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Vietnam: Ready to rumble

By Michael Peel

Anti-China riots have exposed tensions in an authoritarian state that has become a workshop of the world

The [anti-Chinese mob](#) punched a hole in Le Ba Thong's factory gate before toppling it and swarming into his compound in their hundreds. A motorcycle squadron was flanked by foot soldiers waving Vietnamese flags and wielding metal bars. Some brandished golf clubs and other spoils looted from companies they had over-run earlier. One man drummed on an empty plastic water cooler as workers stood powerless to stop the mayhem.

"That's one of my managers," exclaimed Mr Thong, pointing to CCTV footage of a man in a white shirt addressing the crowd. "He told me that he was shouting: 'We are Vietnamese! We are Vietnamese!'"

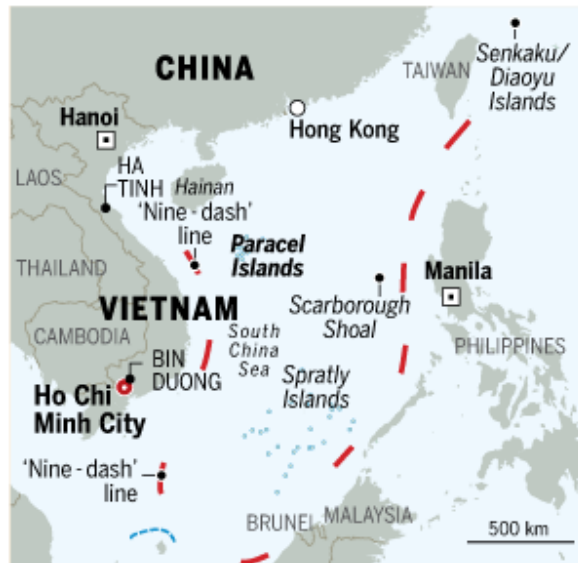
The May 13 assault on TTT, Mr Thong's wholly Vietnamese-owned interior decoration business, underscored the extent of the chaos when rioters pillaged and torched [their way through industrial parks](#) around the country. Hundreds of companies – most of them foreign – were caught in a storm of nationalism and frustration, whipped up by a dispute between Hanoi and Beijing over a group of islands 150 miles from Vietnam.

The maritime battle – part of a string of territorial conflicts between China and other Asian countries in the South and East China Seas – flared again on Tuesday, when Beijing and Hanoi traded accusations over the [sinking of a Vietnamese fishing boat](#). Hanoi has made a formal diplomatic protest, demanding that China end "inhumane acts" and accusing it of violating international law.

This latest clash over the Paracel Islands risks exacerbating problems that threaten Vietnam's status as a [workshop of the world](#) and an essential link in many multinational global supply chains. Vietnam's neighbours have also experienced labour unrest. But it stands to lose more than most from a broader confrontation with China.

The friction is contributing to growing uncertainty among foreign investors. It comes as the 10-member Association of Southeast Asian Nations prepares for closer economic integration in a region of 500m people generating gross domestic product of more than \$2tn.

While few analysts view the riots in Vietnam as the prelude to imminent large-scale domestic political change, the violence has laid bare tensions linked to a spluttering economy, political authoritarianism and uncertainty about the country's direction. The central dilemma for the communist leadership in Hanoi is that a battle with China has proved a means to rally support – but also a rare and risky potential opening for opposition.



“This is a country in which real engagement in politics is pretty much unknown,” says Jonathan London, a professor in the department of Asian and international studies at City University of Hong Kong. “There is a lot of pressure from within the state apparatus itself and from Vietnam’s fledging civil society to use this crisis as an opportunity to strike a new path for the country.”

The riots came as a shock to international business people who regarded Vietnam as a stable and predictable base, especially in the wake of unrest in neighbouring Cambodia. The shattered glass, smashed office equipment and assorted debris on the sprawling estates of Vietnam’s southern province of Binh Duong illustrate how initially peaceful anti-China protests that had been allowed by the government in big cities the previous weekend degenerated into violence.

The trouble, which ripped through estates in other parts of the county, notably in the central province of Ha Tinh, went on for hours with security forces unable or unwilling to cope. At least two people were killed, several factories were burnt to the ground and the operations of suppliers to companies such as Apple, Nike and Walmart were halted by rampaging mobs or closed for security reasons. Taiwanese businesses were particularly badly hit.

The government prevented further outbreaks by deploying large numbers of police on the streets ahead of demonstrations planned in Hanoi and Ho Chi Minh City the following weekend. But with thousands of production days lost, and threats of litigation seeking compensation for damage, the reputation of Vietnamese officialdom has taken a hit.

“They thought they could control everything,” says Chen Borshow, director-general of the Taipei economic and cultural office in Ho Chi Minh City, surveying the charred skeleton of a Binh Duong Taiwanese bicycle parts factory that had been razed to the ground. “But unfortunately the local authority washed its hands of this because it was out of their capacity to handle.”



The industrial parks are a microcosm of broader pressures facing the Vietnamese government and exposed by the China crisis. Vietnam has become an increasingly attractive manufacturing location, not least as wages in China rise and rivals such as Thailand suffer political instability.

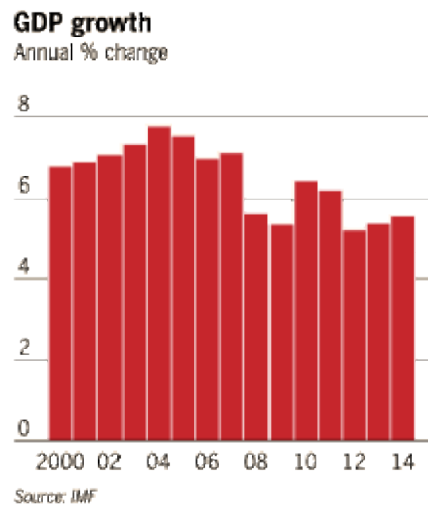
The bespoke estates, which boast infrastructure superior to that in many other parts of the country, have attracted billions of dollars in investments from companies including Samsung of South Korea. They have been pivotal in helping drive national exports to growth of more than 15 per cent last year, with manufacturing taking a 17 per cent share of GDP.

But these parks, which employ about 2m workers and are often far from urban centres, have also generated anger, alienation and destabilising demographic quirks. Many workers have migrated from rural areas and live clustered in dark rooms off narrow alleys that afford little privacy. Other problems include a flourishing of local mafias, anger over some foreign factories' perceived discrimination against local employees and a feeling among manual workers that they are giving their lives to companies for as little as \$200 a month.

"I have worked with the Taiwanese and Chinese companies for a long time," reflects Khoai, a supervisor at a footwear factory near Ho Chi Minh City that supplies Adidas. "In fact, I have lived with them more than with my own family."

One garment factory manager whose premises were ransacked and looted said his workers typically went on wildcat strikes twice a year for four or five days at a time, often when government officials' salaries were being raised. His company had increased wages by about 40 per cent over the past 18 months to contain what it felt was a volatile situation in which workers were "very easily provoked" to riot. "We are in the hot fat," he says. "We can deny and run away. But we cannot escape."

As the industrial zones simmer, Vietnam's broader economy is also more troubled than last year's 5.4 per cent growth rate suggests. Worries over the indebtedness of big state companies and the banking sector have mounted, while consumer businesses say spending has been depressed for two years.



Yen, a fashion retailer in Ho Chi Minh City, says she is holding demand steady only by squeezing profit margins. “You have to discount more to make the same sales,” she says. “The economy has difficulties.”

Some educated professionals are restless and are considering alternatives, including buying property overseas or even leaving. One entrepreneur says he is thinking of moving to Australia with his young family because of worries ranging from pollution to the quality of the education system. “I look in 10 years’ time and I feel it’s not sustainable,” he says. “Maybe other people think differently”.

Few of these worries can be expressed publicly in a one-party state that has been cracking down hard on dissent. Human Rights Watch says at least eight bloggers and activists have been arrested or convicted this year for “abusing democratic freedoms”, one of them the son of a former Communist party Central Committee member.

Some pro-democracy campaigners say there is little chance of improvement unless the authorities relax their grip and launch broad reforms of the country’s institutions.

“I want top-down change,” says one writer. “Before providing political freedom and free elections, we should have a real market economy, a rule of law system and a civil society.”

The maritime dispute is viewed by some as a convenient distraction for the government amid a cocktail of dissatisfaction. Nationalism runs deep in a country that has fought wars in the past half-century against the US and China – especially among those from the former North Vietnam which conquered the US-backed south in 1975. Even those who question the government’s competence or legitimacy are sensitive to criticisms of the country and favour a hard line against Beijing. As one executive says of the Paracels conflict: “It’s not complicated at all – we all hate China!”

But as the riots show, such feelings can get out of hand as a rare outlet for self-expression. One Vietnamese student says she has been alarmed at the virulence of the anti-China sentiment on social media, including the targeting of a Facebook page that had a section on the best Chinese restaurants in Ho Chi Minh City. “Young people want to support the nation,” she says. “But actually they don’t know how to support the nation in the right way.”

Budget deficit

General government deficit as a % of GDP



Source: IMF

Analysts also point to internal tensions over China in a Hanoi regime that, as one puts it, prides itself on consensus decision-making and is “more pluralist than people think”. Some Vietnamese officials have been scrambling for support over the Paracels from western powers, which have traditionally kept their distance over the country’s poor human rights record.

Others feel an affinity with Beijing, or at least think they have no choice but to accommodate a neighbour on which they depend for imports including electricity.

“They are not so much pro-Chinese, but they say, ‘when we live next to a giant that can do things to us that we can’t do to them, why antagonise them?’” says Carl Thayer, an authority on Vietnam in Australia. “If China escalates the provocations, how does the Vietnam government come back from that?”

In one sense, Vietnam is a bellwether for the region, as export-led economic growth begins to find its limits, political systems come under strain and China flexes its muscles. One of many contradictions is that Hanoi’s ambitions are not so different from those of Beijing: it wants high growth while maintaining political hegemony but lacks China’s cushions of size and self-sufficiency.

While the Hanoi authorities regained control soon after the wild few days of mid-May, it is on notice to avoid a repeat. TTT’s Mr Thong is thankful he was spared greater damage and praises the government for using “smarter tools” to prevent further problems, although he still worries about the effect on future sentiment towards his country. “May 13 was just one day,” he says. “But it could have a big impact.”

Disputed islands: China steps up claims in troubled waters

China and Vietnam have been locked in a tense stand-off near the Paracel Islands in the South China Sea since Cnooc, a Chinese energy company, started drilling for oil and gas in the area in early May, *writes Demetri Sevastopulo*.

The Chinese say there is “plenty of historical evidence” over 2,000 years to support their claim to the islands, which they call the Xisha. Vietnam counters that Beijing is contravening the 1982

UN Convention on the Law of the Sea, which it also ratified. China has controlled the area since 1974 after a brief naval conflict.

China has long been engaged in disputes with regional countries, among them the Philippines and Vietnam, over the South China Sea. Tensions have risen in recent years as China has asserted increasingly aggressive claims to resource-rich waters that are also global trade lanes.

The conflict has pitched relations between Beijing and Hanoi to their lowest level in years, sparking concerns about conflict. More than 100 Chinese and Vietnamese ships are in the vicinity of the rig, which will keep drilling until mid-August.

Fears of possible clashes were heightened this week after Hanoi accused the crew of a Chinese fishing vessel of ramming and sinking a Vietnamese trawler. China blamed the sinking on the Vietnamese.

Many experts have questioned why China has chosen this moment to drill in disputed waters, particularly since relations between the countries had been on a positive track since Premier Li Keqiang visited Vietnam in October as part of a Chinese charm offensive across southeast Asia.

Some suggest Beijing is using Vietnam to test the US commitment to Asia, notably in the wake of President Barack Obama's visit to the region to reinforce the "pivot". Others say China is simply staking its territorial claims more forcefully with its rapidly expanding navy and coastguard.

Vietnam, which cannot match China's sea power, has started talking about following the Philippines in pursuing an international arbitration case against Beijing – a dramatic move for a country with an economy that relies increasingly heavily on China.