from French rule.

In this paper, the state represents agencies of the government, with authority to decree the practices that accountants must follow and maintain an enforcement mechanism; the market deals with the regulation of accounting work and services by stakeholders; and the accounting community is the one to which accountants feel they belong, sharing some common identity and values.

The triangulation approach defined by Denzin (1978a, 1978b) and Krefting (1991) is used for data analysis in this study. Data collected from the archival records was validated by semi-structured interviews with key government officials of the Ministry of Finance, and the examination of newspapers and other official reports including academic articles.

The following sections will discuss these three guiding principles in the case of Vietnam, taking into account the colonial and socialist influences.

### **3. The French colonial influence on accounting**

During the colonial period from 1858 – 1945, the country was divided by the French into three parts with different political systems – North Vietnam, known as Tonkin, under the French semi-protectorate; Central Vietnam, known as Annam, under the French protectorate; and South Vietnam, known as Cochinchina, under the French colonial regime (Corfield, 2008).

The Vietnamese economy during French rule was not developed in a positive manner. In fact, it was a backward agricultural economy, entirely dependent on the so-called Metropolitan France (Tran, 1996). This was because economic exploitation was arguably the main purpose of the French strategic interests in Asia. It was also the primary purpose of French colonialism to simply achieve economic gains and thus exploit the natural resources of the colony, to open up new markets for the manufactured goods of the home country, and to provide financial profit to the home country and to its citizens operating in Indochina (Duiker, 1983; Kolko, 1985; McLeod, 1991; Tran, 1996; Tonnesson, 2000).

The administration of the Indochinese Union, which comprised Tonkin, Annam, Cochinchina, Cambodia and Laos, included a governor-general who was appointed from Paris to make policy for the entire region, assisted by resident superiors in each of the five protectoral territories and a governor in Cochinchina. The French held all important services in each of the five Indochinese “countries”, including security, finance, public works, postal services, agriculture, public health and trade (Nguyen, 1975; Duiker, 1983).

### **3.1 Education policy under French rule**

As the Vietnamese traditionally used Chinese characters, which were written exactly as in China but pronounced in a Vietnamese manner, as the common vehicle for written records (Osborne, 1969), the French found it difficult to find Vietnamese interpreters to assist in its colonial administration. As a result, they became involved in education, by providing French language training to enable the Vietnamese to become interpreters, clerks and other low-class workers, to the benefit of the colonial administration. Also, quoc-ngu (national script) – which is the Vietnamese language today – was also introduced to Vietnam by the French to eliminate Chinese characters being used by the Vietnamese at the time (Osborne, 1969; Duong, 1978; Vu, 1985; Phan, 1994; Nguyen *et al.*, 1996; Ashwill and Thai, 2005).

An interviewee who worked in one of the Big Four firms in Vietnam and is a senior official of the Vietnam Association of Accountants and Auditors (VAA) confirmed that:

*During their rule in Vietnam, the French did not encourage or promote education to the Vietnamese. Their main objective was to only train interpreters to serve the French colonial administration in Vietnam (Interviewee 16).*

Thus, despite complete control by the French over education in Vietnam, the high rate of illiteracy of over ninety percent of the population in Vietnam during French rule resulted from their neglect of the population and the use of education to only meet their colonial needs (Vu, 1985; Short, 1989; Tran, 1996).

### **3.2 Accounting practice under French rule**

The first Western accounting system – French accounting – was brought into Vietnam in the mid 19<sup>th</sup> century by the French to support their colonial administration (Adams and Do, 2005). By the introduction of the Commercial Code in 1807 – one of the French

codes of Napoleon's era – reference to French accounting was made to a balance sheet and a schedule of profit and loss account. The Commercial Code in 1807 was based on the Savary Code issued in 1673 and required all merchants to have the obligation of maintaining accounting books for accounts and a central ledger. However, the code was silent as to how the books and accounts should be maintained (Lemarchand and Parker, 1996; Wittsiepe, 2007). The budget was considered to be one of the French government's major policy documents by the 1860s (California Department of Finance, 1998, <http://www.dof.ca.gov/fisa/bag/history.htm>).

This is consistent with a comment made in an interview with a former senior official of the Ministry of Finance of Vietnam (MoF), who is also a member of the National Assembly of Vietnam:

*According to documents of the former Saigon government, the French accounting had been used since the monarchy of the Republic of France. It was then amended to become the law in 1939 and subsequently applicable in the entire Indochina. It was mainly budget accounting (Interviewee 2).*

In its publication – the Accounting Magazine – the Vietnam Accounting Association (which later changed its name to Vietnam Association of Accountants and Auditors) consistently noted that:

*Prior to 1948, it was the entire application of the French accounting rule as announced by the Nguyen dynasty [in Vietnam] (Vietnam Accounting Association, 2001, p. 6).*

As accounting education to the Vietnamese was restricted by the French during their rule as part of their colonial education policy, the evidence suggests that budget accounting was used by the French in Vietnam during 1858 – 1945.

As the French 'dominated the major positions in the colonial bureaucracy and in commerce' (DeFronzo, 2007, p. 142), accounting work was directly managed and controlled by the French. An interviewee observed that:

*During the colonial rule, bookkeeping and accounting in a majority of French businesses in Vietnam was directly handled by the French, using the French accounting system... To assist them in detailed bookkeeping, the French trained those Vietnamese who worked for them in the company on how to write numbers neatly and tidily to be able to do sums easily and accurately (Interviewee 16).*

In addition, as a result of the French colonial exploitation policy, the type of the plantation economy they sought to promote in Indochina at that time did not give rise to accounting issues or to engage the local community with complicated investment choices.

Osborne (1969) elaborated that:

*All aspects of regional administration were placed in the hands of French inspectors of native affairs, and henceforth Vietnamese occupied auxiliary positions only. These inspectors, each responsible for about twenty thousand persons, dealt with matters of civil administration such as taxation, rendered notice, and supervised the activities of the Vietnamese employed by the French administration (p. 75).*

This is consistent with a note from archival material that reported:

*The Sureté was first created in Vietnam by the French about 70 years ago. From the date of its creation until March 1945, all important command positions were held by Frenchmen. Regardless of experience or training, the Vietnamese employees of the Sureté were never considered to be more than auxiliaries... During the period 1918 – 1939, the total strength of the Sureté was increased from about 600 to close to 5,000 people – these figures included all of Indochina. Of the 5,000 personnel, approximately 80% (4,000) were Vietnamese, all of whom were operational or administrative service personnel in the lower ranks. About 7% (350) were French from Metropolitan France. These people held all of the high command positions in the Sureté in all of Indochina (Archival records 29, 1956, pp. 1-3).*

Taxation was fundamental to colonial rule everywhere (Hopkins, 1999). In North and Central Vietnam, taxes were primarily levied in order to pay for the colonial administration in South Vietnam (Fforde and Vylder, 1996).

Generally, an annual budget was used as a means to control the colonial operations from a distance (Alam *et al.*, 2004). By setting up budgets, accounting was used in Vietnam under the French colonial rule to enable them to exercise central control of revenues, tax collection and export earnings and expenditures, as elaborated by Cumings (2004):

*Instead of a central colonial budget and financial pump-priming of industry, the French had local budgets for the three regions of Vietnam and financed them through [French] state monopolies of customs, duties, stamps, salt, alcohol and opium (p. 291).*

This suggests that the French used accounting records to centrally control revenues and expenditures of the colony, particularly in relation to export activities and tax collection, from a distance, with strict control exercised by the central authorities in France (Bizet, 2002).

Therefore, although the first Western accounting system was brought into Vietnam in the mid 19<sup>th</sup> century by the French to support their colonial administration, there was little demand for accountants, as accounting work was undertaken by French accountants, rather than locals, to report back to their home jurisdiction. This was also for tax purposes, apart from the control from a distance, to enable French companies operating in Vietnam to pay taxes, as noted in an archival record that:

*Before 1955, French companies headquartered in France and with operations in Vietnam could pay their taxes in France, and the French government in turn reimbursed the French Government in Vietnam (Archival records 30, 1959, p. 18).*

As such, the French language was used to prepare budget reports. Consequently, the role of the Vietnamese was confined, at best, to a bookkeeping role under instruction by the French.

A copy of a budget report prepared by the French personnel in the French language which included a general budget report and the budget report for Cochinchina has been found in the archival records of the National Archival Centre of Vietnam as follows:

SITUATION FINANCIERE

DE

L'INDOCHINE

-:-:-:-

ETATS annexés à la lettre n°715-F du 3 Mai 1923.

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SERIE I

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SERIE I  
Etat N° 1

BUDGET GENERAL

RELEVÉ des recettes et des dépenses du Budget Général de 1913 à 1923.

ANNÉES	RECETTES		RECETTES totales	DEPENSES		DEPENSES totales	Subventions, contri- butions ou ristournes fournies aux budgets locaux par le Budget Général.
	ordinaires	extraordi- naires		ordinaires	extraordi- naires		
	Piastres	Piastres		Piastres	Piastres		
1913 (Compte ad'it)	40.588.787,88	88.487,36	40.678.245,34	33.738.778,98	2.887,36	33.738.666,31	2.138.000,00
1914 -	42.088.844,88	908.214,11	43.098.058,99	33.843.894,21	478.784,14	34.322.678,35	2.780.000,00
1915 -	42.128.648,41	8.738.896,90	51.867.545,31	33.887.080,28	7.978.828,13	41.865.908,41	2.881.000,00
1916 -	38.888.998,10	4.285.988,83	43.174.986,93	35.487.798,89	8.471.797,34	43.959.596,23	2.888.818,60
1917 -	44.844.088,78	8.827.128,62	53.671.217,40	36.488.840,33	8.478.618,82	44.967.459,15	2.674.870,00
1918 -	48.344.418,88	24.338.334,28	72.682.753,16	38.166.898,88	12.788.878,78	50.955.777,66	3.812.121,00
1919 -	44.338.887,45	4.818.830,88	49.157.718,33	37.988.684,78	8.824.084,34	46.812.769,12	3.588.058,00
1920 -	57.344.808,72	-	57.344.808,72	49.988.888,47	-	49.988.888,47	8.877.881,00
1921 -	78.172.198,88	1.128.400,00	79.300.598,88	58.884.018,41	1.082.070,01	59.966.088,42	7.888.148,12
1922 -	78.888.018,19	11.077.818,28	89.965.836,47	68.488.478,21	11.488.408,67	79.976.886,88	8.788.400,00
1923 (Budget)	88.884.000,00	11.781.810,00	100.665.810,00	88.094.800,00	12.781.810,00	100.876.610,00	8.197.000,00

(1) Somme 7.978.828,13 prélevée sur les fonds de réserve.  
 (2) Somme 4.878.828,13 prélevée sur les fonds de réserve et 10.000.000,00; 1° compte sur les bénéfices du Compte Spécial.  
 (3) Somme 2.888.128,60 prélevée sur les fonds de réserve et 2.378.000,00; 1° compte sur les bénéfices du Compte Spécial.

SERIE I  
Etat N° 4

COCHINCHINE

RELEVÉ des recettes et des dépenses du Budget local de la Cochinchine de 1913 à 1923.

ANNÉES	RECETTES		RECETTES totales	DEPENSES		DEPENSES totales	Subventions, contri- butions ou ristournes fournies par le Budget général
	ordinaires	extraordi- naires		ordinaires	extraordi- naires		
	Piastres	Piastres		Piastres	Piastres		
1913 (Compte ad'it)	7.339.474,87	"	7.339.474,87	6.836.080,62	"	6.836.080,62	1.468.000,00
1914 -	8.052.744,23	552.000,00	8.604.744,23	7.369.636,30	551.403,99	7.921.040,29	1.888.000,00
1915 -	7.784.994,83	595.923,07	8.380.917,90	6.739.573,75	479.803,14	7.219.376,89	1.823.000,00
1916 -	8.889.821,82	68.873,77	8.958.695,59	7.482.908,39	68.873,77	7.551.782,16	2.211.800,00
1917 -	8.877.625,17	291.282,08	9.168.907,25	6.798.148,89	281.611,69	7.079.760,58	1.820.870,00
1918 -	8.380.878,79	934.097,00	9.314.975,79	7.462.333,74	890.320,20	8.352.653,94	1.272.810,00
1919 -	8.183.264,53	1.478.785,00	9.662.049,53	7.702.490,08	1.204.874,18	8.907.364,26	942.066,00
1920 -	9.818.940,48	1.630.980,00	11.449.920,48	9.311.308,67	1.136.694,87	10.448.003,54	2.108.887,48
1921 -	13.118.207,19	93.877,72	13.212.084,91	12.055.989,44	88.737,27	12.144.726,71	2.445.772,88
1922 (1) -	13.484.808,78	141.866,48	13.626.675,26	12.898.333,33	141.866,48	13.039.999,81	2.110.440,74
1923 (Budget)	11.887.800,00	559.000,00	12.446.800,00	12.396.800,00	"	12.396.800,00	815.000,00 (2)

(1) Résultats probables de l'exercice suivant télégramme N°448 du 1er mai 1923 du Gouverneur de la Cochinchine.  
 (2) La diminution par rapport à l'exercice précédent provient de ce fait que les travaux de dragage ne sont plus effectués par le Budget de la Cochinchine à l'aide d'une contribution du Budget général, mais directement sur les crédits de ce dernier budget.

Source: Archived records 1, 1923

This is the Report on the Financial Situation of Indochina, which included the General Budget Report for Indochina and the Cochinchina's budget receipts and spending by year, from 1913 to 1923.

With references to Puxty *et al.* (1987)'s work, the three principles of social order – the state, market and community – did not have any significance for the colony during the French domination in Vietnam. The Vietnamese state surrendered all of their authority to the French, who controlled all major aspects of the country. The French used budgets to centrally control the colony's operations from France. The market and community for accounting in Vietnam were absent, as there was little demand for Vietnamese accountants and also little need for the French administration to set up and develop indigenous accounting in Vietnam during their rule. The French accountancy profession did not have a tradition of becoming involved in colonial outposts as did the UK-based Association of Chartered Certified Accountants (ACCA). As such, the French influence on accounting in Vietnam during their domination was very limited.

#### **4. Influences on post-colonial accounting in Vietnam**

The French withdrew from North Vietnam as a result of the successful August Revolution in 1945. Subsequently, the Democratic Republic of Vietnam (DRV) was declared in September 1945 in North Vietnam by President Ho Chi Minh and started to build socialism (Duiker, 1983; Tonnesson, 2004; Corfield, 2008).

##### ***4.1 Accounting in the war years 1945 – 1954***

The economy of the DRV post-1945 was characterized as one of a war economy. During 1945 – 1954, the country's resources were entirely engaged in the war of resistance against the French. Therefore, the main accounting regulation issued during this period was the Regulation on Revenue and Spending and the General Accounting of the DRV, issued by the Ministry of Finance (MoF), replacing previous accounting regulations issued during the colonial rule, as noted from the archival records of the MoF:

*The precursor of drafting the accounting regulations belonged to the Director of Affairs of Organisation of National Budget of Ministry of Finance [under the French*

*rule], conducting bookkeeping on the receipt and spending by both on cash and in-kind. In 1948, for the first time, the MoF of Vietnam issued Regulations on the receipts and payments and General Accounting of the DRV by the Decree No. 1535 VP/TDQ dated 25 September 1948 (Archival records 2, 2007, p. 7).*

A former senior official of the MoF recalled that:

*After the August Revolution in 1945, the Revolutionary Government continued using the existing budget accounting, as the DRV did not have its own accounting system, and made some minor amendments to enable it to become budget accounting until 1951 (Interviewee 2).*

In its publication on the anniversary of 45 years of development of the Department of Accounting and Auditing Policy, it is consistently noted by the MoF (2001) that:

*In the years of the revolution against the French colonialists, the [DRV] State did not have economic entities apart from some arsenals and small local economic units. Therefore, accounting used mainly to record budget spending and receipt in a very simple form (p. 7).*

This is further evidence of budget accounting. As there was no significant development in the DRV economy during the war years from 1945 – 1954, it is observed that there was no significant development of accounting.

Subsequent to the defeat of the French at Dien Bien Phu and the signing of the General Accord at the Geneva Conference of 1954, which consisted of the most powerful countries including the USA, the Soviet Union, Great Britain and China, France's colonized presence in Vietnam ended. The country was divided into two sovereign states at the Demilitarised Zone on the 17<sup>th</sup> parallel, with North Vietnam declared as the Democratic Republic of Vietnam (DRV) and South Vietnam proclaimed as the Republic of Vietnam (RVN), with two very different political and economic systems which lasted for 20 years (Bui and Nguyen, 2006; Olsen, 2006; DeFronzo, 2007). As a result, there was an existence of two accounting systems in Vietnam between 1954 and 1975: the socialist system in the North, based on the Chinese and Soviet Union models, and the previous French system in the South (Nguyen and Pham, 1997).

#### **4.2 Accounting in North Vietnam from 1954 – 1975**

In developing a socialist state, the DRV started to build a socialist economy, with collective agricultural production as the basis for industrial and infrastructure planning, and with the Vietnamese Communist Party (VCP) controlling all economic activities, in the 1950s. Every single step from the initial stage of goal setting all through the planning and implementing stages was decided and directed by the VCP (Nguyen, 1975; Harvie and Tran, 1997; Bui and Nguyen, 2006).

Subsequent to the liberation from the French in 1954, the State-owned enterprises (SOEs) sector was quickly established by the government by both nationalizing the existing private-owned enterprises, mostly medium and large enterprises left behind by the French, and creating new SOEs and establishments (Vu, 2002; Thoburn, 2009). This was consistently noted in an archival material that:

*After the liberation, the new government in North Vietnam took over economic units left behind by French colonialists and established enterprises and economic units of the State of DRV, gradually forming the state economic sector system which played an increasingly important role in the society and economy. The economic activities and the new management required an urgent need for a new accounting system [for the public sector] (Archival records 2, 2007, p. 7).*

Kolko (1985) consistently observed that:

*The state sector, based on the former French investments, now embraced slightly more than the majority of industry, and artisans in co-ops or working alone made up the bulk of the remainder (p. 70).*

The development of the DRV was heavily dependent on foreign aid from socialist countries, mostly from China and the Soviet Union, being the two major communist powers. This dependence arose because the DRV economy emerged from the colonial period in an extremely underdeveloped state and with very limited domestic resources on which to base capital accumulation and industrialization (Vu, 1994; Harvie and Tran, 1997; Beresford and Dang, 2000; Bui and Nguyen, 2006).

As its closest neighbour, China was the major source of military and economic aid to the DRV in its war against the French. Therefore, when the DRV was liberated from the

French in 1954, the Chinese military and economic aid to the country decreased somewhat (Duiker, 1983). Their involvement in Vietnam was then related to the DRV's economic planning and encouraging the DRV to speed up its collectivization of agriculture using the Chinese economic model. To a lesser extent, the Soviet Union's indirect assistance to Vietnam, through China, was in the form of equipment, officers and advice (Roper, 2000; Olsen, 2006).

In this political and economic context, a former senior official of the MoF recalled that:

*Vietnam applied an accounting system based on Chinese experience from 1956 until the end of 1969... In 1950s, China did not have a unified accounting system, but accounting regulation for each industry. There were two industries in Vietnam during that time: heavy industry and light industry ... Chinese accounting for heavy industry, such as accounting for heavy industry enterprises, accounting for transportation, and accounting for construction materials, was translated into Vietnamese and entirely adopted by the DRV. Therefore, accounting for enterprises in DRV was mainly an application of industrial accounting of China, using double-entry, which included accounting for heavy industry, accounting for transportation, and accounting for materials (Interviewee 2).*

Sharing similar views, another former senior official of the MoF, who is a senior official of the Vietnam Association for Accountants and Auditors (VAA), commented that:

*Since North Vietnam was completely liberated [from the French] in 1954, with the assistance of Chinese and Soviet Union specialists, together with the economic restoration and development, the Government issued a range of accounting regulations for each economic sector of the national economy, based on the Chinese accounting model, including budget accounting, (heavy) industry accounting, capital construction accounting, supply and consumption accounting, trade accounting etc. (Interviewee 3).*

The evidence suggests that industry-based accounting was implemented by the DRV government, which included accounting for the industrial and capital construction sectors, based on the Chinese accounting model. There were separate accounting regulations based on double-entry book-keeping, with different charts of accounts,

different accounting records and vouchers, and different accounting and statistical reports (Thanh Tung, 2008).

The DRV State implemented the first Five-Year Plan 1961 – 1965, with its primary objective being to complete the socialist transformation of the economy and to promote rapid development of the industrial and agricultural sectors, together with moving from small-scale to large-scale production. Therefore, the major share of state investment was allocated to this sector and not to other sectors such as light industry (Duiker, 1983; Vo, 1990; Harvie and Tran, 1997). This also helped explain why the DRV State adopted Chinese accounting for heavy industry during this period.

In addition, the former senior official of MoF elaborated the reasons for adopting the Chinese accounting that:

*As one of the most powerful countries and given its liberation in 1949, China was ahead of Vietnam in its economic development. China assisted in the construction and development of the economic management mechanism of the DRV after its liberation in 1954. In addition, China helped train Vietnamese officials, including in accounting, during 1949 – 1959. Chinese was also the main foreign language taught in high schools in Vietnam at that time (Interviewee 2).*

The senior official of the VAA, who is also a former senior official of the MoF, commented that:

*The accounting regulations issued in this period had laid a foundation for the birth of an accounting system of the Socialist Republic of Vietnam later on. It assisted the State in setting up a management mechanism for each economic sector in the initial stage of economic restoration, construction and development (Interviewee 3).*

Therefore, this indicates that the Chinese influenced accounting in Vietnam for about a decade, through the adoption of Chinese industry accounting and the training of Vietnamese personnel on accounting and other specialists with skills which would assist in building a new socialist Vietnam.

During the 1960s and the 1970s, as tensions between Vietnam and China emerged due to the opposing perspectives relating to the relationships with the US, and Vietnam's worries about excessive Chinese influence resulting from geographical and cultural

proximities of the two countries, Vietnam became more reliant on the Soviet Union (Raffin, 2008). As a result, the DRV State adopted the Soviet Union model, which was perceived to be the quickest way to develop the then agrarian economy, and centrally managed the economy using the centrally-planned mechanism. Accordingly, the economy of the DRV had all the characteristics of Soviet-style centralized planning: collectivized agriculture, government set and administered prices, state enterprises dominated the industrial sector and State control of all foreign trade (Harvie and Tran, 1997; Vu, 2002).

A former senior official of the MoF recalled that:

*The [DRV] State unitedly managed and administered the economy by the centrally-planned mechanism, followed Soviet Union management approach, to manage the post-war economy. The economy was based on mass ownership by the whole people and collective ownership (Interviewee 2).*

Official statistics indicate that more than 90 percent of the industrial and agricultural sector was under national or collective ownership (Duiker, 1983).

It is noted from the archival records that:

*With the assistance of Soviet Union specialists and the contribution of young officials who were trained locally and overseas, we [the State] conducted the improvement of accounting towards unifying accounting, statistics and economic information on the principle of socialist economy, based on the Soviet Union accounting model (Archival records 2, 2007, p. 8).*

The former senior official of the MoF confirmed that:

*Many Vietnamese officials were sent to study in the Soviet Union. We also invited Soviet Union specialists to work in Vietnam during 1968 – 1970 (Interviewee 2).*

Another interviewee who worked for one of the Big Four firms in Vietnam consistently elaborated that:

*In 1960s, Soviet Union specialists came to Vietnam and introduced a new accounting system, namely the Journal – Voucher system, which was perceived to be more modern than the Chinese accounting system (Interviewee 16).*

The DRV government chose to not entirely adopt the Soviet accounting model, as noted by another interviewee who is also a former senior official of MoF and a senior official of the VAA:

*Vietnam learnt the Soviet Union accounting model because the Soviet Union was the powerful country amongst the socialist countries bloc. However, Vietnam only applied the Soviet Union accounting model in the conditions and development context of the country, not adopted it entirely (Interviewee 3).*

This was agreed by Kolko (1985) that:

*Rich experiences of other countries in general, and the USSR and China in particular, cannot be applied mechanically to Vietnam given its own peculiarities; therefore, in searching for their own distinctive synthesis, the Vietnamese were consciously building their own model (p. 57).*

An interviewee who worked for one of the Big Four firms in Vietnam also observed that:

*Thanks to being the interpreter for Soviet specialists on the Soviet accounting system when they came to Vietnam to help build an accounting system, the senior official of the MoF in Vietnam became very knowledgeable on the Journal – Voucher system in the Soviet accounting, and was regarded an expert on the Soviet accounting system. He became the Director of Department of Accounting Policy of the MoF later on (Interviewee 16).*

This helps explain the State's influential role in the development of accounting in Vietnam. Apart from receiving Soviet specialists' advice and technical assistance, the State appointed an official who was very knowledgeable on the Soviet accounting to be the then Director of Department of Accounting Policy of the MoF to lead the development of the DRV accounting, based on the Soviet accounting system.

In addition, the evidence suggests that the Vietnamese government undertook a conservative approach to learn by itself as time went on; trying different approaches to see what would work best, and moving gradually. As such, the modifications to the Soviet accounting model for Vietnam aimed to make accounting work simpler and to meet economic management requirements of a young socialist country like Vietnam.

The former senior official of MoF explained that:

*The Vietnamese accounting used 12 journal vouchers instead of 17 as that of the Soviet Union accounting system. This was because Vietnamese accounting was simpler than that of the Soviet Union (Interviewee 3).*

Another interviewee made a consistent observation:

*The vouchers in the Vietnamese accounting system, based on the Soviet model, consisted of 11 journals and 1 ledger, making it 12 in total (Interviewee 16).*

As mentioned earlier, most enterprises were owned by the State, on behalf of the Vietnamese people, the state sector played a predominant role in the economy. Therefore, the state accounting system played a key role in this period. The government was the only user of accounting information. As such, accounting was meant to serve the economic policies of the State, by providing the information needed to formulate national economic plans and the feedback to monitor and evaluate the implementation of such plans. Accounting regulations were enacted in economic and financial decisions. In Vietnam, accounting systems for the state and non-state sectors are centrally prescribed by the MoF.

As noted earlier, the Soviet accounting specialists provided their assistance to officials of the Department of Accounting Policy (DAP), an arm of the MoF responsible for accounting policies, on studying and improving the existing accounting system, as reported in the MoF (2001)'s publication:

*With the assistance of the Soviet accounting specialists and the contribution of young officials who had been trained overseas and locally, we have improved the accounting system towards unification between accounting, statistics and economic information on the principle of socialist economic accounting, based on the Soviet Union accounting model (p. 9).*

The first unified chart of accounts applicable to all economic sectors was issued in the Decision No. 425 TC/CDKT dated 14 December 1970 of the MoF. Similar to the Soviet accounting system, the Vietnamese unified chart of accounts was divided into eleven main categories of accounts, three of which related to cost accounting (classes 2, 3 and 4), as follows (Archival records 7, 1970).

Class 1 – Fixed assets

Class 2 – Stocks intended for production (or production reservation)

Class 3 – Production costs

Class 4 – Finished goods and consumption

Class 5 – Cash capital

Class 6 – Accounts payable

Class 7 – Capital reserves

Class 8 – Damage, shortage or surplus of materials pending on being settled

Class 9 – Capital sources

Class 10 – Loans and distributed funds

Class 11 – Financial results

The unified chart of accounts in 1970 required the application of the standardization of the accounting system by every sector and industry in the national economy, by using a standard chart of accounts promulgated by the MoF and applicable to all sectors in the economy. However, there was no standardization of presentation of financial statements required. Enterprises were not required to disclose their financial statements to the community and the MoF was the primary user of the enterprises' financial information. This reflects the characteristics of the socialist system and a Soviet-style centrally-planned economy, in which market and community principles, as in the work of Puxty *et al.* (1987)'s and Streeck and Schmitter (1985)'s, were disregarded, as the state dominated. In addition, the transparency of financial statements and information of enterprises was not in existence.

The State's dominant role in the centrally-planned economy of Vietnam was also reflected through its policies for the economy and enterprises, as elaborated by the former senior official of the MoF:

*The [DRV] State stipulated the entire operations of an enterprise, including production costs, selling prices, products, markets and senior personnel such as director and chief accountant. This followed Soviet Union economic management*

*model and lasted until 1975, when the country was unified. Accounting was used as a tool of the State in its economic management (Interviewee 2).*

The standardization of accounting rules was necessary for the compilation of national accounting statistics and hence, very useful for a country like Vietnam, where the economy was planned and controlled by a centralized government. The discussion above suggests that the Soviet influence on accounting in Vietnam was through the use of the philosophy of Soviet accounting in respect of accounting and statistics combinations, and the provision of accounting expertise to Vietnamese personnel via training programs and technical assistance.

As far as the era of the DRV is concerned, during 1954 – 1975 there was no evidence indicating the existence of Vietnamese accounting and auditing standards. The government's authority and hierarchical control of accounting rules and procedures were implemented through the MoF, and the market and the community in Puxty *et al.* (1987)'s study were absent. The State played a dominant role in economic development and regulating accounting practice. A market for accounting services or an accounting association as a community for accountants did not exist.

In summary, the DRV accounting followed the Chinese accounting model subsequent to its liberation from the French in 1954 for a decade. Due to political conflicts with China, the DRV then followed the Soviet Union accounting model until the unification of the country in 1975.

#### **4.3 Accounting in South Vietnam from 1954 – 1975**

Subsequent to the signing of the General Accord at the Geneva Conference of 1954, which divided the country into two, the US began their involvement in South Vietnam, also known as the Republic of Vietnam (RVN), by providing military and economic aid, training RVN personnel, and sending US advisors to assist in building the infrastructure for the new government (Chu, 1991; Tran, 1993; Bui and Nguyen, 2006). However, training RVN personnel on accounting was not the US's priorities, as their main interests were political influence through military support. It is also noted from an archival material on the US training assistance program to Vietnam during 1954 – 1960 that:

*... The major emphasis in the US training [assistance] program was in the field of Education, while the concentration for "third country" training was in Agriculture (Archival records 37, 1964, p. 2).*

Whilst the DRV economy relied on foreign aid from the socialist countries, mainly from China and the Soviet Union, the RVN economy heavily relied on foreign aid and assistance, mostly from the US, and hence capitalism. However, most of the foreign assistance went to military expenditure and infrastructure development. The RVN economy orientated its resources towards the production of consumer goods and services. The private sector had emerged as the key economic driver during the war years, with small and medium-sized enterprises producing light manufactured goods dominating industry (Nguyen, 1991; Vu, 1994; Harvie and Tran, 1997).

A professor who taught accounting in the RVN recalled that:

*The accounting system used in Saigon before 1975 followed the French accounting. Therefore, when teaching accounting at the National Institute of Administration (1969-1971) in Saigon, my colleague and I used the French accounting system as this was mainly used in the private sector in Vietnam and in the public companies owned by the [RVN] Government (Interviewee 19).*

Another interviewee who used to work for one of the Big Four firms in Vietnam consistently said:

*... In Saigon before 1975 [during the American rule], French and Vietnamese companies all used the French accounting system (Interviewee 16).*

The evidence suggests that the accounting in the RVN after 1954 remained influenced by French rules.

It is useful to describe the main features and characteristics of the French accounting plan, known as the Plan Comptable Général (PCG), which originated from the so-called 1942 PCG, and seen as supporting national economic planning and development of national statistics (McLeay and Riccaboni, 2000). The first nation-wide accounting plan in France, known as the PCG, was adopted in 1947 as a result of the work of the Accounting Standardisation Commission (Commission de Normalisation des Comptabilités). It was seen as a relatively simple national accounting code, in response

to the national shortage of accountants and the limited capacity in the educational and professional training system for raising the supply and level of accounting skills. This was a concern for the state, given the effect of the shortage of accountants on the administration of the expanded public sector and on the management of commercial enterprises receiving state subventions. The state commission created the PCG and determined the institutional structure for standardization and controlled its operation, with very little involvement from the French accountancy profession. A simple chart of accounts was created with cost accounting codes autonomous from financial accounting codes as a formal dualism. Cost accounting was made optional in the preparation of financial statements, and the format of the profit and loss statement was prescribed (Richard, 1992, 1995; Roberts, 1998; McLeay and Riccaboni, 2000; Parker, 2003).

The PCG was applied in the government sector – that is, state and subsidized enterprises. The characteristics of the French PCG in 1947 included a rational organization of both financial and cost accounting, which provided the tools needed to improve company management. It included the introduction of uniform rules of valuation, classification and presentation; the establishment of a clear terminology to facilitate inter-firm comparisons and improve the quality of the information collected for national accounting purposes; and the classification of expenses by nature and of some assets according to their economic function in the company, to meet the needs of national accounting (Lemarchand and Parker, 1996; McLeay and Riccaboni, 2000; Gaffikin, 2006).

A former senior official of the MoF explained the reasons the Americans did not bring their accounting practices to Vietnam:

*The Americans did not bring their accounting practice to Vietnam prior to 1975, as their main concerns were to strengthen their political and military position in Vietnam. Apart from that, they did not want to change the management practice in the country. Therefore, they only brought modern equipment and machine to Vietnam, not their management mechanism. In addition, a majority of companies operating in the RVN was from Europe so they used the French chart of accounts to report to their home jurisdiction (Interviewee 2).*

The professor who taught accounting in the RVN before 1975 elaborated:

*The French accounting used during that time in South Vietnam was in a very simple form, mainly financial accounting which focused on the accountability purpose. Therefore, the primary objectives of French accounting were to maintain accounting records and to prepare accounting reports to ensure the accurate recording of accounting transactions, to minimize fraudulence, and to check the compliance with the approved budgets. Cost accounting for managerial purposes was disregarded (Interviewee 19).*

The evidence suggests that, although the first nation-wide accounting plan in France, known as the PCG, was adopted in 1947, accounting practice in South Vietnam during 1954 – 1975 continued using French budget accounting.

It is noted that, parallel with different political and economic conditions in two parts of the country, accounting practices in North Vietnam (DRV) and South Vietnam (RVN) were also different. Whilst accounting practices in the DRV moved towards unification based on the accounting models of socialist countries, particularly China and the Soviet Union, led by the MoF, accounting practices in the RVN remained influenced and based on French rules. Thus accounting practices of the DRV and the RVN were influenced by the socialist and capitalist economic environments respectively. This situation was unique in Vietnam before its political independence in 1975.

Moreover, the Americans did not provide French accounting training to the Vietnamese. An interviewee stated that:

*In large companies during French rule, such as companies producing beer, alcohol, beverages, milk, etc. left behind by the French for the Vietnamese, the majority of staff were Vietnamese (Interviewee 16).*

The former senior official of the MoF elaborated:

*In addition, those former Vietnamese accounting staff who had been trained and worked for the French were familiar with the way of handling bookkeeping using the French chart of accounts. Therefore, retraining them was not an easy task (Interviewee 2).*

An interviewee made a comment on the accounting training situation in Saigon before 1975 that:

*At that time, there were no Vietnamese people successfully graduating in accounting in Vietnam. It seems to me that there was no one specializing on accounting. This means that the training on accounting to supply for the work force was very limited. Professors on accounting during this time were mostly those who studied in France and returned to Vietnam to teach and some had worked in the colonial administration in Vietnam (Interviewee 19).*

It is consistently noted in an archival material that:

*Another factor affecting future industrialization was French domination of finance, industry and commerce... Vietnamese found relatively few opportunities to acquire experience in these fields, and rarely rose to responsible positions in the foreign-owned firms... Further, relatively few Vietnamese received technical training, either in France or Vietnam (Archival records 38, 1960, pp. 2-3).*

So, the question is how the training was conducted to enable the Vietnamese to undertake book-keeping using the French accounting in the RVN. An interviewee who worked as a tax auditor in the Saigon Government before 1975 recalled that:

*I learnt French accounting before 1975 from those Vietnamese who had studied accounting in the French commercial schools (such as Haute Etude Commercial, Ecole Superieur de Commerce) and returned to Vietnam to work and teach (Interviewee 16).*

Another interviewee who taught accounting in the RVN before 1975 elaborated that:

*After getting my Doctoral Degree in Business Administration (DBA) from the University of Southern California, I returned to Vietnam to teach accounting at the National Institute of Administration (Saigon), the College of Economics and Business Administration of Minh Duc University (Saigon), and the College of Politics & Business Administration of Dalat University (Dalat). During 1954 – 1975, the French accounting was translated into Vietnamese by my colleague and the materials were used to teach in Saigon (Interviewee 19).*

The National Institute of Administration was the government's training school for civil servants in Saigon (Archival records 41, 1960).

The evidence suggests that Vietnamese accountants or book-keepers equipped themselves with knowledge on the French accounting rules to enable them to work in companies in the RVN. In other words, the Americans did not contribute to accounting training in Vietnam during their rule. In addition, the private sector was the key economic driver in the RVN during 1954 – 1975. However, no law defining the accounting and auditing system for private enterprises was established by the RVN State. The RVN government's authority and hierarchical control was seen to be weak, as it was heavily dependent and directed by the US. Any accounting system or practice in the RVN State was entirely a continued application of existing French practices. There is no evidence indicating that there was an indigenous accounting system and a market for accounting services existed in the RVN during 1954 – 1975.

## **5. Summary and Conclusion**

In their study, Puxty *et al.* (1987) drew upon Streeck and Schmitter (1985)'s three organizing principles – the market, the community and the state – to analyse the accounting regulation in four capitalist societies, namely the UK, US, Sweden and West Germany. Puxty *et al.* (1987) also identified the limitations of the Streeck and Schmitter (1985)'s framework on the omission of the increasing significance of the state, the market, the community.

This paper has considered the case of accounting development in Vietnam from the French domination in the mid 19<sup>th</sup> century until the country's political independence in 1975, to argue that the state played a predominant role, while the balance of the state, the market, and the community was shifting in different periods of time, especially from 1986 onwards. Most importantly, the case of Vietnam indicates that the development of accounting was not initiated and influenced by the French, nor the Americans, in the colonial and post-colonial periods.

During the colonial rule 1858 – 1945, the French colonial powers controlled all aspects of the colony, resulting in the weak state and the absence of market and community for accounting. The first Western accounting system – French accounting – was brought into Vietnam in the mid 19<sup>th</sup> century by the French to support its colonial administration. As such, they directly managed accounting and made little effort to train Vietnamese, who

worked in their businesses in Vietnam, to handle detailed bookkeeping. The French set up budgets which enabled them to exercise central control of revenues from tax collection and export earnings and expenditures of the colony's operations. Therefore, the market and community for accounting in Vietnam were absent, as there was little demand for accountants and also little need for the French administration to set up and develop indigenous accounting in Vietnam during their rule. The French accountancy profession did not have a tradition of becoming involved in colonial outposts as did the UK-based ACCA in countries such as Hong Kong and Malaysia. As such, the French influence on accounting in Vietnam during their domination was very limited.

During the war years 1945 – 1954, there was no significant development of accounting in the Vietnamese economy, as the country's resources were entirely engaged in the war of resistance against the French.

During 1954 – 1975, the country was divided into two sovereign states with two very different political and economic systems, subsequent to the defeat of the French at Dien Bien Phu and the signing of the General Accord at the Geneva Conference of 1954. The independent DRV state in North Vietnam played an influential role in regulating accounting, based on the Chinese and Soviet accounting models, to serve the socialist building economy. As the State centrally managed the economy, using accounting as a tool, there was no market for accounting services and no accounting community. The RVN government in the South was heavily dependent on the US military support. However, limited attention was paid to accounting development and training by neither the RVN government nor the US government; thus French accounting rules remained in practice during the American rule. The RVN government's authority and hierarchical control was seen to be weak, as it was heavily influenced and directed by the US. There was no evidence indicating an existence of an indigenous accounting system, nor a market for accounting services in the RVN during 1954 – 1975. It is, therefore, observed that accounting practices of the DRV and the RVN during 1954 – 1975 were influenced by the socialist and capitalist economic environments respectively. This situation was unique in Vietnam before its political independence in 1975.

The country was political independent from the Americans in 1975. The VCP has led the country towards socialism and the economy was transformed from a war economy to a

centrally-planned economy and then a market-oriented economy. Accounting in Vietnam was policy-oriented with the government's political and economic policies dominating accounting work. The accounting regulations were changed periodically, corresponding with changes in the government's political and economic policies. However, in a socialist country like Vietnam, where the state plays an influential role in the economic and social aspects of the country, both the market and community forces will remain under the dominance of the state.

The Vietnamese experience also offers a model for comparative studies with other countries which do not have a colonial heritage, such as China, and with other ex-colonies. In addition, this paper also suggests that the Puxty *et al.* (1987)'s model which was employed to examine advanced capitalist countries may be used to examine the accounting regulation in socialist countries such as Vietnam.

**Notes:**

1. The August Revolution in 1945 is known as the successful uprising of the Communists (also known as Vietminh Front) to seize power in the North Vietnam subsequent to the surrender of the Japanese to the Allies. Subsequently, the Democratic Republic of Vietnam (DRV) was declared on 2 September 1945 in North Vietnam by President Ho Chi Minh and started to build socialism (Duiker, 1983; Tonnesson, 2004; Corfield, 2008).

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