

Vietnam president's ouster may hamper business, analysts say

Communist Party's corruption purge could clean up economy -- or stem innovation

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HO CHI MINH CITY -- As Vietnam purges political and business leaders in an anti-graft campaign that peaked with a rare presidential ouster last week, a key question has arisen: How will this affect the global factory hub?

Some predict business as usual, saying the Communist Party's rule-by-consensus principle and lack of a personality cult set it apart from President Xi Jinping's China and allow economic continuity. Others believe the internecine politics are pushing security-minded forces to the fore, at the expense of those friendly to foreign investors, and that the space for debate and innovation is shrinking. Which of these proves right will affect a fast-growing economy that has become indispensable to the supply chains of producers from Apple to IKEA.

Before being dubbed the "blazing furnace," Vietnam's campaign against corruption conjured another saying: When hitting the mouse, protect the vase (*Danh chuot giu binh*). The "highest rungs of the power ladder" still want to preserve trade, said Nguyen Thanh Binh, a director at the Vietnam Chamber of Commerce and Industry.

"One of Vietnam's precious porcelain vases is the favorable and friendly business and investment environment," he told Nikkei Asia.

The campaign has reached deep into the public and private sectors, from the hundreds of communists penalized last year to the many companies decapitated by arrests in sectors including real estate, health care, transportation and securities.

This month's shock expulsions of President Nguyen Xuan Phuc and two vice premiers cast doubt on the stability that the single-party state uses as an economic selling point. Businesses considered the three men reliable stewards as Vietnam's economy opened up, whereas the next class of Politburo leaders aren't likely to flash their capitalist credentials, analysts say.

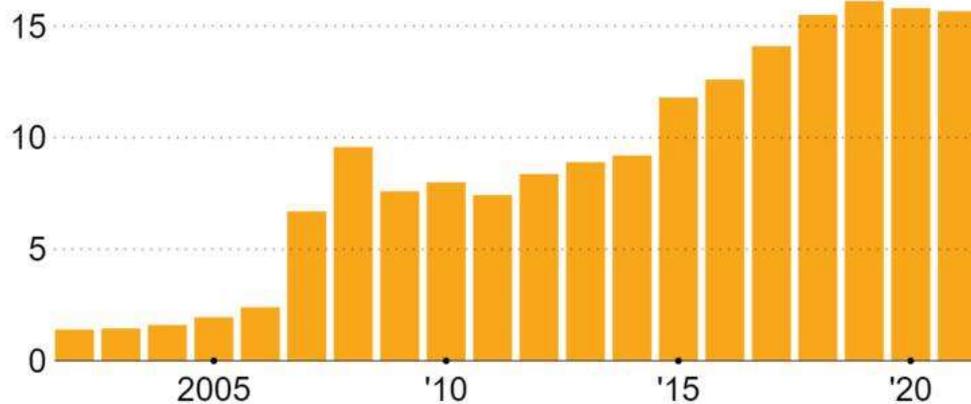
"It's certainly not going to be a liberal, laissez-faire economy," Australian National University political researcher Hunter Marston said. He added, however, that Vietnam will stay on a path toward greater trade.

One contender who may succeed Phuc as president is the security minister, who is known for a TikTok video in which chef Salt Bae fed him gold-leaf steak. If such a transition happens, security scholar Zachary Abuza said, it would be a transition from Phuc's macroeconomic pragmatism to an administration increasingly dominated by Security Ministry veterans who prioritize law enforcement.

"We often hear concerns from foreign companies entering Vietnam's public-interest projects due to the slow progress of government approvals," said Hirota Fushihara, director at The Libero & Associates, a legal and business consultancy in Hanoi.

Vietnam's foreign direct investment

(In billions of dollars, net inflows)



Source: World Bank

He hopes the fight against graft won't slow approvals further. But it could. Authorities will OK big projects to depict Vietnam as "a destination for investments" but small companies may face delays, said Nguyen Thanh Trung, a Fulbright University Vietnam faculty member who studies the political economy.

"Officials who are afraid of potential charges on wrongdoings or alleged corruption are more likely to put off stamping any project or proposal that they may think put them at risk," he told Nikkei.

In China the government is poised to launch one company, in ride-hailing, and take shares in others, like Alibaba. Such a reassertion of the state into businesses is not being repeated in Vietnam, which instead is winding down state enterprises, Marston said.

But another Chinese trend, the push for "common prosperity," has relevance for the current Vietnamese administration's corruption cleanup. In both cases, the goal is to ensure that as more capitalism is introduced into nominally socialist systems, a handful of individuals aren't enriching themselves at the expense of society.

"It is safe to say party cleanup takes more preference than business interests," Trung said. "Past leadership favored business interests more."

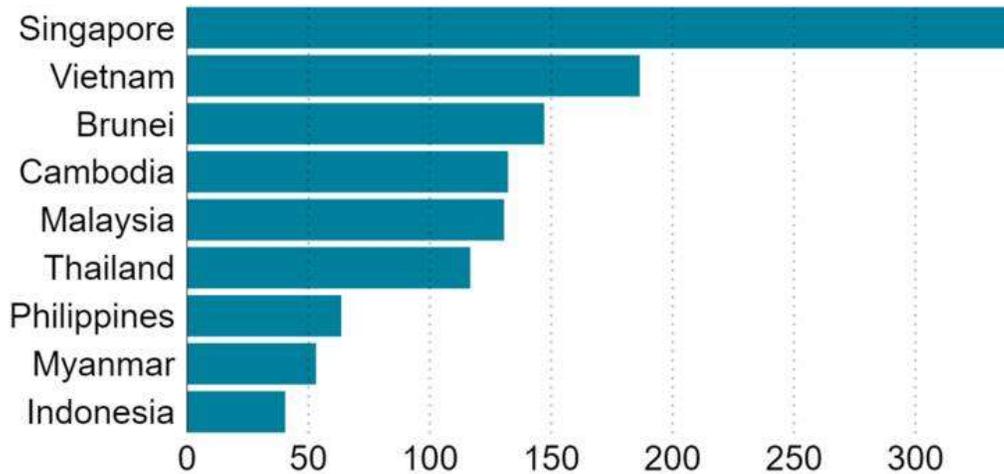
While Vietnam is not taking over tech companies, it has moved to rein them in, such as with laws to delete negative posts online. Free speech advocates say this has been part of a broader move to restrict public debate on subjects like politics, the environment and business.

Some of the newer internet restrictions are enforced by the Security Ministry, which also handles corruption investigations.

"The tendency to clamp down on criticism will bite back eventually. Vietnam suffers from a chronic lack of policy innovation, flexibility and reliability, which will limit the pace of reforms and growth," said To Minh Son, political research assistant at Nanyang Technological University Singapore. "Growth will continue but will hit a ceiling at some point."

Vietnam's gross domestic product grew 8% in 2022, though that came off a low base in 2021, when COVID factory shutdowns triggered a rare GDP contraction.

Trade as share of GDP in 2021 (In percent)



Source: World Bank

A bigger-picture gauge of the country's centrality in global supply chains is trade as a share of GDP. That reached 186% in 2021, the highest level in Asia outside of the shipping hubs Singapore and Hong Kong, the World Bank says. This makes Vietnam reliant on exports and on the attendant foreign investment. Human Rights Watch has called on trade partners to use this as leverage to push for civil liberties in the country. Son said this is possible, but only to a degree.

"The party can capitulate on a few things but may resist others," he said. "One-party rule is sacrosanct."

He added that the corruption probes into businesses have left a cloud of uncertainty over "their many financial and real estate assets" but that clean companies may benefit more from the crackdown than state firms, whose links to the government "could become risks."

Many say the economy will benefit down the line if malfeasance is genuinely rooted out. Binh called the state "courageous" for its campaign, which "revealed that corruption appears as a hydra."