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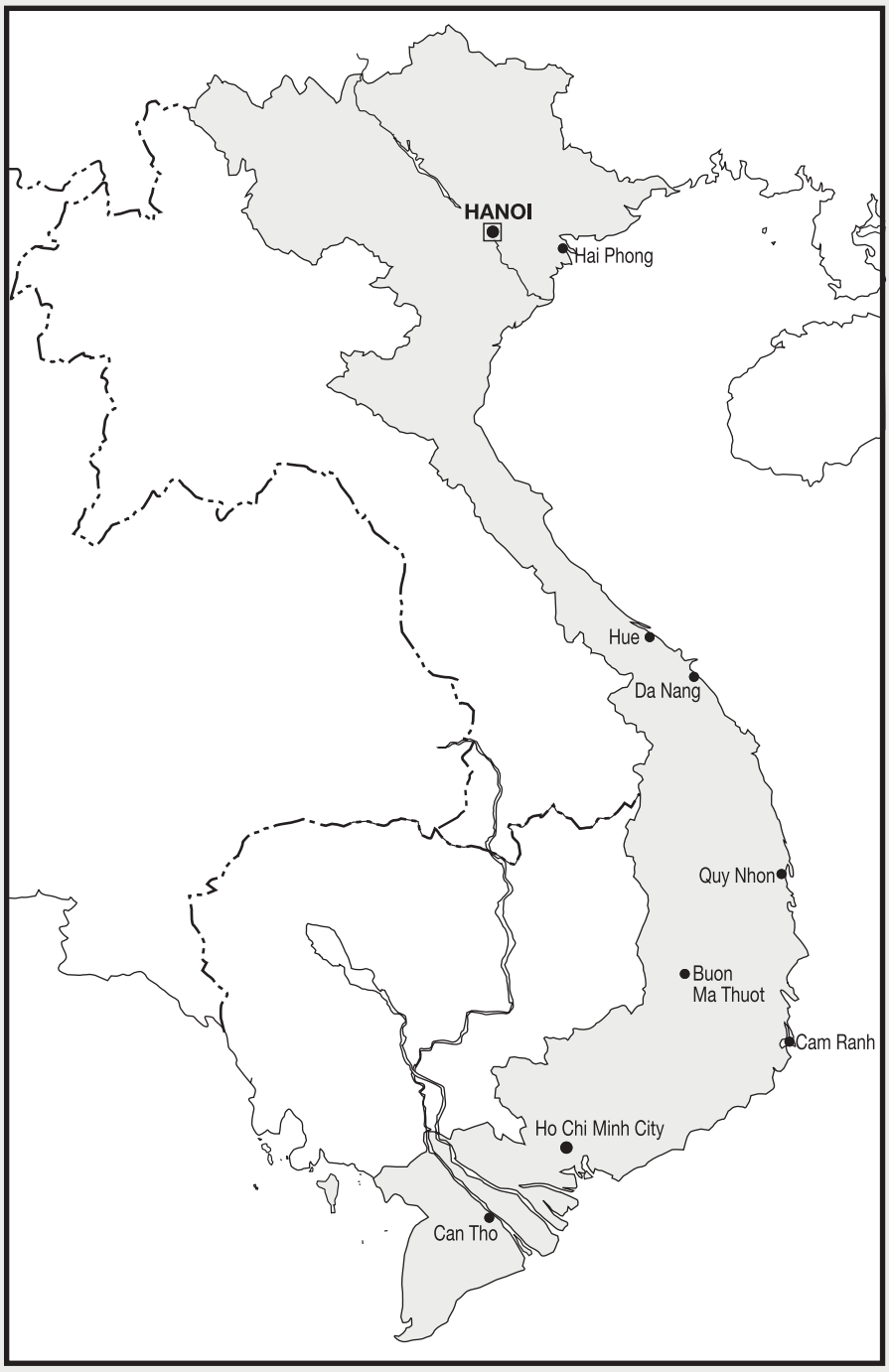
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VIETNAM IN 2016: Searching for a New Ethos

Phuong Nguyen

Vietnam in 2016 went through a crucial leadership transition at the 12th Congress of the ruling Vietnamese Communist Party in January. Its economy stands at a crossroads, after thirty years of *doi moi*, or renovation, turned Vietnam into a lower-middle-income country with a thriving manufacturing-based, export-led economy, but which still leaves much to be desired. Vietnam still occupies the lower end of the global supply chain, and remains bridled with a largely inefficient state-owned sector and a weak financial sector. The government, however, aspires to achieve "modernity, industrialization, and a higher quality of life" by the year 2035, when Vietnam will have been reunified for sixty years.[1]

On the international front, Vietnam has forged a wide range of partnerships with foreign countries — including with both neighbouring countries and larger powers — and has managed to redefine its relations with the West, in particular the United States. Yet it faces ever more complex foreign policy challenges, which emanate primarily from an increasingly aggressive posture by China in the South China Sea — where Vietnam is an active claimant in the maritime territorial disputes — and an evolving regional order. The leadership and populace alike seem to be looking for a game changer that can help address the host of geostrategic and socio-economic challenges facing Vietnam. If the past thirty years were foundational in Vietnam's charting of its post-war history and the terms of its relations with the outside world, the period from 2016 onward is slated to usher in a new, more dynamic era in this country of nearly a hundred million.

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Leadership Transition and Contest

After a decade of freewheeling politics under the controversial former Prime Minister, Nguyen Tan Dung, large parts of Vietnam's leadership preferred to return to an equilibrium in domestic politics where collective leadership, the unwritten rule of Vietnamese politics, was the norm. Political infighting has always existed among the elite, and competition to varying degrees between the country's top four posts — Party Chief, President, Prime Minister, and Head of the National Assembly — is not a new phenomenon. But during his rule, Dung's relentless pursuit of power and personal wealth, as well as his outspokenness and brash rhetoric that defy the parameters of Vietnamese politics, alienated many within the party leadership and bureaucracy.

This dynamic tended to make it difficult for the leadership to reach consensus or compromise at important junctures. Although Dung managed, through his vast patronage network, to set the agenda for a number of economic portfolios and amass significant power for his office — charged in principle with implementing party policy — he also made sworn enemies of many within the historically powerful party apparatus. To make matters worse, the former premier made no secret of his ambition to be propelled to the post of party chief, the highest-ranking position in Vietnam's political system, in the months leading up to the Party Congress. Some in Hanoi were concerned that a scenario in which Dung would lead the party would sooner or later spell trouble for the sustainability of the party-state apparatus.

What happened at the five-yearly Party Congress in January can be summed up as follows. A so-called "anybody but Dung" coalition led by then party chief Nguyen Phu Trong had emerged to squash Dung's ambition by attacking his party bona fide, management track record, and fitness to lead.[2] The strategy worked, and Dung ended up with neither a formal nomination by the Politburo — a prerequisite for candidates standing for the top leadership positions — nor the necessary popular support among the delegates to upend the balance of power. Trong, meanwhile, was voted to stay on as party chief, given his uncontroversial record and commitment to protecting the party's pre-eminence in internal politics.

Trong's reappointment was a crucial development that set the tone for Vietnam's politics and direction in the wake of the congress. His mission is an overarching one: reasserting party authority in all decision-making, tempering the rampant corruption and rent-seeking that was allowed to mushroom under Dung, and giving a sense of direction to the next phase of Vietnam's *doi moi* efforts. To round out the top leadership, Nguyen Xuan Phuc, a former Deputy Prime Minister

and economist by training, was put in place as Prime Minister; former internal security czar Tran Dai Quang as President; and former Vice Chair of the National Assembly Nguyen Thi Kim Ngan as Chairwoman of the legislature, making her the first woman to ever hold that post. Phuc and his cabinet, in particular, shouldered the enormous task of developing the broad economic restructuring agenda for the 2016–20 period that was approved at the Party Congress.

The leadership transition resulted in a realignment in internal dynamics. The nineteen-member Politburo, seven of whom were retained from the previous term, reflects a variety of views and backgrounds and includes several new faces that had been promoted under Dung — a conscious effort to maintain continuity and party unity. Yet, under the current government, elements seen as moderate and conservative have unmistakably risen to play a large role in economic policymaking, reclaiming the mantle previously occupied by Dung's supporters, who could be characterized broadly as a mix of opportunistic rent-seekers and reformists.

Deputy Prime Minister Vuong Dinh Hue, a former head of the party central economic committee, embodies the new coalition led by Trong. Within the cabinet, his portfolio as deputy premier includes helping the Prime Minister in areas of international integration and the reform of state-owned enterprises (SOEs); and monitoring economic ministries, financial regulatory agencies, and the central bank. Hue has further been tapped to lead the National Council for Financial and Monetary Policy Consultation, a thirty-nine-member body established in June to advise the Prime Minister on comprehensive financial sector reforms. In this capacity, Hue is to play a crucial role in the development of a plan that is under way to restructure credit institutions and bad debt management for the 2016–20 period.

Another powerful figure to have emerged under Trong is Dinh The Huynh, who was previously the party's propaganda chief. As the Executive Secretary of the party secretariat, Huynh plays a crucial role in Trong's party-building efforts, including by preventing and rooting out elements seen as ideologically deviant or too corrupt. In particular, Trong has devoted significant energy to a campaign launched in October to detect and combat what in Hanoi is termed "self-evolution", the process by which elements in the leadership — unwittingly or otherwise — come to adhere to the ideology of Western liberal democracy and begin to advocate change from within.[3] Observers have suggested that Huynh would be a likely candidate to succeed the seventy-two-year-old Trong if and when he decides to step down.

Shortly after resuming office, Trong stepped up his rhetoric on combatting corruption in the government. For Trong's faction, the anti-corruption drive and

stamping out remaining elements within Dung's patronage network are two sides of the same coin. They understand fundamentally that economic reforms cannot be advanced as long as a network of opportunists and rent seekers still controls important levers of power. Above all, Trong, a party ideologist, firmly believes that chronic corruption and cronyism at the highest levels of government, if unchecked, will ultimately threaten the legitimacy of the regime.

As a result, investigations into management practices and past appointments at several large SOEs have been launched, with the targets often being current and former officials with links to Dung. Most notably, the leadership in late 2016 decided, at the suggestion of the party secretariat, to "discipline" a former senior official under Dung, Vu Huy Hoang, for the mismanagement of state assets and a number of personnel appointments during his time as Trade Minister.[4] The legislature's standing committee in early 2017 issued a resolution to strip the retired minister of all his past titles, erasing any and all official recognition and benefits that came with them.[5] The decision to punish a retired official — unprecedented in Vietnamese politics — was a warning signal to currently serving officials that the days of "politics as usual", when leaders who enriched themselves could still have a safe landing after retirement, may well be a thing of the past. Government ministries are said to be working on new legislation that would allow for the "fair and strict punishment" of state officials retroactively.[6] During the early years of *doi moi*, those in the leadership who favoured change also painstakingly pushed through a campaign of "purification" designed to rid the bureaucracy of elements deemed incompetent or fervently resistant to reforms. It is still too early to judge the effectiveness of the ongoing anti-corruption campaign — interwoven as it remains with lingering battles among competing elite factions at times — and whether it will ultimately lead to a mindset change among current policymakers in Hanoi.[7]

The past five years also witnessed Vietnam's expanding regional profile, the rise of an informed and affluent urban middle class, rapprochement with the West — most notably the United States — and the emergence of different views among the ruling elite and intellectual class over the country's long-term direction, politically, socio-economically, and strategically. These trends, which were set in motion either by Vietnam's economic opening or external forces beyond Hanoi's control, can be easily reversed. An essential question facing the leadership over the next five years, therefore, will be how to push forward comprehensive economic reforms, as it has set out to do, and harness the potential of a more vibrant society, all the while retaining the party's iron grip.

Searching for a New Growth Model

Vietnam is in need of a new growth strategy. Thirty years of market-oriented reforms have transformed the once war-torn country into a lower-middle-class society, a thriving regional manufacturing hub for garments and electronics, and an increasingly attractive destination for foreign investment. At the same time, its economy remains only loosely integrated with the global supply chain, depends primarily on foreign investment to fuel its export-led growth, and suffers from a large and inefficient state-owed sector and an underdeveloped domestic private sector. At the same time that steadily rising labour costs are putting Vietnam's garment manufacturing sector at a disadvantage compared to competitors such as Bangladesh and Myanmar, 86 per cent of the more than two million jobs in the clothing and footwear industries may be at risk over the next decade due to automation and disruptive technologies.[8] The country has emerged as an attractive manufacturing hub for global technology companies — supplying smart phones and electronic devices and parts — with exports in electronics surging in recent years to become the biggest export revenue source for the government. Yet statistics show Vietnamese suppliers make up only 20 per cent of businesses in supporting industries that supply to the sprawling high-tech manufacturing sector — compared to up to 40 per cent in neighbouring Malaysia and Thailand.[9] These numbers suggest that, without serious investments devised to help the country move up the value chain, Vietnam will only reap limited benefits from its current growth model. Public institutions, long modelled for a Soviet-style centrally planned economy, have not always kept pace with the demands of a more open, market-driven economy.

The leadership wants Vietnam to become a "basic industralized nation" and have in place the foundation of a "socialist-oriented market economy" by 2020,[10] and understands that comprehensive economic restructuring is critical in order for Vietnam to maintain the level of six to seven per cent growth rates into the future, hence preserving party legitimacy. Across the political spectrum, however, officials and intellectuals alike remain confounded over what it means to build a socialist-oriented market economy, and, as a result, how much state control to ease in different areas of the economy. This dichotomy will be an important fault line in Vietnamese policymaking in the coming years.

Prime Minister Phuc, known as an avid administrator, surprised observers when, shortly after assuming office in April, he began to advocate for the concept of "constructive government" (*chính phủ kiến tạo*), a spirit he urged government officials at all levels to adopt towards the populace and business community.[11] In

his speeches Phuc pointed out that the government has too often hindered, rather than aided, businesses and people's lives, a mindset which he said must change. In the context of official Vietnamese discourse, the idea that government ought to be guided by a distinct characteristic — in this case, constructiveness — in dealing with its constituents is fascinating to say the least. This is because in the traditional parlance of Hanoi politics, the party, the state, and the people are very often sub-groups of the same entity, or interchangeable. Phuc's new discourse has prompted a lively debate among intellectuals and on social media on how best to interpret "constructive government", which has no ready equivalent in the English language, and what it says about the trajectory of state–society relations in Vietnam.[12] According to a respected Vietnamese scholar, the fundamental difference between "constructive government" and previous modes of governance is that while the latter places an emphasis on managing or ruling the citizenry and business community, the latter focuses on creating opportunities for them.[13] In addition, the Prime Minister has, since taking office, made multiple surprise visits to local markets and shops under the guise of inspecting food safety and interacting with ordinary citizens, in a fashion akin to politicians in, for example, democratically governed Indonesia. It remains to be seen, however, whether Phuc's mantra will reverberate across Vietnam's officialdom.

Six months after coming into office, the government in October approved a blueprint for economic restructuring for the 2016–20 period, which is built on three guiding objectives. They are: (1) gradually allowing market mechanisms to play a leading role in the economy and allocation of resources; (2) developing higher-value-added industries to gradually become the engine of the economy, taking the place of current low-value-added ones (e.g., garment manufacturing, electronics assembly); and (3) actively undertaking international integration (i.e., in trade and investment) and improving Vietnam's international standing.[14]

In order to implement this agenda, Hanoi settled on five major areas of reform for the current term. First, the government agreed that it needs to help accelerate the growth of the domestic private sector and continue to attract foreign direct investment (FDI). Second, there needs to be concerted efforts in reforming the state-led sector, including revamping SOEs and the mechanisms governing public investment and public spending. Third, reform of the financial sector, including credit institutions and the development of capital markets, should be given greater importance. Fourth, the government needs to modernize its economic thinking and planning in ways that would help boost productivity. And fifth, the leadership needs to allow market forces to decide on important factors of production such as land use, labour, and science and technology.[15] The five-year endeavour was estimated

to cost nearly $500 billion, or 10,000 trillion Vietnamese dong, and would include the cost for resolving bad debts at domestic banks that have accumulated since the early 2000s.[16]

Vietnam stands at a juncture where the success of economic reforms and reforms in politics and governance are mutually reinforcing. For Trong, tackling corruption and vested interests in the still sprawling network of SOEs ultimately requires scaling down the role it plays in the economy, as SOEs still account for about 40 per cent of Vietnam's economic output. Logically, this also means strengthening the role of the domestic private sector across all sectors of the economy, and encouraging foreign investors to participate in sectors prone to corruption, such as infrastructure. For instance, the government has been working to speed up the sale of its remaining stakes in large and more profitable SOEs, such as dairy company Vinamilk — the goals of which are to attract capital and improve corporate governance at these companies. Likewise, attracting FDI in sectors deemed strategic for economic restructuring — including infrastructure, high-tech manufacturing, industrial support industries, information and communications technology, and seafood and agricultural processing — is due to be accorded greater priority in the coming years as part of the concerted efforts to reshape Vietnam's economic growth model.[17] The government is also in the process of preparing for the first time legislation on supporting small and medium-sized enterprises.[18]

The uncertainty surrounding the future of the Trans-Pacific Partnership (TPP) trade agreement, which Vietnam signed with eleven other Pacific Rim countries in February, nonetheless had the effect of muddling Vietnam's economic outlook. U.S. president-elect Donald Trump's announcement shortly after his election victory in November of his plan for to United States to withdraw from the TPP came as a disappointment to those in the Vietnamese leadership who had been looking for a robust reform catalyst, especially those who had worked hard over the past few years to convince the collective elite of the TPP's merits. Senior leaders, including Party Chief Trong, have spoken on the importance of meeting the requirements of "new-generation free trade agreements" that Vietnam has signed on to, including with the European Union, South Korea, and the Russia-led Eurasia Economic Union, as a pillar for further economic reforms.[19] The TPP was seen as a prime game changer, and its uncertain road ahead forced questions on the momentum behind Vietnam's reform efforts in areas such as governance, trade, investment, and labour. Lacking clarity from Washington surrounding the future of the TPP, some in Vietnam's leadership have suggested the country could engage in talks on a new bilateral trade agreement with the United States, and

welcome such talks with "open arms".[20] Vietnam exported more than $35 billion of goods to the U.S. market in 2016, making the United States consistently the largest export market for Vietnam's trade-dependent economy.[21] As a bilateral trade agreement concluded in 2000 with the United States, and which went into effect the following year, helped Vietnam's economy to begin to take off at the time, there is a unanimous recognition across the political spectrum in Hanoi of the importance of trade with and investment from the United States in Vietnam's future development.

Evolving Social Contract

The government confronted its first major test shortly after assuming office when hundreds of tons of dead fish began in early April to mysteriously wash ashore along four provinces on the central coast, where locals depend heavily on fishing for their livelihoods. What followed was nothing short of a turning point in state–society relations in Vietnam.

Local government officials initially attempted to dismiss concerns about food and environmental safety, even as images of the environmental disaster — believed to be the largest to hit Vietnam in recent decades — were circulated on the Internet and social media. Speculation quickly arose that industrial waste produced by the Taiwanese-invested Formosa Plastics steel complex nearby was the cause, a claim that authorities refuted at first. It was unclear for weeks whether the senior leadership recognized the scale of the disaster as it unfolded, or had any concrete plans to deal with it. Meanwhile, an affront by a representative of the steel plant on Vietnamese media, "You have to decide whether to catch fish and shrimp, or to build a modern steel industry",[22] sparked outrage among large swathes of the population towards both the company, for its arrogance, and the government, for being blatantly out of touch in the face of widespread popular dissatisfaction. The grass-roots response was swift and defiant, as individuals took to the streets and social media to make clear their message: "I choose fish".

Authorities responded to what by June had morphed into large weekly street protests in cities across Vietnam with heavy-handed tactics, arresting demonstrators at rally sites and accusing anti-communist exile forces of propping up the protest movement.[23] The elite has long associated most forms of popular expressions of opinion with possible attempts to subvert the state, for fears that pro-democracy and anti-government forces might find ways to infiltrate grass-roots movements and seek to cause political unrest. Government efforts to suppress protesters and media coverage, however, neither stopped demonstrations nor alleviated the

growing sense of anger within society. The clash of expectations between the state and society was striking throughout this episode. The government, had it had any critical information on the environmental disaster or an action plan in the wake of the crisis, did not find it necessary to communicate with the population. Protesters and critics, meanwhile, adopted grass-roots activism, not to incriminate the government but rather to make their sentiments heard in the hope of prompting the authorities to make a more forceful response.

The Prime Minister's office eventually announced at the end of June, breaking weeks of silence, that industrial discharge containing the toxin cyanide into the ocean by Formosa was the cause of the massive death of marine life. It also announced that the government was seeking $500 million in compensation from the company.[24] The Prime Minister himself has since become involved with managing the aftermath of the crisis, ordering the government to draft clear mechanisms for the compensation of households and businesses affected by the disaster. Smaller protests, however, dragged on to as recently as October 2016.[25]

The social contract in Vietnam is slowly being rewritten. It is no longer enough for the ruling elite to deliver only on economic growth. The initial reaction by the government to the environmental disaster shows, however, that top leaders were in many ways out of touch with the sentiment of large swathes of the citizenry. This may present a predicament for the leadership in the future. On the one hand, the current leadership wants to regain the public's trust in the party-state apparatus, which has been eroding in recent years. On the other hand, top leaders by default cannot help but view public participation in politics or grass-roots activism of any form as potential threats to the political system. If the fish-kill incident were an indicator, Vietnamese society at large remains uninterested in the granularity of the current political structure, yet expects increasingly higher standards and accountability in governance and environmental issues — areas the state has long neglected.

The debate over the massive fish-kill took on an added layer, when street protesters and ordinary citizens alike began to openly question the wisdom of attracting foreign investment in manufacturing at all costs and doling out incentives for large investors at the expense of the environment and local economies. This shift is notable because discussions over the merits of government policy towards FDI has long been confined to a small group of intellectuals, many of whom served as former government advisors during the *doi moi* period. It remains to be seen whether the grass-roots chain reaction caused by the Formosa incident will affect the thinking of the leadership in future policymaking.

Shifting Grounds in Foreign Policy

There has been a growing awareness among the top leadership on the role that foreign policy, including defence diplomacy, plays in Vietnam's quest for international integration. Vietnam this year published for the first time a Diplomatic Blue Book that fulfils two objectives: highlighting the diplomatic sector's contributions to national development in 2015, and reaffirming international integration as a "strategic guideline" for its foreign policy over the next five years.[26] The Political Report approved at this year's Party Congress went as far as calling international integration the "pursuit of the whole people and the political system".[27]

While the past five years had focused on broadening, or in some cases redefining, Vietnam's key foreign partnerships, Hanoi is expected to work on deepening Vietnam's engagement with key foreign partners over the next five years. Such partners include ASEAN member countries, the United States, Japan, India, and Australia, in addition to traditional ones such as China, Russia, Cambodia, and Laos. Against the backdrop of a fluid regional environment, China's increasing aggressiveness, and the resurgence of great power politics in Southeast Asia, Hanoi continues to focus on pursuing more strategic options in the conduct of its foreign policy, shifting from a historically cautious stance towards security cooperation with larger powers in general. A key question confronting Vietnamese policymakers, however, will be how far to tap into the newfound strategic partnerships with countries such as the United States, India, and Japan without provoking China.

Hanoi's use of the strategically located deep-sea port at Cam Ranh Bay in central Vietnam overlooking the South China Sea — after it opened the upgraded facility to foreign naval ships early in 2016 — exemplifies this calculus. In the lead-up to a visit by two U.S. Navy warships at the international Cam Ranh port in October — given that Washington has called access for its naval ships to Cam Ranh Bay "a key component" in bilateral U.S.–Vietnam relations[28] — Hanoi had invited visiting warships from Singapore, France, Australia, and Japan to take turns docking at the port. The timing was an effort to alleviate concerns by Beijing over the pace of U.S.–Vietnam defence cooperation in recent years. A few weeks after the brief visit by the U.S. warships, which marked the first time the U.S. Navy had returned to Cam Ranh Bay since the end of the Vietnam War, Hanoi again opened its facility in October 2016 to welcome three Chinese naval ships for four days of meetings and exchanges between the two countries' navies.

Despite its best efforts, however, Vietnam's attempts to strike a balance in its South China Sea approach — a major focus of its foreign policy — have also encountered growing uncertainties. Washington's increasingly active posture in the

South China Sea and a more robust Chinese presence in the sea — especially since Beijing neared completion of its reclamation and construction in the Spratly Islands — have had the effect of reducing manoeuvrability for smaller regional countries. It remains unclear whether or how the incoming U.S. administration, which will walk into many of the policies put in place by the Obama administration, will modify the U.S. stance on the South China Sea dispute. Meanwhile, closer to home, Philippine president Rodrigo Duterte's willingness to cut bilateral deals or reach an understanding with Beijing over Scarborough Shoal, despite the Philippines' legal victory granted by a UN arbitral tribunal against China, undercuts Vietnam's long-held position that disputes in the South China Sea, with the exception of those over the Paracel Islands, should be addressed through multilateral mechanisms. These dynamics will force Vietnam to reflect on the long-term viability of its security ties with the United States, and what its regional role in helping manage the South China Sea situation, including through ASEAN, should be.

The current leadership has continued to invest in rebuilding trust in bilateral China–Vietnam relations, which reached a historic low in the wake of the 2014 oil rig crisis, when China deployed the HY981 oil drilling rig to waters claimed by Vietnam in the South China Sea. The year 2016 witnessed a succession of high-level visits between Hanoi and Beijing. Prime Minister Phuc and party executive secretary Huynh have both visited China since taking office, while a number of Politburo members of the Chinese Communist Party visited Hanoi throughout the year. In a sign of improving ties, Phuc signed wide-ranging agreements on economic cooperation that would commit China to helping Vietnam build industrial capacity and financing infrastructure projects during his visit in September.[29] During Huynh's meeting with Chinese President Xi Jinping in October, he reportedly called the advancement of China–Vietnam relations a "consistent strategy and policy choice".[30] Meanwhile, the two countries' coastguards also stepped up the pace of their joint fishery patrols in the Gulf of Tonkin this year.[31]

The year 2016 marked the culmination of the progress made in U.S.–Vietnam relations under the Obama administration's policy of rebalancing to the Asia-Pacific region. During Obama's visit to Vietnam in May 2016, Washington announced its decision to fully lift the decades-long U.S. ban on the sale of lethal weapons to Hanoi, after it partially eased the ban in late 2014.[32] For the two former foes, the removal of the ban signalled the full normalization of ties between them. While Hanoi continues to attach importance to securing technical assistance from Washington on issues of maritime security, the uncertain future of the TPP for the time being effectively makes it more difficult for Vietnam's leaders to consider moving much closer to the United States militarily. Absent a clearer sense on what

the future holds and the extent of U.S. commitment to its economic and security leadership in Asia by the next administration, the U.S.–Vietnam partnership may risk carrying yet more symbolism than substance in the coming years.

Notes

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