

Endemic corruption and policy impasses are holding Vietnam back

Further growth is contingent on reforms that are nowhere on the horizon

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While Vietnam's largest political scandal in years is winding down, having felled two Central Committee members and over 20 other officials, the economic fallout continues.

Despite economic progress, endemic corruption and an economy still stuck between the plan and the market means that Vietnam now has a government that is unable to address a host of complex challenges. In 2021 authorities opened 3,725 corruption probes and prosecutions alone.

Over the past decade, Vietnam's economic growth has been stellar. Gross domestic product hit \$290 billion in 2021, double what it was a decade before. Vietnam's successful early COVID-19 response ensured that factories remained open as corporations diversified their supply chains.

It was the only country in Southeast Asia that had positive economic growth in 2020, with exports surging to \$336.3 billion in 2021. Vietnam remains a darling of foreign investors, attracting over \$150 billion between 2010-2019.

But corruption and policy impasses are taking their toll. In the first six months of 2022, FDI was down by 9% compared to 2021.

While the U.S. Trade Representative dropped the Trump administration's charges of currency manipulation, monitoring continues as Vietnam's trade surplus with the United States surged to \$81 billion in 2021.

Vietnam's penchant for control threatens its vibrant high-tech industry. Though not fully implemented, the Chinese-inspired cyber law requires data localization, forces corporations to provide user information and restricts social media content. This sector is young, talented and very mobile.

Privatization of state-owned enterprises continues in fits and starts, with only 37 of 178 planned equity actions completed in 2016-2020. The state-owned sector is awash in nonperforming loans, raising questions about the solvency of state-owned banks.

The government is also reeling from soaring energy and food prices, and inflation is slowing growth and chipping away at the trade surplus.

Vietnam's public debt is predicted to more than double from \$145 billion to almost \$300 billion in 2027. And while debt servicing should be manageable, Vietnam's hidden debt to China is much higher than realized. Between 2000-2017, nonsovereign debt owed to China reached \$16.3 billion, 3% of GDP.

Demographics may prove to be the most daunting challenge. Since 1987, the fertility rate fell from six children per woman to the replacement rate. Vietnam's population of 99 million will peak at 110 million by 2050 before shrinking rapidly.

The societal costs of a longer-lived retirement-aged population will be enormous. Today 7.5% of the population is 65 or over. By 2050, that number will nearly triple to 20.5%. In that time, the share of the population aged 20-44 that drives domestic consumption is set to contract from 40% to 32%. Vietnam is looking at Thailand's demographic reality, with a smaller economy to support it.

Energy consumption continues to soar in Vietnam, hampering growth. Coal-generated electricity has increased six times since the mid-2000s, despite the country's climate vulnerability. While solar electricity went from 5 megawatts in 2016 to 16,500 megawatts in 2020, the existing grid, vested interests and a regulatory backlog limit growth.

Vietnam's heavy reliance on hydroelectric power, much of which is imported from Laos, is self-defeating, with the Mekong river at its lowest levels. The lack of silt deposits to rejuvenate the Mekong delta, which accounts for 90% of Vietnamese rice exports, is compounded by saltwater intrusion.

The government continues to arrest activists, such as environmentalist Nguy Thi Khanh, and wages a full-on assault against intrepid independent media.

Despite a 10-year anti-corruption campaign that has seen 168,000 party members disciplined and 7,390 charged, structural factors ensure that corruption will remain endemic. Investigations are often politically motivated and used to target political rivals; no one is clean. The police and prosecution are fully weaponized.

Many governments will not extradite Vietnamese nationals due to fears that they will not receive a fair trial. Vietnam has resorted to kidnapping figures off the streets of Berlin. Meanwhile, the man in charge of the Ministry of Public Security, To Lam, was filmed eating a \$1400 gold-encrusted steak in London's Salt Bae restaurant.

And finally, there is the whole issue of succession when the 78-year-old party chief Nguyen Phu Trong finally retires. Having received two age waivers, he was reelected for a third term at the 13th Congress in 2021, following a stroke. He is expected to step down before the 14th Congress in early 2026.

Under existing statutes, the general secretary must serve on two politburos, making six candidates eligible, though only three are contenders. Whoever is elected will set the policy tone for the coming years.

Hanoi has no shortage of challenges and risks being caught in the middle-income trap. Previous governments demonstrated competency and policy pragmatism. But the current government does not exude confidence after a series of missteps, a botched vaccine rollout, ongoing corruption scandals and stalled reforms.

Prime Minister Pham Minh Chinh, a former police officer, has no economic experience and had not even served as a deputy prime minister before heading the government. His government seems insecure and preoccupied with the specter of colored revolutions, evident from several speeches and hot mic incidents during the U.S.-ASEAN summit in May 2022. Consolidating power, not solving complex economic challenges, remains the priority.

Political infighting and politicized corruption investigations have crippled policymaking. Chinh does not seem to trust his cabinet, and they do not seem to trust him either.

Chinh's penchant for control has clearly put the brakes on needed reforms. Vietnam has benefited from decoupling, but further growth is contingent on reforms that do not appear on the horizon.