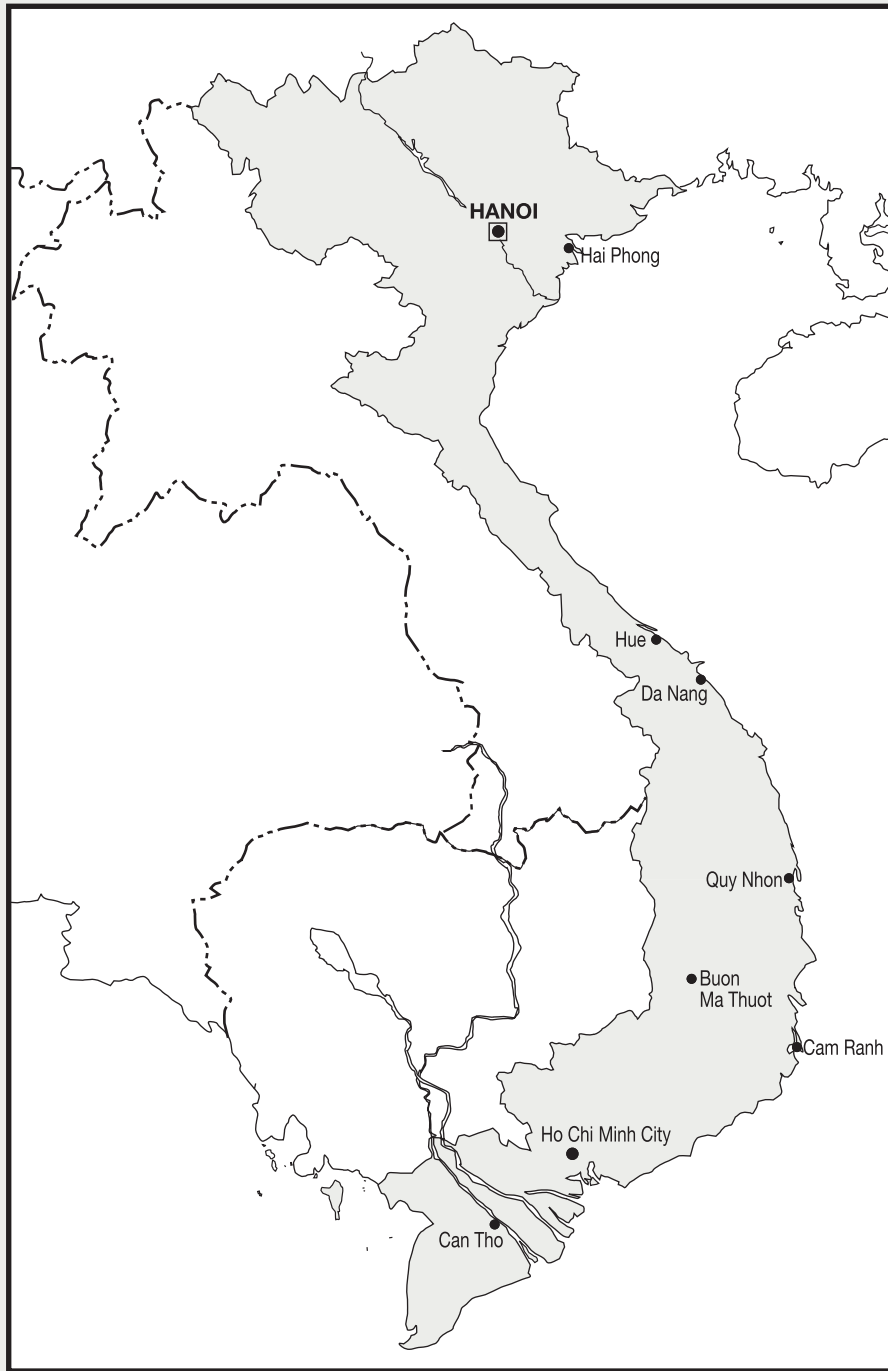


# Vietnam





# VIETNAM IN 2012

## A Rent-Seeking State on the Verge of a Crisis

Alexander L. Vuving

After the passage of twenty-six years from the launch in 1986 of *doi moi*, Vietnam's large-scale reform programme, the single most important feature of the country's domestic politics that stands out today is the rise and crisis of a rent-seeking state. The marriage of the communist regime with the capitalist economy in Vietnam's reform era has given rise to a new type of state that is similar to the classical communist state in form but different in substance. The ethos of the classical communist state, which governed Vietnam prior to the reform era, was to transform society into one that is imbued with socialist values. By contrast, the ethos of the rent-seeking state, which administers Vietnam today, is to create barriers and extract rents from society. Both types of state rule society in an authoritarian way but each is guided by a different spirit.

As Vietnam's communist regime tries to survive by adopting some elements of capitalism while retaining most of its authoritarianism, rent-seekers have gradually become the dominant force in the Vietnamese body politic, thereby quietly changing the nature of the state they occupy. Rent-seeking finds fertile ground in Vietnam, where the state owns all the land, controls all the press, and is accountable to none but itself. A natural tendency in every authoritarian regime, rent-seeking is kept at bay when the state is imbued with strong patriotic sentiments or when the state is dependent on a liberal world outside for survival. These conditions existed in Japan, South Korea, Taiwan, and Singapore, as do they in China, helping these countries to achieve high growth over several decades. Contrary to the conventional wisdom, similar conditions

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have largely been absent in post-Cold War Vietnam. Vietnam entered the post-Cold War era with the belief that the key to the survival of the communist regime is friendship with communist China. Since 1989, unlike the Chinese Communist Party, which made patriotic education a key element of its survival kit, the Vietnam Communist Party (VCP) has suppressed patriotic sentiments because they tend to take an anti-China direction. Without the check provided by patriotism and the pressure to comply with a liberal order, rent-seeking has conquered the commanding heights of Vietnamese politics and economy.

The hegemony of the rent-seekers implies the crisis of their state, however. As rent-seekers live on what society pays to overcome the barriers they create, their dominance leads to a large reduction of productivity and growth and a strong resentment of perceived unfairness. Vietnam's rent-seekers reached the apex of their hegemony in 2007, when Prime Minister Nguyen Tan Dung, a leading rent-seeker, obtained primacy in the Vietnamese collective leadership. He was given a largely free hand to appoint the members of the government and the bosses of the state-owned conglomerates. With these powers, the prime minister became even more powerful than the VCP general secretary, who was by statute the supreme leader in the communist state. The rent-seekers' hegemony soon threw the country off balance. In early 2008, months ahead of the global financial turmoil that started the same year, Vietnam fell into a period of economic volatility and slowdown that would last for years. The year 2012 marked a dramatic milestone on Vietnam's road to a major crisis. This essay chronicles the year's most important events and spotlights the key dynamics of Vietnam's economy, politics, and foreign relations. As will be seen, these dynamics strongly suggest the advent of a severe political, economic, and national security crisis that can rival the one that ravaged the country in the 1980s.

## **A Clogged Economy Whose Rescue is Thwarted by Rent-Seeking**

In 2012 Vietnam's economy continued to improve on the macroeconomic front, apparently as a result of the stabilization measures announced in 2011. Foreign trade posted the first export surplus since 1993. With exports increasing by 18 per cent, Vietnam recorded the highest rate of export growth in East Asia. The trade surplus and a robust flow of remittances, which partly reflected high interest rates, have helped Vietnam to report a record surplus of 2.7 per cent in current account balance. This in turn has contributed to the improvement in the balance of payments situation and augmented the stock of foreign exchange

reserves. By year's end, Vietnam's foreign exchange reserves were estimated to reach US\$23 billion, an increase of US\$14 billion from the previous year and a return to the highest level recorded historically in 2008. Meanwhile, year-on-year inflation fell to 9.21 per cent from 18.58 per cent in the previous year.<sup>1</sup>

These gains, however, face serious downside risks. Vietnam's foreign exchange reserves were sufficient for only 2.3 months of imports, an indication of the economy's high vulnerability. They were considerably low compared with China's 22.4 months, Thailand's 8.7 months, Indonesia's 7.2 months, and South Korea's 7.1 months. The replenishment of the foreign exchange reserves was financed by the central bank pumping domestic currency worth about US\$10 billion. The fact that this large amount had little impact on inflation was seen by experts as an indication of an ominous lack of domestic demand, which was one of the major factors responsible for meagre growth.<sup>2</sup> In 2012 Vietnam's economy grew by a mere 5 per cent, slower than even the worst case scenario (5.2–5.5 per cent) envisioned by the National Financial Supervisory Commission at the year's start. It was the lowest growth rate since 1999.<sup>3</sup> It reflected the fact that an unusually large number of enterprises were closed, liquidated, or temporarily suspended operations in 2012. In addition, many of the remaining enterprises had to reduce capacity by 30–50 per cent. The number of closures and liquidations in the past two years — 55,000 in 2012 and 49,000 in 2011—made up half of the total number of closures and liquidations in the past twenty years. It was estimated that one-third of the enterprises had left the market while most of the remaining two-thirds operated at a loss.<sup>4</sup>

The roots of the problems can be traced back in large part to the rent-seeking state. Economists identified four major structural impediments that clogged the economy — high interest rates, a gridlock in the real estate market, a large amount of bad debts, and high taxes and fees. A mundane example that illustrates how the rent-seeking state contributed to the problem is that at the same time as the government announced it would cut taxes, its various agencies increased fees.<sup>5</sup> Another, far from mundane, example is the case of the transportation firm Mai Linh. The country's largest private taxi company and a success story in the last decade, Mai Linh defaulted in 2012 on debts worth 500 billion dong (US\$24 million). The firm had borrowed at interest rates higher than the official rate by 5–10 percentage points. One must question why this apparently reputable company had to accept such high rates, when the government successively lowered the interest rates and issued a “rescue package” worth 29 trillion dong (US\$1.4 billion) during the year. As the journalist Dao Tuan noted, “this

question can only be answered by [the central bank's] Governor Nguyen Van Binh."<sup>6</sup> The lion's share of the bad debts resulted from corruption in the state-owned conglomerates, which received preferential treatment because of ideological bias and personal ties. In April, for instance, the State Inspectorate reported that wrongdoing at Petro Vietnam and Song Da Corp. had cost the state US\$874 million and US\$512 million, respectively. The biggest corruption scandal of the year involved Vinalines, the largest state-owned shipping and port operator in the country. Reports by the State Inspectorate revealed that mismanagement had caused a total debt of more than 43 trillion dong (US\$2 billion) at Vinalines, which defaulted on five loans worth more than 23 trillion dong (US\$1.1 billion). The state-run giant had spent 23 trillion dong to purchase seventy-three foreign vessels, most of which were second-hand, incurring a huge expense for repair and maintenance.<sup>7</sup>

It has become a widely held consensus that the Vietnamese economy needs structural reforms in numerous areas. Under pressure from the public, the government prioritized three key areas for restructuring — banks, state-owned enterprises, and public investment. However, despite government pronouncements, restructuring was either delayed or heavily influenced by the parochial interests of shadowy rent-seeking networks. Behind every major measure by the government in the name of stabilization and restructuring there lurked the spectre of rent-seeking. Besides the corruption scandals involving the state-owned conglomerates, a ban on gold trade and the restructuring of the private sector, two of the most important changes that occurred in 2012, best illustrate this phenomenon.

The government set up a state monopoly over gold bullion traded in the market. A government decree (No. 24, in effect from 25 May 2012) prohibited seven activities, including using gold bars as a medium of payment, processing jewellery gold or trading bullion without a licence from Vietnam's central bank, and conducting other gold-related business without the approval of the relevant authority. The ban was officially explained in terms of stabilizing the gold market and making the precious metal more productive. It was also thought to be aimed at reducing inflation and the trade deficit. Gold has a special place in Vietnamese investment portfolios. It often plays a key role in hedging property transactions and provides a safe haven for savings. Vietnam is one of the world's largest gold consumers. A key element of the government's gold policy is the designation of the Saigon Jewelry Co. (SJC) as the only body allowed to verify the quality and authenticity of gold. This monopoly allowed SJC to collect fees on transactions involving gold while denying this to gold previously produced

by other companies. The policy caused big losses to the population and created a feeling of insecurity. Contrary to the government's stated intent, the ban actually destabilized the gold market. Gold prices were spiralling and turmoil reigned in the market.<sup>8</sup> Needless to say, the new monopoly is a big beneficiary of the new policy.

The restructuring in the private sector during 2012 resulted in acquisitions, mergers, and leadership changes at several of the country's largest private banks and industrial firms. Remarkably, many of these deals occurred under dubious conditions. The takeover of Bianfishco, one of the country's largest seafood processors, by SHBank is one prominent example. But perhaps the most important of all such deals during 2012 is the takeover of Sacombank, the country's largest private bank by charter capital and the sixth largest commercial bank by assets with a market value of US\$7 billion. Early in the year, a group of unknown investors led by Eximbank, Vietnam's seventh largest bank, claimed to hold more than 51 per cent of Sacombank's stock and demanded the control of the board. Some of these investors had acquired their Sacombank shares illegally, but the stock market watchdog, the State Securities Commission, imposed fines for their transactions only after the outsiders had successfully taken control of the bank in late May. Following this management shake-up, Sacombank's new board was dominated by four new members from Southern Bank, a small private lender that had run out of cash and cash equivalents to meet the demands of depositors and borrowers, and two from Eximbank. By early November, Sacombank chairman and founder Dang Van Thanh was forced to unload most of his holdings and subsequently resigned from the board. The new Sacombank chairman was Pham Huu Phu, who represented Eximbank's stake.<sup>9</sup> The takeover of Sacombank was not just hostile; it bordered on the criminal. In a letter publicized by the newspaper *Bao ve Phap luat* of the Supreme People's Procuracy, Thanh complained that the Sacombank board had dismissed him as the board's chairman without his consent when he was held by the police for interrogation. In addition to questioning the legality of the police interrogation, he also raised concerns over the central bank's inspection of his bank and the authorities' accusations that he and his family members had committed wrongdoing causing a loss of thousands of billions of dong.<sup>10</sup> These questions, and other puzzles like how the acquirers of Sacombank were able to obtain such a large amount of money for the takeover, remained either unaddressed or inadequately answered by the authorities.

The veil of secrecy was partly lifted by the blog Quan Lam Bao (Officials Doing Journalism), which was probably informed by knowledgeable officials working in the government. Started on the day of the first round of takeover at Sacombank, Quan Lam Bao reported that a loan package authorized by Central Bank Governor Nguyen Van Binh had rescued Southern Bank from liquidity loss and enabled its owner Tram Be to take over Sacombank. A large amount of the monies the acquirers used to buy Sacombank's shares was raised through multiple borrowings in the interbank market. The three Eximbank officials who held major stakes at Sacombank were only front men for the actual acquirers, who were identified by the blog as Tram Be, Nguyen Duc Kien, and Nguyen Thanh Phuong. Kien was a well-known multimillionaire and former senior executive of Asia Commercial Bank (ACB), the largest private bank in the country, Be an illiterate businessman, and Phuong none other than the daughter of Prime Minister Nguyen Tan Dung. Quan Lam Bao further argued that in the past year there emerged two dominant "interest groups" (*nhóm lợi ích*) that attempted to control the entire financial-economic system of the country. The group that was seeking control of the banking sector included Kien, Be, Phuong, and Governor Binh. The other group included Phuong, Binh, and two other businessmen with close ties to them — Techcombank Chairman Ho Hung Anh and Masan Group Chairman Nguyen Dang Quang.<sup>11</sup>

### **The Near-Split of an Elite That Worships Stability**

The key feature of Vietnam's elite politics in 2012 was the clash between an anti-corruption coalition led by VCP General Secretary Nguyen Phu Trong and a rent-seeking group headed by Prime Minister Nguyen Tan Dung. Many observers argued that the infighting within Vietnam's ruling elite was a struggle for domination that would have little impact on the country's overall policy. Others asserted that this was no more than a personal duel between the prime minister and his archrival, President Truong Tan Sang. These views ignore, however, the larger political, economic, and historical context in which the power struggle unfolded and without which the events could hardly be understood. The single most important feature of that context is the rise and crisis of the rent-seeking state in Vietnam. After more than two decades of a symbiosis of communism and capitalism, it is widely recognized that the state is in a legitimacy crisis and that the central cause of this crisis is corruption. Although rent-seekers have become the dominant current in Vietnamese politics, they have yet to unite in an effective coalition. Moreover, other currents such



as the conservatives, who are anti-Western in domestic and foreign policy; the reformers, who promote economic and political modernization; and the moderates, who stand in the middle of the road between the conservatives and the reformers, remain major forces in the ruling elite.

Against this background, Nguyen Phu Trong, a middle-of-the-roader untainted by corruption, was elected VCP chief at the party's eleventh congress in early 2011. The choice of Trong as the party boss helped to both polish the party's image and maintain a delicate balance among the contending factions and policy currents. In the run-up to the congress, Trong was favoured by the major rent-seeking factions over Ho Duc Viet, then head of the VCP Central Organization Department and a strong candidate for the party chief post, because unlike Viet, who went head-on against what he perceived as corruption, Trong had always been a man of compromise. Viet's vehement opposition to the plans to get the sons of then VCP chief Nong Duc Manh, a corrupt anti-Westerner, and Premier Dung into the new party central committee eventually cost him the job.<sup>12</sup>

Like other VCP chiefs, Trong owes his position not just to a special arrangement among the party factions, but more importantly for the long run, to some larger tendencies in the ruling elite. The hegemony of the rent-seekers has helped to create a rainbow coalition consisting of moderates, reformers, and conservatives. Different groups with different final goals are united in this broad-range coalition for the common aim of fighting corruption. The dominant bloc in the coalition are party survivalists — moderates like Trong and conservatives whose final aim is to maintain the VCP's power — but reformers, whose ultimate goal is to modernize the country and make it strong and rich (*dân giàu nước mạnh*), also form a substantial part of this coalition.<sup>13</sup> When party chief, under pressure from party elders and the impact of the Arab Spring, Trong was determined to clean the party of corruption. Echoing a growing chorus, he repeatedly warned that “corruption is threatening the survival of the Party.” His main objective was to prevent popular revolt against the party by correcting officials' corrupt behaviour. His goal was not to introduce reform as such but to maintain stability.

At the fourth plenum of the VCP Eleventh Central Committee in December 2011, Trong launched a major campaign to “rectify the Party” (*chỉnh đốn Đảng*). Faithful to a long-held VCP tradition, he chose the practice of “criticism and self-criticism” as the campaign's main approach. Learning from the failure of the previous anti-corruption measures, which were often criticized as “bathing without washing the head” (a phrase that former VCP chief Le Kha Phieu

helped to popularize), Trong emphasized that the new campaign should implement criticism and self-criticism from the top down.<sup>14</sup> Unlike most other rectification measures by the party, this one was no mere rhetoric. Indeed, if successful, an anti-corruption campaign focused on the top leadership would only strengthen the position of Trong and his core allies in the Politburo because they were relatively clean from corruption.

As the campaign was concentrated on the top leadership, its main target was Prime Minister Dung, who was responsible for the big corruption scandals — the Vinashin and Vinalines fiascos, to name just the most well-known ones — that had both hugely tarnished the party's reputation and greatly reduced the state's treasure. Dung was not an easy target, however. Sitting on the Politburo since 1996 and having been a deputy minister of public security, the head of the VCP Central Economics Department, the governor of the central bank, and the permanent deputy prime minister prior to becoming the prime minister in 2006, Dung had built a vast network of allies with access to key resources. Extremely pragmatic, daring, and determined, he skilfully took advantage of the reformers' hope for a leader fearless of change, the conservatives' preference for a leader tough on any opposition, and the party-state's unlimited power, to consolidate his position. Besides his networks and skills, Dung had yet another powerful asset — the party leadership's extreme fear of instability. The battle between Trong's anti-corruption coalition and Dung's rent-seeking group was one in which the former's pet idea — stability — was taken hostage by the latter.<sup>15</sup>

The tide of the battle moved during 2012 like a see-saw, which showed no clear winner. Law enforcement was one of the central theatres of this battle. On 17 May, the former boss of the scandal-ridden Vinalines Duong Chi Dung successfully fled before the police came to arrest him. Dung had been promoted by Transportation Minister Dinh La Thang to head of the Vietnam Maritime Administration in February and had close ties to Vice-Minister for Public Security Pham Quy Ngo and Prime Minister Nguyen Tan Dung. He was only captured in early September after hiding in his native Hai Phong. The successful escape of Duong Chi Dung suggested complicity in sections of the police force.<sup>16</sup> The arrest on 20 August of Nguyen Duc Kien, the multi-millionaire thought to be a mastermind behind the recent taking over of the banking sector, was more successful. According to the blog Cau Nhat Tan (Nhat Tan Bridge), Premier Dung was not informed about the order to arrest this businessman, who had close ties to his family, until a few hours prior to the event. The plan was directly supervised by Minister for Public Security Tran

Dai Quang and sanctioned by party chief Trong. None of the vice-ministers for public security, including Dung's allies Pham Quy Ngo and To Lam, was informed about the plan.<sup>17</sup> In the following months, both camps launched attacks and counter-attacks, which resulted, among others, in the detention and interrogation, as well as the blocking of attempted arrests, of several senior executives of large private banks and enterprises.

The clash between General Secretary Trong's anti-corruption coalition and Prime Minister Dung's rent-seeking group was embedded in a larger battle that spread over various fronts and involved a myriad of participants. The two camps appeared to be more or less self-organized loose galaxies without a central hub of command. A key front in this larger battle was the social media. Perhaps the biggest event on this front in 2012 was the appearance of the blog Quan Lam Bao. Focusing on murky ties between big businesses, members of the prime minister's family and senior government officials, and accusing them of greed, cronyism, and mismanagement, the blog quickly became one of the country's most-visited websites. The daily number of the site's visitors from Vietnam surged from around 6,000 to nearly 31,000 on the day after Nguyen Duc Kien's arrest, which Quan Lam Bao was the first to report, and stayed above 30,000 over the following months despite a ban (from 12 September) by the prime minister.

On the central front of high politics, the anti-corruption coalition made limited advances while the rent-seeking group struck back vigorously. The Trong camp scored its first major success when the fifth plenum of the VCP Central Committee in mid-May decided to transfer the Central Anti-Corruption Steering Committee from under the prime minister to under the party chief and reinstall the Central Department for Internal Political Affairs to support this committee.<sup>18</sup> However, at the sixth Central Committee plenum (1–15 October), Dung successfully prevented decisive action by his opponents. Central to the meeting's agenda was what in effect amounted to a no-confidence vote against him. In a manoeuvre to cut short the Dung camp's preparations, the meeting was convened two weeks earlier than planned. According to the blog Cau Nhat Tan, several Central Committee members were given less than 24 hours' advance notice about the change.<sup>19</sup> But the Trong camp made a fatal mistake when scheduling the discussion of Dung's censure at the middle of the two-week long meeting, giving the Dung camp plenty of time to influence the Central Committee members. At this meeting the Central Committee admitted big mistakes in preventing and remedying corruption. It also decided to revive the Central Economics Department to check and watch over the economic management of

the government. However, when it came to Dung's case, the Central Committee rejected the Politburo's proposal to discipline the Politburo as a collective and Dung as an individual, who was referred to anonymously as "a comrade member of the Politburo" in the plenum's communiqué.<sup>20</sup>

Towards the year's end, the tide of the contest started to reverse. A new National Assembly resolution passed in November required a confidence vote annually on every official elected by the National Assembly. Starting from February 2013, this new mechanism would subject the prime minister and all members of the cabinet, the state president, and the National Assembly chair, among other officials, to annual review. The National Assembly also amended the Anti-Corruption Law and removed the stipulation that the prime minister be the chairman of the Central Anti-Corruption Steering Committee, paving the way for the party chief to take over the committee.<sup>21</sup> In December, the position of the anti-corruption camp was considerably strengthened with the promotion of Public Security Minister Quang to four-star general and the appointment of Da Nang party boss Nguyen Ba Thanh and Finance Minister Vuong Dinh Hue as heads of the new Central Departments of Internal Political Affairs and Economics, respectively. Thanh is, as a Western investor observed, "the nearest Vietnam has to a Lee Kuan Yew."<sup>22</sup> An enlightened strongman and an outspoken critic of Premier Dung and his acolytes, he is regarded as the best Vietnam has to counter the prime minister.<sup>23</sup>

The outcome of the sixth plenum reflects a delicate balance of power between the anti-corruption coalition and the rent-seekers. In the Politburo, the former can easily secure the votes of at least six of the fourteen members, including party chief Trong, State President Sang, Public Security Minister Quang, Chairman of the party's Central Inspection Commission Ngo Van Du, Hanoi party boss Pham Quang Nghi, and Vice-Prime Minister Nguyen Xuan Phuc. The five rent-seekers in the Politburo — Prime Minister Dung, National Assembly chair Nguyen Sinh Hung, Central Organization Committee chair To Huy Rua, Central Propaganda Committee chair Dinh The Huynh, and Ho Chi Minh City party boss Le Thanh Hai — do not form a unified coalition. A reverse configuration exists in the Central Committee. According to the blog *Bo Cau Den* (Black Dove), 129 of the 175 Central Committee members (nearly 74 per cent) voted against the Politburo's proposal to discipline Premier Dung.<sup>24</sup> This bizarre situation poses an important puzzle about current Vietnamese politics. Why does the Politburo, despite being elected by and from among the Central Committee members, not reflect the general make-up of its constituents? While forming the majority in the Central Committee, rent-seekers are in the

minority in the Politburo. This can be explained by the fact that although rent-seekers are birds of the same feather, they work to the benefit of their own clique and as a species they do not always flock together. Besides, rent-seekers are by nature more inclined than conservatives, reformers, and moderates to commit corruption. True, corrupt officials are more likely to be promoted in the rent-seeking state. But as corruption is still officially public enemy number one, rent-seekers' higher vulnerability to corruption charges also reduces their chance to get to the top tiers of public offices.

### Yawning Gap Between Rulers and Ruled

The year 2012 saw the gap between the state and society in Vietnam continue to widen. Capturing a widespread feeling in the country, President Sang acknowledged in an October 2012 meeting with voters that “the population is tremendously indignant” (*lòng dân đang bất bình ghê gớm*).<sup>25</sup> The most burning issues were land seizure, official corruption, and the China threat in the South China Sea.<sup>26</sup> An indication of the indignation was a growing tide of protest and resistance in various forms. The brutality with which the authorities cracked down on opposition also seemed to increase.

Most of the clashes between the state and the population involved illegal government land grabs. According to a National Assembly report, roughly 70 per cent of the petitions lodged by the citizens were related to land disputes.<sup>27</sup> In his review of the year, the popular blogger Truong Duy Nhat selected the *dân oan* as the person of the year.<sup>28</sup> Coined in the late 1990s to refer to petitioners who are unjustly treated by the government, the word *dân oan* is mostly associated with farmers or residents whose land is illegally repossessed by the state. Two of the numerous land grabs in 2012 aroused sustained debate among the public.

The first took place on 5 January in the district of Tien Lang of Hai Phong. The farmer Doan Van Vuon and his brothers ambushed security forces with homemade landmines and guns in a bid to stop local officials from taking their farm. The farm was on land reclaimed from the sea and developed by Vuon and his family for decades. More than 100 police officers and troops were deployed to attack the farmers and destroy their property. The attack was praised by the Hai Phong police chief as an “excellent joint combat” by the police, the military, and the border guards, which resulted in a “beautiful battle”. The action sparked outrage among the public. Vuon quickly became a national hero. Even former President Le Duc Anh weighed in, deploring the use of the military in law enforcement and showing sympathy towards Vuon. In an unprecedented manner,

the media was allowed to go far beyond the usual limits. Under pressure from various directions, Premier Dung was forced to acknowledge the illegality of the seizure and ask local authorities to return the land to the farmers. This government response turned out to be the exception that proves the rule, however. The Doan brothers stayed in jail. Despite the prime minister's request for a reduction of the sentence, local authorities upheld the charge of murder against them. The prosecution of local officials was equally unfair. The responsibility for the illegal land grab was put on an official who actually opposed the plan. The real culprits were either left out or charged with minor offences.<sup>29</sup>

The second land grab that caused sustained debate involved the Ecopark project in the district of Van Giang in Hung Yen province. According to witnesses, more than 2,000 police officers and unidentified men not wearing uniforms were deployed on 24 April to disperse about 2,000 villagers defending their land. Video footage posted on YouTube showed mobs of policemen brutally beating bystanders, some of whom were identified as journalists from the state-owned broadcaster Voice of Vietnam. Unlike the Tien Lang incident, the media was not given free rein to cover the Van Giang episode. It was reported in social media that the daughter of Premier Dung was one of the Ecopark developers.<sup>30</sup>

The land seizure incidents sparked a nationwide debate over official corruption, the role of the government in land disputes, and the pros and cons of state ownership of land. Most experts argued that state ownership of land and government involvement in setting land prices were the key sources of official corruption and popular indignation.<sup>31</sup> Despite a growing call for reform, the party opted for the status quo. Both the fifth and sixth VCP Central Committee Plenums re-emphasized that "all land comes under the ownership of the entire people and is uniformly administered by the state as the representative of the landowner" (*đất đai thuộc sở hữu toàn dân do Nhà nước là đại diện chủ sở hữu và thống nhất quản lý*). The sixth plenum added that direct negotiation over the transfer of land-use right and the prices between the incoming developer and the present user of land is not allowed.<sup>32</sup>

Frustration with the party-state over corruption dominated voters' meetings with party leaders. Responding to the popular anger, VCP chief Trong stressed prudence while President Sang urged courage in fighting against corruption. Both leaders acknowledged that official corruption had become a powerful trend and warned that it might cause the demise of the party.<sup>33</sup> Meanwhile, the party-state's commitment to combat corruption appeared to be mere lip service, when a harsh sentence was meted out to the journalist Hoang Khuong, who uncovered a corruption case by employing illicit but effective methods.<sup>34</sup> Continuing a trend



that started a few years ago, the year 2012 saw more public intellectuals protest the government's abuse of power and bad governance. In sum, while a small section in the party-state stepped up the fight against corruption, the state as a whole continued in practice to define its interests in opposition to those of the population, alienating both the populace and the intelligentsia.

### **Ambiguous Measures to an Unambiguous Threat**

The single most important feature in the realm of Vietnam's foreign policy in the last five years is the rise of the South China Sea dispute to the top of the country's national security and foreign policy concerns. For most of the two decades that followed the end of the Cold War, Vietnam did not face any major threats to its physical security. Although anti-Westerners and particularly the military leadership constantly called for vigilance against a possible U.S. invasion of Vietnam, this was rarely perceived as an imminent threat.<sup>35</sup> The surge of Chinese assertiveness in the last few years has substantially changed Vietnam's perception of its security environment. By 2012, the country's leaders were no longer uncertain about China's ambitions in the South China Sea. Even the military, whose leadership is one of the most pro-China groups in the Vietnamese government, has come to the conclusion that Beijing is determined to take over the South China Sea, including the Spratly Islands and a vast area within Vietnam's exclusive economic zone (EEZ). Speaking in September to visiting overseas Vietnamese, the head of the Military Education and Information Department, Major General Nguyen Thanh Tuan, emphasized: "We should not be ambiguous and lose vigilance about China's scheme to take exclusive control of the East Sea [South China Sea]."<sup>36</sup>

Intriguingly, Vietnam's response to this now unambiguous threat remains anything but unambiguous. It includes efforts to get third parties involved but also efforts to exclude them. It contains measures to solidify Vietnam's position vis-à-vis China but also measures that undercut it. This ambiguous policy reflects the China dilemma of the VCP state: At the same time as China presents an imminent threat to Vietnam's territorial integrity it also holds a key promise to Hanoi's regime survival.

Seeking strategic partnerships and security cooperation with global and regional players is a main thrust of post-Cold War Vietnamese foreign policy. During a visit by President Sang to Russia in late July, Vietnam and Russia formally elevated their eleven-year old strategic partnership to "comprehensive strategic partnership".<sup>37</sup> With this new epithet, Russia is now ranked on par

with China, Vietnam's "comprehensive cooperative strategic partner", and above Vietnam's other strategic partners. In September, party chief Trong paid a high-profile visit to Singapore, his first to a non-communist country as VCP general secretary. The two countries pledged to sign, in 2013, a Strategic Partnership Agreement, the first between Vietnam and an ASEAN state and the first among Vietnam's strategic partnerships that is sanctioned by a formal agreement rather than a joint statement. During Trong's meeting with the chairperson of Singapore's ruling People's Action Party (PAP), the two leaders also talked about a "strategic partnership" between the VCP and the PAP.<sup>38</sup> In December, at the second joint cabinet meeting between Thailand and Vietnam, Prime Ministers Yingluck Shinawatra and Nguyen Tan Dung followed suit with plans aiming towards the Thai-Vietnamese strategic partnership.<sup>39</sup> In August, Vietnam and Australia agreed to upgrade their bilateral Strategic Dialogue to an Annual Defense Ministers' Dialogue.<sup>40</sup> Remarkably, Vietnam's other strategic dialogues are held at the vice-ministerial level, whereas Australia is not even a formal strategic partner. The year 2012 marked the first defence strategic dialogues between Vietnam and South Korea (in February) and Japan (in November).

Continuing a trend that started in 2009, the South China Sea issues remained a dominant theme in Vietnam's foreign affairs during 2012. On 21 June Vietnam passed a domestic Maritime Law to give legal bases to its activities in the South China Sea. The law reaffirmed Vietnam's sovereignty over the contested Paracel and Spratly Islands. Vietnamese leaders such as party chief Trong lauded the adoption of the law as a "victory".<sup>41</sup> It was indeed a victory over the fear within the Vietnamese leadership of Chinese retaliation. The passage of Vietnam's Maritime Law had been delayed for several years due to Chinese pressure.<sup>42</sup> Not surprisingly, China reacted angrily to what it perceived as Vietnam's insolence. On 25 June the China National Offshore Oil Corporation (CNOOC) announced that it would open to bidding nine oil and gas blocks that lay entirely within the 200 nautical mile EEZ that Vietnam is allowed under the UN Convention on the Law of the Sea (UNCLOS). During 2012 Vietnam's patience and determination continued to be tested by numerous incidents related to disputes with China over the South China Sea. In one incident, Hanoi refused to stamp the new Chinese passports that showed most of the South China Sea as Chinese territory, issuing the visitors a separate visa.<sup>43</sup> In another incident, Hanoi delayed publication of news about the cutting of a Vietnamese state-owned ship's oil exploration cables by Chinese vessels for three days until a meeting between VCP chief Trong and a senior Chinese Communist



Party official had concluded.<sup>44</sup> These and other perceived aggressive acts by China were the triggers of four anti-China protests in Hanoi and Ho Chi Minh City during 2012, on 1, 8, and 22 July, and 9 December. The Vietnamese party-state did not confine itself to clamping down on the protests and stepping up harassment of the protesters. After the fourth protest, the VCP Central Propaganda Department punished those journalists in the state-owned media who it claimed had added fuel to the fire by using “incorrect” words such as “cutting” the cables instead of “causing” them to break.<sup>45</sup>

Since 2009, gathering international support for the Vietnamese cause in the South China Sea has become a main element of Vietnam’s foreign policy. At the ASEAN Ministerial Meeting in Phnom Penh in July, Vietnam brought up the issue of Chinese encroachment into the Vietnamese EEZ. However, a disagreement with Cambodia over the inclusion of that issue (and a stand-off between China and the Philippines over the Scarborough Shoal) in the final statement of the meeting blocked the issuance of that statement, causing a blow to ASEAN’s reputation and the Cambodia-Vietnam relationship. Being in a weak position to compete with China for influence over the small neighbour, Hanoi responded softly. Not only did it refrain from criticizing Phnom Penh publicly, but it continued to curry favour with the latter through economic largesse and other shows of friendship. A week after the Phnom Penh debacle, Hanoi gave visiting Cambodian dignitary Heng Samrin a warm reception, expressed its support for Cambodia’s bid for a non-permanent seat in the UN Security Council, reminded its guests of Vietnam’s role in Cambodia’s national salvation, and gave the Cambodian leader a present that featured a map of Vietnam.<sup>46</sup> Between CNOOC’s announcement in June that it would tender for nine oil blocks within Vietnam’s EEZ and the ASEAN Ministerial Meeting and ASEAN Regional Forum in July, Hanoi dispatched Vice-Prime Minister Nguyen Xuan Phuc to Japan and National Assembly Chairman Nguyen Sinh Hung to Laos, both to strengthen bilateral ties and to seek support for its view on the South China Sea. While Japan showed great sympathy for Vietnam’s predicament, Laos remained lukewarm. The year 2012 saw numerous exchanges of senior leaders between Hanoi and Vientiane as the two countries celebrated the thirty-fifth anniversary of their mutual defence treaty. Meanwhile, Vietnam continued to court its neighbour, Cambodia.

Still, the strongest support for Vietnam against the threat to its territorial integrity in the South China Sea came not from its only treaty ally Laos but from India, the United States, Japan, and Russia. On 10 July 2012 in Hanoi, U.S. Secretary of State Hillary Clinton gave one of the strongest statements of public

support that Hanoi had ever received from a foreign country on the South China Sea. She said: “The United States greatly appreciates Vietnam’s contributions to a collaborative, diplomatic resolution of disputes and a reduction of tensions in the South China Sea.”<sup>47</sup> To further demonstrate America’s endorsement of close ties with Vietnam, Clinton invited VCP General Secretary Trong to visit the United States, preferably in 2013, something that was unimaginable just a few years ago. The invitation was, however, not made public. Clinton’s visit followed a symbolic visit by U.S. Secretary of Defense Leon Panetta in early June, which included a stop in Cam Ranh Bay, the most coveted strategic harbour on the South China Sea. Standing on the U.S. Navy cargo ship *Richard Byrd*, which docked there for repair, Panetta said: “Access for United States naval ships into this facility is a key component of this relationship [with Vietnam] and we see a tremendous potential here for the future ... It is very important that we be able to protect key maritime rights for all nations in the South China Sea and elsewhere.”<sup>48</sup> Also in Hanoi, on 14 July, Japanese Foreign Minister Koichiro Gamba said that his country was willing to help Vietnam bolster its coastal patrol capabilities.<sup>49</sup> On 3 December, just as Vietnam accused Chinese boats of sabotaging an oil and gas exploration operation, Indian Navy chief Admiral D.K. Joshi told journalists that, while India was not a territorial claimant in the South China Sea, it was prepared to act, if necessary, to protect its maritime and economic interests in the region.<sup>50</sup> Besides India, America, and Japan, Russia was another major power that sided with Vietnam in the maritime dispute over the latter’s EEZ by backing its companies in joint exploration with Vietnam in areas also claimed by China.

While trying to make advance by inches, Vietnam resisted offers to progress by miles. The U.S. proposal of a strategic partnership, which would lift the U.S. arms embargo and open up other big opportunities, was greeted tepidly. While modernizers and moderates were more or less enthusiastic about the proposal, rent-seekers were indifferent, and anti-Westerners remained hostile to it. Washington’s offer came with one string attached — Hanoi should improve its human rights record. Instead, as if in calculated defiance, the human rights situation in Vietnam has deteriorated further.

## Conclusion

In an audio tape posted on the popular blog *Ba Sam* in December 2012, a propagandist with the Vietnamese military, Senior Colonel Tran Dang Thanh, is lecturing to leaders of universities and colleges in Hanoi. The military officer

has authority because “national defence and security education” has been made compulsory and a necessary condition for promotion in the government in the years following the collapse of communism in Eastern Europe. Like patriotic education in post-1989 China, national defence and security education is a key tool of indoctrination in post-1989 Vietnam.

While reflecting the views of the anti-Westerners, Thanh’s presentation reveals some of the key ideas guiding current Vietnamese politics and foreign policy. He says that despite China’s ambition to put the South China Sea under its exclusive control and the United States’ support for Vietnam in the South China Sea dispute, China has shared grains of rice and clothes and guns with Vietnam to enable the latter to defeat the French and Americans, whereas the United States is trying to change the communist regime through peaceful evolution. The United States, Thanh emphasizes, has never been and will never be truly benevolent to Vietnam. To make the implication blunt: China is an enemy of the country but it is a friend of the regime; the United States is a friend of the country but it is an enemy of the regime; and the regime takes precedence over the country. Thanh informs his audience that there are three things Vietnam cannot afford to lose. The first is sovereignty and right of sovereignty, the second a peaceful environment, and the third the Sino-Vietnamese friendship. Acknowledging that the requirements for the first and the second contradict each other, he stresses that the highest priority is given to a peaceful environment.<sup>51</sup>

These objectives-cum-self-limitations reflect the dire predicaments Vietnam’s communist regime is facing. To some extent, these predicaments are the result of the rise of a rent-seeking state that is built on an anti-Western national identity. The rent-seeking state has massively reduced economic productivity, political legitimacy, and international opportunity. The elite response to this crisis has been the clash between rent-seekers and an anti-corruption coalition. Unfortunately, this struggle is unable to resolve the crisis. As a result, the crisis will worsen until a different solution is found. In the meantime, Vietnam is heading towards more turbulent times in economics, politics, and foreign affairs.

## Notes

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