Vietnam

A. Executive summary

Vietnam has not yet shown any signs of political liberalization towards democratic transition. Decisions made by the Communist Party of Vietnam (CPV) politburo have the power of law. While tolerance for criticism from within the party has grown, the same cannot be said for opposition from outside the state-party apparatus.

The party-state apparatus is present all over the country with a three-pronged government and administrative infrastructure. Despite decentralization efforts, the political decision process takes place in Hanoi, and this centralization combined with high levels of corruption has led to the only partial implementation of many policies.

Democratic elections do not exist at the national or the local level. The most recent “elections” to the National Assembly, or Quoc Hoi (in May 2002), however, did bring forth a broader spectrum of delegates than in earlier polls.

The government has reacted harshly to protests by ethnic minorities in recent years but has also announced greater openness and improved opportunities for political participation for ethnic and religious actors.

Separation of powers does not exist. The judiciary branch is clearly subject to the CPV. As a result of Vietnam’s ongoing integration on the international stage, Vietnam’s legal system has undergone some reforms. In general, however, the legal system in Vietnam still does not conform to the international legal system.

The government made some modest progress in its fight against corruption, but corruption is still rampant.
Guaranteeing civil rights has improved overall, but it still exists only partially. Infringement on basic human and civil rights is evident, particularly concerning ethnic minorities.

Of all ex-communist and communist states in the Asian-Pacific area, Vietnam has expressed the clearest commitment to a market economy. Although the reform policies have taken hold in many areas and have resulted in one of the highest GDP growth rates in the region and a desirable foreign direct investment (FDI) rate, some questions regarding the reorganization of state-owned enterprises (SOEs), the granting of loans and the role of the state in development remain unanswered.

While the government has recognized the need for targeted interventions in favor of disadvantaged groups, such as ethnic minority groups, and made some progress in the fight against absolute poverty, income disparity and social exclusion have increased slightly.

The first turning point for Vietnam's development towards a market-based economy was the implementation of a new enterprise law in 2000, which simplified the process of founding a new business by easing application procedures.

Both the new legal conditions and changed political climate have triggered a boom in the founding of new private businesses. At the same time, however, state policies and laws still favor SOEs over the private sector.

Vietnam is currently negotiating to join the World Trade Organization and has completed nine negotiation rounds with the WTO accession working party. The most important achievement so far was the conclusion of bilateral negotiations with the European Union.

Cooperation with international donor organizations is generally trouble-free and it has resulted in considerable cooperative contributions to reform, such as programs to fight poverty and environmental protection programs.

Vietnam's foreign donors have praised Vietnam for its "steady and large" economic growth, its macroeconomic stability and its high investment rate. However, they also called on Vietnam to strengthen the governance of state-owned commercial banks and to pay further attention to ensuring that the benefits of growth are shared across all social and economic groups.
Although Vietnam has experienced considerable achievements in improving the macroeconomic framework conditions, it has also become evident that institutional and administrative structures are lagging behind.

There is no tradition of civil society in a Western sense. Vietnam’s civil society organizations perceive themselves as working in partnership with the Vietnamese government and not outside of and independent from the state-party system.

Political participation by women is greater in Vietnam than in any other country in Asia.

**B. History and characteristics of transformation**

Following on the heels of the failed attempts at reform that took place between 1979 and 1985, the CPV’s sixth Party Congress initiated the doi moi economic reform program. In doing so, the party conceded the failure of the centrally planned economy and smoothed the way for a market economy. However, economic reforms have been accompanied by only moderate structural changes to the political system and they continue to lack even rudimentary efforts at democratization. There has been no indication of any move towards a multi-party system yet, and the political reform focus has been largely on improving the rule of law, particularly on reducing the high levels of corruption. In terms of corruption, Vietnam ranks above only above Bangladesh, Indonesia and India in Asia. While the government has scored a number of high-profile successes towards eliminating graft, these efforts are almost exclusively tied to its efforts to attract investment and do not display a desire for grassroots political reform. Thus, the following description is limited to the economic sector.

Initial reform measures, such as the significant reduction of internal trade barriers and steps toward liberalizing foreign trade, remained largely ineffective due to galloping inflation rates in the triple digits. It was only with the reduction of the role of agricultural cooperatives, the complete abolition of planned-economy structures in conjunction with the floating of prices for most goods and services and additional trade liberalization measures in 1988 and 1989 that the desired results began to be seen. These results included a reduction of the annual inflation rate to 2.7 % per year (1998-2003), and Vietnam’s rise to its position as the third-largest rice exporter in the world and the world’s second-largest exporter of coffee beans.

Thus, in only a few years, Vietnam abolished the neo-Stalinist centrally planned economy that had been introduced in North Vietnam in 1954 and was imposed on the
former South Vietnam after the country’s reunification in 1975. Although central economic sectors continue to be dominated by SOEs, they also operate based on capitalist principles and compete with a growing number of private enterprises. Doi moi has not been without setbacks, which were intensified by external factors. The major economic crisis of 1985, characterized by hyperinflation, famine and the boat people phenomenon, was followed by the collapse of the Soviet Union in 1990, which meant the loss of Vietnam’s most important trading partner and donor of development and military assistance.

Thanks to a successful foreign policy focused on diversifying international relationships, the Vietnamese government was better able to absorb the economic and political aftermath of international structural changes than were other communist regimes. In the 1990s, Vietnam quintupled its international relationships and joined the most important regional and global international organizations. In 1995, Vietnam scored a triple diplomatic success by joining ASEAN, establishing official relations with the United States and signing a framework cooperation agreement with the European Union, which contains a human rights clause and covers economic and trade relations.

Because of accession to ASEAN, Vietnam became a member of the ASEAN Free Trade Area (AFTA). However, full accession to the AFTA regime is only expected to take place in 2006, and so-called sensitive product groups will be excluded from the free trade provisions until 2013. Particularly important to the success of economic development were the normalization of relations with the United States, the lifting of the trade embargo in 1994 and the concluding of a bilateral trade agreement in 2001. A framework cooperation agreement was signed between the European Commission and Vietnam in 1995. It seems likely that Vietnam will achieve its target of joining the World Trade Organization (WTO) by the end of 2005 as planned.

Since 1990, Vietnam has experienced continual improvement in its economic fundamentals, joining the ranks of countries with mid-range incomes. In addition, economic development slowed only temporarily because of the Asian financial crisis. Despite the CPV’s serious commitment to reform and continual implementation of new reform measures, including the improvement of investment conditions and reduction of corruption and graft, not all transformation goals were reached. Furthermore, the operation of market-economy institutions is limited significantly by the vast number of regulations and laws that still exist. /OR/ Furthermore, the operation of market-economy institutions is limited significantly by the vast number of processes related to the informal economy that still exist.
C. Assessment

1. Democracy

Vietnam has not yet shown any signs of political liberalization towards democratic transition. The right of the CPV to guide the state and society has been codified in the constitution since 1980. While decisions made by the CPV politburo used to have the power of law, today this is only the case to a great extent, but not absolutely. The situation is complex. The politburo can no longer make all decisions. However, it does make decisions on issues of special importance. Day-to-day exercise of CPV power is delegated to the Secretariat. In any case, the politburo's decisions cannot be implemented without the participation of the government and the National Assembly; and it is here that the bureaucracy takes over and that much distortion or interference takes place.

While tolerance of criticism from within the party has grown, the same cannot be said for opposition from outside the state-party apparatus. Individual calls for a multi-party system are regularly and categorically rejected by the political elite. In February 2005, Thich Quang Do, the deputy head of the banned Unified Buddhist Church of Vietnam (UBCV), appealed to the Vietnamese authorities and intellectuals to build up democracy and pluralism in the country.

1.1. Stateness

In the first few years after reunification, both the ideological conflict that continued to exist between the northern and southern parts of the country and the minority problem, in particular the existence of ethnic enclaves in southern Vietnam compromised the nationwide enforcement of a state monopoly on the use of force. Since the dissolution of Front unifie pour la libération des races opprimées (FULRO) in the late 1980s, there have been hardly any problems with state identity.

Some territorial exceptions exist, as some South Vietnamese do not want to accept that the seat of the state monopoly on the use of force is in Hanoi, even three decades after reunification. All citizens have the same rights, but discrimination against individual ethnic minorities is evident. The central government has a long history of suppressing the Montagnard hill tribes who live in the central highlands. They comprise a dozen or so tribes ethnically and culturally distinct from lowland Vietnamese, and following their introduction to the faith by missionaries who accompanied U.S. soldiers in Vietnam, they often became practicing Protestants.
Violence flared up again in April 2004, when some 10,000 Montagnards took to the streets of Daklak and Gia Lai to protest against government repression of their religion and the confiscation of their land. In the ensuing response by government forces, human-rights groups claim that ten people were killed and more than a hundred injured. The official count is two deaths and a handful wounded (Asia Intelligence, Political & Strategic Review, August 2004).

The political process is completely secularized, although Confucian teachings continue to be important as a framing principle of governmental organization. These teachings, however, are not part of a religious dogma in opposition to the state; rather, they are a basis for exercising power that enhances the communist ideology philosophically and traditionally and that lends legitimacy to the exercise of authority. The party-state apparatus is present all over the country with a three-pronged government and administrative infrastructure. Despite decentralization efforts, the political decision process takes place in Hanoi, and this centralization combined with high levels of corruption has led to the only partial implementation of many policies, particularly in the southern part of the country and in Ho Chi Minh City in particular.

1.2. Political participation

Democratic elections do not exist at the national or the local level. The most recent “elections” to the National Assembly (Quoc Hoi) in May 2002, however, did bring forth a broader spectrum of delegates (e.g., independent candidates, representatives of ethnic minorities and religious groups, entrepreneurs, etc.) than in earlier elections. Three members of the National Assembly are self-nominated and do not belong to the Vietnam Fatherland Front, and 51 seats were won by non-party candidates. Holding 17.3% of seats in the National Assembly, ethnic minorities enjoy a level of political representation higher than their actual percentage of the total population (14%). The National Assembly has 498 members who are elected to five-year terms. The assembly meets twice per year and has de jure control over legislation, planning and appointments, but in reality, it mostly just confirms the decisions made by party organs.

The National Assembly has, however, gradually been emancipating itself from party leaders since 1996. Opposition parties are forbidden, as is the founding of independent unions and associations. Civic groups can operate under certain conditions as long as they do not explicitly question the CPV’s monopoly on authority.
The government has reacted harshly to protests by ethnic minorities in recent years, but it also announced greater openness and improved opportunities for political participation for ethnic and religious actors. The first expressions of this policy include the representation of some of these actors from the moderate civic spectrum in the new National Assembly and the fact that the CPV’s general secretary is himself a member of an ethnic minority.

On the other hand, the persecution and prosecution of political dissidents continued unabated during the first half of the assessment period. In February 2005 however, following pressure from international human rights groups, two high-profile dissidents, Roman Catholic priest Thadeus Nguyen Van Ly, 58, and physician Nguyen Dan Que, 63, were released from jail along with 8,323 other prisoners in a Lunar New Year amnesty. Both have been outspoken advocates of religious freedom and democracy and have openly criticized the government for its poor human rights record. It is nevertheless unclear whether the release can be seen as a first indication of the government’s greater willingness to tolerate political opposition.

In 2004, the U.S. State Department ranked Vietnam as one of the most repressive countries in the world for religious freedom. Only a handful of government-approved religions are allowed to operate in Vietnam, but several outlawed churches continue to exist. Nonetheless, the Catholic congregation has grown from less than 3 million before 1975 to somewhere between 7 million and 8 million at present - a process that has been tolerated by the state. This indicates that the issue of religious freedom in Vietnam is more complicated and less straightforward than reports by the State Department and others seem to suggest.

Public opinion exists in a basic form and has been finding an outlet in the last few years in increasingly critical press coverage, which as a whole is still subject to serious manipulation and interference by state and party leaders. During the assessment period, various so-called “cyber dissidents” were jailed for using the Internet to criticize the government.

1.3. Rule of law

Separation of powers does not exist. The judiciary branch is clearly subject to the CPV. Because of Vietnam’s ongoing integration on the international level, the legal system has undergone some reforms. In general, however, the legal system in Vietnam still does not conform to the standards of the international legal system. Provisions such as a law on investment in construction and a law on price shifting are lacking but are on the legislative agenda of the National Assembly. In addition, the
legal system in Vietnam is not sufficiently transparent and lacks consistency, stability and efficient implementation.

During the assessment period, the government made some modest progress in its fight against corruption. With a score of 2.6 (the same as 2001), Vietnam is the second most corrupt state in Southeast Asia according to the Transparency International Corruption Perception Index.

On the basis of the existing legal system, some high-ranking party members and senior government have been removed from office, arrested and, in some cases, prosecuted and convicted in public trials. It seems, however, that the crackdown on corruption has been highly selective. The “private use” of offices and mandates, fostered by existing political, legal and procedural loopholes, is still possible despite intensified control within the party. According to the Party Central Committee's Commission for Inspection, of the 19,103 party members and 3,494 party organizations inspected in 2004, 73.2% and 56.9% respectively were found to have violated Party regulations through lack of responsibility and the abuse of power for personal benefit. These figures, however, are believed to be just the tip of the iceberg. Among the measures announced by the government to reduce rampant corruption and graft is a draft anti-corruption bill, which, if it becomes law, will require state officials and employees to publish their assets and income. The effectiveness of the bill and related measures remain questionable in the absence of more specific, stronger and more consistently enforced anti-corruption policies and laws.

Guaranteeing civil rights has improved, overall, but still exists only partially. Violation of basic human and civil rights is evident, particularly concerning ethnic minorities. International human rights observers are not allowed into the country. Official tolerance for religious communities grew during the evaluation period, but only selectively. Although the Cao Dai sect was granted freedom of activity and assembly in 1999, the Protestant churches in the central highlands continue to be suppressed, and the United Buddhist Church of Vietnam is banned. The Catholic Church also is discriminated against by the state. Vietnam has Asia's second largest Catholic congregation after the Philippines, with as many as seven to eight million believers among its population of 80 million.

The right to freedom of religion, set down in the constitution of 1992, is limited. It is practically impossible to sue a state actor for human or civil rights violations unless the CPV wants to teach a political lesson by making an example of or reprimanding the responsible parties. According to human rights organizations, trials in Vietnamese courts are not conducted fairly. The accused cannot call or question any witnesses, and the defense attorney’s only option is to petition for mercy for his client.
1.4. Institutional stability

There are no democratic institutions in Vietnam. All central political institutions are embedded in the state party system, which was very stable during the assessment period and so far has not shown any potential for future democratization.

1.5. Political and social integration

In accordance with the constitution, the CPV continues to have a monopoly on the leadership of the state and society. The CPV has approximately 2.67 million members. All national associations and interest groups (unions, farmers’ unions, youth leagues, women’s unions and other organizations) are under the umbrella of the “Fatherland Front.”

Since the early 1990s, as a result of the economic transformation and the societal and socioeconomic changes associated with it, intermediary actors have been emerging, most of whom work exclusively on a local level and are tolerated by the state as long as their activities are in harmony with the framework set out by the CPV. Non-governmental organizations (NGOs), which are defined very broadly by the Vietnamese, are filling in gaps opened up by economic reforms. Due to limited state resources, problems relating to the environment, education, healthcare, employment and basic social care can no longer be dealt with and solved by the CPV and its mass organizations alone. Social engagement helps to close these gaps. In this respect, state and private actors are in a symbiotic relationship that is functionally marked. This developing network of self-organized groups and organizations does not yet fulfill the criteria of civic autonomy, but it could be a preliminary step in the emergence of a civic society.

The representation of international NGOs in Vietnam grew consistently during the assessment period, but their total number is still only 560 (at the end of 2004), according to the official Directory of International Non Governmental Organizations in Vietnam.

2. Market economy

Since the doi moi program was introduced in 1986, Vietnam has been slowly transforming into a market economy. Of all former and current communist states in
the Asian-Pacific area, Vietnam has expressed the clearest commitment to a market economy. Although the reform policies have taken hold in many areas, questions regarding the reorganization of SOEs, the granting of loans and the role of the state in development remain unanswered. These reforms have resulted in, among other things, one of the highest GDP growth rates in the region (6.6% on average between 1999 and 2003) and a desirable FDI rate.

2.1. Level of socioeconomic development

Vietnam’s HDI has been improving steadily as a result of the economic reforms in place since the middle of the 1980s - from 0.583 in 1985 to 0.688 in 2000 and to 0.691 in 2002 (Human Development Report, HDR, 2004). This enabled Vietnam to maintain its medium development ranking of 112 out of 177 countries during the assessment period. The GDI value improved from 0.668 (1998) to 0.689 (2002), but it is still slightly lower than the HDI value. This indicates some but not a significant degree of gender disparity in basic human development. Overall, gender-related social exclusion decreased during the assessment period. The representation of women in leadership positions increased, particularly at low and middle levels, and in politics as well. Political participation by women is greater in Vietnam than in any other country in Asia. Vietnam ranks 19th in the world for number of parliamentary seats held by women (27.3%).

Vietnam ranks 41 of 95 countries in the 2004 Human Poverty Index report. During the period from 1990 to 2002, 17.7% of the population was living below $1 per day. On the one hand, the government has recognized the need for targeted interventions in favor of disadvantaged groups including ethnic minority groups. Among key national poverty reduction programs, the "Poor Communes with Extreme Difficulties in Mountainous and Remote Areas", known as Program 135, coordinated by the Committee for Ethnic Minorities and Mountainous Areas, directly targets the 1,000 poorest communes in remote and mountainous areas. On the other hand, despite the country's rapid economic growth and government's efforts to improve living standards, poverty is still very high and persistent among ethnic minorities, which constitute only 14% of the population but account for more than 30% of the poor. Geographical isolation and limited access to credit, to productive assets and to quality social services are the main causes for poverty among ethnic minorities.

Income disparity and social exclusion have slightly increased. The Gini coefficient changed from 35.7 (1998) to 36.1 (2002). While regional differences have to be taken into account, the regional Gini coefficients remained remarkably stable. The data
suggest that interregional income differences have become more important than intraregional income differences.

2.2. Organization of the market and competition

The turning point for Vietnam's development towards a market-based economy was the implementation of the new Enterprise Law in 2000, which simplified the process of founding a new business by easing application procedures. In December of the same year, the National Assembly approved an amendment to the constitution granting the private sector the same status as Vietnam’s public sector. Party members are also allowed to engage in private business. Both the new legal conditions and a changed political climate have triggered a boom in the founding of new businesses. From 2000 to the end of February 2004, more than 88,000 newly established private enterprises were registered. From 2000 to 2003, the total amount of registered capital held by private companies was $10.1 billion. The year 2004 was a boom year for private sector expansion. Between January and October 2004, around 27,000 new enterprises were registered, with total capital of 53 trillion dong ($3.4 billion), up by around 24% in number and 25% in capital value compared with the totals recorded in the same period of the previous year. In 2004, the National Assembly passed a competition law, which will strengthen regulations covering business competition when it comes into effect in May 2005.

However, many obstacles to the development of the private sector remain. Discrimination in the implementation of state policies regarding credit, real estate and training result in the private sector and the public sector receiving different treatment. State monopolies are still common in the Vietnamese economy. While some forms of pricing have been liberalized, the state still sets many important prices, including the (foreign) exchange rate, interest rate and the prices of some goods. Some sectors of the economy are directed by the market, but many branches still depend on state plans (telecommunication, finance and banking, transportation, electricity and water supply).

The national currency, the dong, is not convertible. The rapidly proceeding international opening of the country that began in the late 1980s has gone hand in hand with growing trade liberalization. The following were key events in this process: joining ASEAN in 1995, joining APEC in 1998, the lifting of the U.S. trade embargo in 1994 and the concluding of a bilateral trade agreement with the United States in 2000 that gave Vietnam most favored nation status.
Vietnam is currently negotiating to join the World Trade Organization (WTO) and has completed nine negotiation rounds with the WTO accession working party. The most important achievement so far was the conclusion of bilateral negotiations with the European Union. As a result, the European Union has lifted all quota restrictions on imports of garments and textiles from Vietnam, even before the latter becomes a WTO member. However, important tasks still need to be completed before Vietnam can join the WTO, including the revision of at least 30 laws and ordinances. Vietnam also has to reach a number of bilateral agreements and is likely to face substantial difficulties in its negotiations with China, Japan and the United States.

As a member of ASEAN, Vietnam is obliged to join the ASEAN Free Trade Zone (AFTA). However, Vietnam has been granted a transitional period until 2006. By that time, it will have had to reduce all its import taxes to a range of 0% to 5% (“Sensitive product groups” will only be included in 2013). It appears unrealistic for the country to meet the deadline, however, because conservative actors continue to show protectionist tendencies due to most SOEs’ lack of international competitiveness. The relatively low average tariff rate of 16% covers high tariff and non-tariff customs barriers for key categories of goods. Thus, tariff rates for standard consumer goods can amount to anywhere from 60% to 200%, the latter being for motor vehicles. Non-tariff barriers mostly result from foreign-exchange restrictions, whereas import licenses have been abolished, with only a few exceptions such as motorcycles and cars. Despite impressive growth in exports — export proceeds rose by 10% year-on-year in 2002, 20.8% in 2003 and 28.9% in 2004, reaching nearly $26 billion — Vietnam’s trade regime is still considered to be largely inefficient. The government controls trade through a licensing system. Restrictions also include quotas, excise taxes, reference prices and direct import bans.

Since 1988, and particularly since 1992, Vietnam has moved to a diversified system in which state-owned, joint stock, joint venture and foreign banks provide services to a broader customer base. However, the four main state-owned commercial banks account for around 80% of all loans. Restructuring of the banking sector is proceeding slowly—mostly under pressure from the IMF—but it has not been able to keep pace with the market economy reforms. Bank lending is often treated as an arm of government policy. Banks are regularly directed to offer preferential interest rates and debt relief to farmers (Economist Intelligence Unit).

2.3. Currency and price stability

Inflation control has been recognized as an economic-policy goal. Shocked by the hyperinflation of the middle of the 1980s, the government has made fighting inflation
its highest priority and has been able to keep the inflation rate under 10% since 1995. However, inflation reached 9% by the end of 2004 because of higher food prices and the impact of rising international commodity prices. Concerned about the rise in inflation and rapid expansion in net domestic credit, the government sharply raised the reserve requirement ratio for commercial banks in July 2004 to slow down lending.

Exchange rate policy primarily serves political purposes. Although the State Bank of Vietnam (SBV) expanded the dong’s exchange rate band by a fluctuation value of 0.25% in July 2002, the room for floating is still very narrow. The exchange rate is managed by heavy intervention from the SBV. This method is supposed to prevent the dong from weakening against the dollar, which would increase the dollar debts of SOEs. In January 2005, the IMF called on Vietnam to increase the flexibility of the system, but the SBV mounted a strong defense of its foreign exchange policy.

Public debt decreased from 69.4% of the GDP (2000) to 67.0% (2003) while total external dept fell from 41.6% to 32% of the GDP during the same period. The current debt service ratio of 6% (down from 7.5% in 2000) is manageable and is expected to fall to 5% by 2005. Vietnam's financial fundamentals are relatively strong in relation to comparable emerging markets.

### 2.4. Private property

The pace of privatization (the Vietnamese term is “equitization”) was rapid in 1999-2000, but it has slowed since then. While the number of state-owned enterprises (SOEs) has fallen from 12,000 in 1998 to below 4,000, most of the SOEs that have been privatized are small, and the most important large companies are still government controlled. The Economist Intelligence Unit (Country Profile Vietnam, 2003) estimates that almost 90% of current SOE assets will remain under government control.

Property rights and regulation of the acquisition of property are formally defined by law, but are not yet sufficiently protected from intervention by the state. According to the Heritage Foundation’s 2005 Index of Economic Freedom, interference in the legal process and the bribing of judges to serve particular interests are widespread. Contractual arrangements are backed by the force of law, but the legal system is complicated. Contractual disputes often involve a prolonged period of negotiation preceding any attempt to resolve the matter in court. In addition, because of the lack of faith in the Vietnamese legal system, many foreign investors include clauses in their contracts allowing disputes to be dealt with by the Singapore Court of
Arbitration. The state owns all the land and grants land-use rights to farmers, businesses and homeowners.

2.5. Welfare regime

Largely because of improved coordination of state activities, NGOs and international actors involved in development, substantial progress was made in fighting poverty during the observation period, progress reflected in an increase in GDP per capita and improved HDI and Human Poverty Index ratings. At the Consultative Group meeting in December 2004, Vietnam’s foreign donors acknowledged the “pro-poor orientation of government investment”. Like other communist countries, Vietnam has established above average social networks and health care structures in comparison with other countries of a similar level of development. In addition, Vietnam has a pronounced tradition of education, which does not necessarily show in outstanding educational institutions, but in its comparatively high literacy rates.

Access to social, educational and health care institutions is, however, not available to all groups of the population equally. While gender-based discrimination is less common (woman have better access to higher education and public office than in any other Southeast Asian state), ethnic minorities and those living in isolated mountain regions are particularly disadvantaged. Economic reforms have led to, among other things, a commercialization of the health care system, resulting in a “two-class medical system”. In keeping with the communist ideal, Vietnamese society still has many very egalitarian characteristics in comparison to other Southeast Asian countries, but the introduction of new inequalities proceeded with increasing speed during the evaluation period. Access to public services, higher education, advancement mechanisms and public office is frequently dependent on ethnic, and increasingly, socioeconomic background. Mechanisms meant to prevent this (for instance, entrance exams for universities) have only a limited effect on balancing out social differences.

2.6. Economic performance

Vietnam's foreign donors have praised Vietnam for its "steady and large" economic growth, its macroeconomic stability and its high investment rate (38% of the GDP in 2004). However, they also called on Vietnam to strengthen the governance of state-owned commercial banks and to pay further attention to ensuring that the benefits of growth were shared across all social and economic groups.
GDP growth per capita was relatively high in the regional cross section during the assessment period, with an average of around 7%. After China, Vietnam has been the second fastest growing economy in the world in recent years. At the same time, the macroeconomic balance sheet provides an ambiguous picture: Price stability is a given overall (although inflation reached 9% at the end of 2004) and debt stays within appropriate limits (thanks to an agreement with Moscow, signed in 2000, regarding the repayment of debts to Russia, the largest single problem in the state debt was removed). The budget deficit was relatively low but increased slightly during the assessment period and is expected to account for 4.1% of the GDP in 2005.

At the same time, however, the official trade deficit increased during the assessment period. It hit a record $5.52 billion in 2004 due to a sharp increase in imports. Even the strong export growth failed to curb the deficit because import growth was even higher, reflecting the strong growth in consumer demand. For example, imports of cars were reported to have risen by 72.5% year-on-year in January 2005. The trade deficit would be even higher if it were not for the heavily weighted factor of smuggling. According to several independent estimates, the total value of goods smuggled into the country - and thus not included in the trade statistics - is on the order of 8.5% of the GDP.

According to the 2004 labor and employment survey, Vietnam's urban unemployment rate was estimated at 5.6%, down slightly from 5.8% in 2003. According to this official government survey, the rates in the largest cities were higher than the urban average, at 6.5% in the capital, Hanoi, and 6.4% in Haiphong and Ho Chi Minh City. Unemployment in rural Vietnam was only 1.1%, masking, however, the fact that rural workers are underemployed. The trend for Vietnamese workers to go overseas to find work seems to ensure that the unemployment rate remains reasonably under control (EIU ViewsWire, 13 January 2005). According to unofficial estimates, such as the one by the Asia Society, unemployment could be as high as 25%.

Based on the data presented here, the growth potential for the Vietnamese economy is good. According to the Asian Development Bank, Vietnam's economy is likely to expand by 7.6% in 2005 thanks to increasing purchasing power (anticipated at 8.1%) and export growth (anticipated at 12%). However, the government will need to improve its socioeconomic development planning and management to reach the goal.

2.7. Sustainability

Ecological considerations were put on the back burner for the sake of pursuit of growth in the past. Not until the last two or three years, in cooperation with
international donors, have any steps been made toward working out a strategy for sustainable development. Reduction of old-growth forests from 43% to 29% of the land area over the last 50 years, continued loss of habitat, uncontrolled dumping of trash and a massive reduction in farmland are all results of unsustainable economic growth.

Approximately 70,000 hectares of land area per year are lost through ground erosion and the expansion of urban megalopolises, which is a problem because only 22% of the total land area is available for agricultural purposes, and the arable portion of that land per capita is one of the lowest in the world, at 0.13 hectares.

The sustainable management of the Mekong River, partly in cooperation with the other riparian states, has emerged as a main policy focus. The Mekong River Basin has long experienced flooding, salt-water influx, depletion of forests, deterioration of groundwater, water pollution and other problems.

Although the percentage of government expenditures spent on education has climbed, the UN Education value for Vietnam declined slightly from 0.83 (1998) to 0.82 (2002). The country still has one of the worst equipped education sectors in the Asian-Pacific region. It is ranked behind China, Indonesia, Thailand and the Philippines, to name a few. Some advances can be reported though. The greatest success during the assessment period was the increase in number of children completing grade school. While only 55.5% of children completed primary school in 2000, the figure jumped to 70.8% in 2002. There were also some advances in the tertiary education sector.

3. Management

3.1. Level of difficulty

Conditions for Vietnam’s economic transformation were difficult from the outset. At the start of doi moi in 1986, the country was still quite isolated internationally and was almost completely dependent on the Soviet Union for trade and on donors for development assistance. After several decades of failed experiments in a planned economy and the high economic burden of two wars (against France and the United States), the country was facing a new start in the 1980s. The lack of historical reference points made starting the reforms even more difficult. Vietnam did not have any experience with the workings of a market economy and could not count on the
assistance of Western industrialized nations at first. The state’s strong position was generally a benefit, helping to ensure the successful implementation of economic reforms.

The main structural obstacle to governance during the assessment period was rampant corruption, which, according to observers, has spiraled out of control despite the government’s intensified attempts to tackle the problem. Misallocation of resources as a result of an inefficient and very corrupt administrative sector constitutes a major obstacle to efficient reform. The CPV identified the fight against corruption and wastefulness within the party and the state bureaucracy as a main priority in 2005, but it seems to lack effective measures to succeed in the short term.

Other constraints include the persistent north-south divide, high levels of poverty despite recent significant achievements in the area of poverty reduction and the existence of conservative veto actors within the party-state system who, for example, successfully managed to slow the pace of the privatization of SOEs. Vietnam’s infrastructure still suffers from the impact of the war and lack of investment in the 1980s. The development of infrastructure, including roads, ports, machinery, telecommunications and the water supply system, is essential to reduce further structural constraints on governance.

The outbreak of bird flu in 2004 had a less far-reaching impact on governance than first thought. Its main economic impact was a sharp increase in inflation to 9.1% year-on-year in July 2004, largely due to a 15.5% rise in food prices caused by bird flu.

There is no tradition of civil society in a Western sense. Vietnam’s civil society organizations perceive themselves as working in partnership with the Vietnamese government rather than as being outside of and independent from the state-party system. “Vietnamese NGO workers are typically urban-dwelling, well-educated, office-based staffers doing project-funded work in poverty reduction and social welfare for the benefit of poor or otherwise marginalized members of Vietnamese society. They perceive themselves and express their work as enlightened, socially conscious, intellectual, and above all, professional, not unlike the foreign NGOs which often serve as their role models” (Joseph Hannah, Civil Society, Actors and Action in Vietnam: Preliminary Empirical Results and Sketches from an Evolving Debate, unpublished conference paper).
### Profile of the Political System

<table>
<thead>
<tr>
<th>Regime type: Autocracy</th>
<th>Constraints to executive authority: 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latest parliamentary election: 19.05.2002</td>
<td></td>
</tr>
<tr>
<td>Effective number of parties: 1.2</td>
<td></td>
</tr>
<tr>
<td>Head of State: Tran Duc Luong</td>
<td></td>
</tr>
<tr>
<td>Head of Government: Phan Van Khai</td>
<td></td>
</tr>
<tr>
<td>Cabinet duration: 09/1997- present</td>
<td></td>
</tr>
<tr>
<td>Type of government: single party majority</td>
<td></td>
</tr>
<tr>
<td>Parties in government: 1</td>
<td></td>
</tr>
<tr>
<td>Number of ministries: 20</td>
<td></td>
</tr>
</tbody>
</table>

Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = 1/(∑ p_i^2); p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.

### 3.2. Steering capability

The government is following a clear goal of long-term restructuring of the economy. The doi moi program, which has been implemented consistently in many areas since 1986, speaks for the long-term character of the reform process. This is particularly reflected by the advances made in the institutional security of private property and the international opening of the economy. The objectives of economic transformation generally meet the country’s development needs. The greatest success could be achieved in poverty reduction. During the Consultative Group meeting in December 2004, Vietnam's foreign donors pledged a record $3.4 billion in official development assistance (ODA) for 2005. The amount exceeded Vietnam’s expectations. “This high level of ODA commitments is consistent with the ‘Monterrey process,’ whereby donor agencies increasingly channel funds to governments that have developed, and follow, a clearly articulated policy of poverty reduction and growth” (EIU ViewsWire, 13 January 2005).

Reforms are limited to the market economy and do not include any political liberalization. Despite all of its success, this reform policy has not been universally consistent and coherent. The process of privatizing SOEs slowed to a crawl during the assessment period. The protection of SOEs is especially obvious, but is explained by the fact that the government wants to avoid a significant short-term increase in social costs, particularly a rise in the already high levels of unemployment. Reform of the financial sector and the legal sector have been lagging behind the general thrust of the economic reform process and are long overdue. Overall, however, the leading political actors are capable of learning from mistakes. The modification of legal frameworks within relatively short periods has proven this. A flexible and adaptable
political organization is simply not possible, however, and efforts to bring it about have reached their limits repeatedly in the face of established stakeholders’ (CPV cadres, the military) interests.

3.3. Resource efficiency

According to an UNDP study and contrary to popular opinion, the administrative sector is neither large nor bloated. Representing only 3.5% of employees in the sector, federal employees make up a small part of the total number of public employees when compared with other counties in the region, with smaller numbers than in Japan and Indonesia. Early on in the reform process, the government recognized the necessity of administrative reform as well. However, there are still problems with the structure and organization of the bureaucracy. Wasted resources are the result of superfluous intermediary administrative levels, a lack of transparency in the decision-making process, frequently changing administrative rules, regulations and procedures (without notice or reason), insufficient coordination between offices, close formal and informal ties with the CPV and patronage.

Although Vietnam has experienced considerable achievements in terms of an improvement of the macroeconomic framework conditions, it has also become evident that institutional and administrative structures are lagging behind. In cooperation with the UNDP and other donor organizations, the government has been working on an administrative reform program (Public Administrative Reform or PAR) since 1994 to underpin and strengthen the economic reform process. The main emphasis of PAR is the devolution of power to the provinces.

During the assessment period, however, only minimal progress was achieved in the granting of more rights to implement their own development plans to regional and local administrative units. The military continues to take the lion’s share of available resources despite massive cuts in defense spending following the Vietnamese withdrawal from Cambodia in 1989. The half-million-strong People’s Army (including marines, air force and border defense troops), which is supplemented by reserves of 4 million local self-defense troops, is, after the CPV, Vietnam’s second-most important actor and has a strong presence in all political, economic and societal sectors in the country.

Efficient use of resources can be detected in only a few areas. The government reacted successfully to the need for inflation-fighting measures and a reduction in the budget deficit by implementing a strict fiscal policy and an anti-cyclical investment policy, the necessity of which became clear during the Asian financial crisis. The
planning and execution of the state budget is not entirely transparent. Although since 2000 the General Statistics Office of Vietnam has regularly published the budget (with the exception of expenditure of Ministry of Defense, Ministry of Public Security and Ministry of Foreign Affairs), the data is often overdue and has only become available months after the respective fiscal year has ended.

The greatest challenge is fighting corruption. Despite the CPV’s intensified campaign to curb corruption and proceedings against some supposedly corrupt—and in some cases prominent—party functionaries and government officials for the sake of good publicity, resources continue to be distributed to a great degree based on patronage. The most recent example was the corruption scandal in the Ministry of Trade over cash for garment export quotas. This kind of scandal threatens to undermine the public's confidence in the government. With the exception of Indonesia, in no other Southeast Asian country is corruption such a basic characteristic of the state and administrative structure.

3.4. Consensus-building

All relevant actors agree about the general direction that economic reforms should take, although their notions about the scope and speed of the individual reforms vary somewhat. The very slow privatization of state-owned enterprises during the assessment period is a clear indicator of the continuing conflicts within the state-party apparatus with regard to specific interpretations of doi moi.

Even the open, fundamental consensus within the party regarding the reform program is a relatively recent achievement. It was not until the Ninth Party Congress in 2001 that the reformers finally improved their position vis-à-vis the communist hardliners within the CPV. The dismissal of the rather conservative General Secretary La Kha Phieu and his replacement with Nong Duc Manh was an indication of this. However, Manh could be best described as a neutralist rather than a reformist. His election was a compromise between the reformists and the hardliners within the CPV. He is expected to play a “reconciliatory” role, preserving the unity of the CPV and preventing any change of the doi moi course in either a more liberal or a more conservative direction. Despite a National Assembly that is increasingly becoming emancipated from the politburo, consensus continues to be found according to the rules of the communist regime. No major shifts among the key players within the state-party system took place during the assessment period, indicating the absence of major conflicts over the general direction of the reform process.
Consensus within society as a whole on doi moi exists only in terms of the rough objectives. While the entrepreneurs of the South, which is strongly dominated by the market, generally desire a considerable acceleration of the reforms, the political actors of the North are keen to prevent the economic reforms from spilling over into the political sector. Civic traditions hardly exist at all. Civic protest movements are generally limited to the local level, are spontaneously organized and are directed against ethnic and general socioeconomic discrimination, but they have not yet been able to challenge the political regime. Demands for democracy are getting louder, but they are (still) largely limited to uncoordinated activities on the part of individual dissidents who - for the time being - lack a broader base.

The government’s willingness to work on social conflict grew during the assessment period. The government does not always react to protests with violent crackdowns—at least with some groups of actors. Instead, it holds dialog and is interested in cooperating. This could be the first sign of a gradual process within the CPV to rethink the relationship between the state and society.

With a proportion of ethnic minorities that falls between 13 % and 16.5 %, depending on the source, Vietnam is one of the most ethnically heterogeneous societies. Ethnic, religious and social differences and conflicts were mostly masked by the communist ideology until only a few years ago, but they skyrocketed during the assessment period. Social and ethnic conflicts found their expression in several local protests. Since the government has embarked on a seemingly successful strategy to improve the livelihoods of the ethnic minorities, it can be assumed that the concerns of civil society actors (defined in the broadest possible sense) are at least partly being taken into account.

3.5. International cooperation

Cooperation with international donor organizations is generally trouble-free and it has resulted in considerable cooperative contributions to reform, such as programs to fight poverty and environmental protection programs. Willingness to collaborate on development with Vietnam has grown, especially since the last party congress in 2001, which proclaimed a definite commitment to continuing reforms. The World Bank announced that it was now ready to provide complete support for the government’s reform plans. Overall, the government has effectively utilized international assistance for its domestic policy agenda. As already mentioned, the Consultative Group meeting of Vietnam’s donors in December 2004 pledged a record amount in official development assistance (ODA) for 2005 in recognition of Vietnam’s effective policy of poverty reduction and growth. Progress was made in
ODA disbursement, which increased to 18% of the committed capital in 2003 from 13% in 2002. At the same time, complicated administrative procedures and institutionalized corruption have harried the disbursement process. For example, according to Klaus Rohland, World Bank Vietnam Country Director, a project planned for a five-year operating cycle will take an extra 18 months to negotiate due to red tape and corrupt practices in Vietnam (Vietnam News Briefs 24 November 2004). The Vietnamese government, however, seems to be aware of these problems and tries to resolve them. Since Vietnam is expected to become a member of World Trade Organization by the end of 2005, donors now estimate that in a little over a decade, Vietnam will no longer be eligible to receive ODA.

The diversification of international relationships since the end of the Cold War and the end of Vietnam’s general international isolation has been very successful. In 1989, Vietnam had diplomatic relations with only 23 non-communist states, a number that grew to 167 by 2004. Political actors have very actively and successfully worked to build and strengthen as many international cooperation relationships as possible. Vietnam’s membership in ASEAN, APEC, the Greater Mekong Subregion (GMS), and Asia Europe Summit Meeting (ASEM) – Vietnam hosted the fifth ASEM Summit in October 2004 – and other organizations, along with its observer status in the WTO, demonstrate this. Major improvements were made in the previously problematic, often hostile relationships with the United States, China and Thailand.

A great majority of actors recognizes the advantages of international cooperation in the economic reforms. However, certain sectors of the political elite are concerned that a too rapid political integration process, due to a potentially growing influence from external actors, could have a destabilizing effect on Vietnam’s political organization, posing a danger to the CPV’s rule. For this reason, Vietnam has, for example, successfully blocked certain integration measures within ASEAN, such as a more comprehensive mandate for the organization to work on regional conflicts, brought to the table by other members of the group. There can be little doubt, however, that Vietnam's government is well known in the international community.

4. Trend of development

4.1. Democratic development

The political regime is still far from meeting even the most minimal requirements for a rule-of-law democracy. Although opportunities for political participation have increased among previously disadvantaged groups (ethnic minorities, religious actors) and opinion formation and decision-making have opened up within the
existing party-state apparatus, as a whole, not even the slightest tendency toward democratizing the political system could be detected during the observation period. So far, economic transformation has not brought political transformation. Stateness has remained at its former levels. The rule of law has improved slightly due to some new laws, which have the potential to increase the level of transparency and predictability, particularly in relations between the private sector and the state and among enterprises. There is, however, no separation of powers, and the judicial branch is still clearly subject to the CPV.

### 4.2. Market economy development

#### Development of macroeconomic fundamentals (2000-2004)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of GDP in %</td>
<td>6.8</td>
<td>6.9</td>
<td>7.1</td>
<td>7.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Export growth in %</td>
<td>25.5</td>
<td>3.8</td>
<td>11.2</td>
<td>20.8</td>
<td>28.9</td>
</tr>
<tr>
<td>Import growth in %</td>
<td>33.2</td>
<td>3.7</td>
<td>21.7</td>
<td>27.8</td>
<td>25</td>
</tr>
<tr>
<td>Inflation in % (CPI)</td>
<td>-1.6</td>
<td>-0.4</td>
<td>4.0</td>
<td>3.3</td>
<td>9.7</td>
</tr>
<tr>
<td>Investment in % of GDP</td>
<td>29.6</td>
<td>31.2</td>
<td>33.2</td>
<td>35.1</td>
<td>n/a</td>
</tr>
<tr>
<td>(Gross Domestic Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Formation)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Revenue in % of GDP</td>
<td>14.8</td>
<td>15.7</td>
<td>16.6</td>
<td>15.9</td>
<td>n/a</td>
</tr>
<tr>
<td>1 (^1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment (urban) in %</td>
<td>6.3</td>
<td>6.0</td>
<td>5.8</td>
<td>5.8</td>
<td>5.6</td>
</tr>
<tr>
<td>2 (^2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Budget deficit in % of GDP(^3)</td>
<td>-2.81</td>
<td>-2.52</td>
<td>-2.41</td>
<td>-2.24</td>
<td>n/a</td>
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<tr>
<td>3 (^3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Current account balance</td>
<td>1.106</td>
<td>0.682</td>
<td>-0.604</td>
<td>-1.781</td>
<td>-1,521</td>
</tr>
<tr>
<td>in billion $(^4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Source: ADB Key Indicators 2004, available online at http://www.adb.org/Documents/Books/Key_Indicators/2004/pdf/VIE.pdf


\(^3\) Source: ASEA Statistical Indicators, at http://www.aseansec.org/macroeconomic/annual_main.htm.


Vietnam falls under the category of middle-income countries but is in the bottom half of that group. If the HDI is seen as the benchmark, Vietnam’s development has improved slightly. While the HDI value was 0.664 in 1997, it increased by 0.027 to 0.691 in 2002 (HDR 2004). During the assessment period, Vietnam's economy was characterized by steady and substantial economic growth, macroeconomic stability
and a high investment rate. With an average annual GDP growth of 7%, Vietnam was, behind China, the second fastest growing economy in the world.

Despite an inflation rate of 9.1% in 2004, prices were generally stable. The inflation rate is expected to stabilize at around 6% in 2005. Debt stayed within appropriate limits, and the budget deficit was relatively low but slightly increased and is likely to reach 4.1% of GDP in 2005. FDI commitments to Vietnam grew impressively during the assessment period. In January-October 2004, FDI commitment totaled $3.2 billion, an expansion of 36% year-on-year. The main reasons for increased FDI inflows included simpler licensing procedures, the introduction of new legal documents to provide guidance for implementing the Law on Foreign Investment and regulations for transforming foreign invested enterprises. Vietnamese agencies also made greater efforts to attract investment.

The institutional framework improved slightly due to international pressure on Vietnam to reform its legal system, to conditions that have to be met in preparation for Vietnam’s WTO membership and to the general thrust of the economic reform program, which is clearly spearheaded by a market-friendly political elite. While some actors with veto power still exist, the pro-reform powers have won the upper hand since the Ninth Party Congress in 2001. The improved structural framework for private property – for example, in 2004 the National Assembly passed a competition law that will strengthen regulations covering business competition - has resulted in a boom in the founding of new businesses.

However, many obstacles to the development of the private sector remain, including discriminatory state policies, such as those determining access to credit and real estate, which favor state owned enterprises. After significant progress towards the privatization of SOEs was made in 2000-2001, the value of assets that has been “equitized” since then has been rather small. The slow privatization of SOEs in Vietnam, however, is not entirely due to CPV policies. Most SOEs do not want to be privatized because they benefit from their present status, and accordingly, they have tried to block or slow down the process. The pressure from the government to privatize them has encountered this strong resistance. From 2005 onward, the government will step up its effort with great resolve to privatize SOEs by the open auction of its shares at the stock markets in Ho Chi Minh City and Hanoi. A first indication of this was the auction of some big SOEs, such as VinaMilk, part of Vietcombank, Vissan, ViFon and the Vinh Son-Song Hinh hydropower plant.

Apart from the hindrance of the privatization of SOEs, the biggest structural-institutional problems yet to be seriously tackled are corruption, the deadbeat banking sector, a lack of rule of law, discrimination against ethnic minorities (although some
improvements have been made) and the slowly but steadily growing disparity of income levels. Some success can be seen in the area of fighting poverty.

D. Strategic perspective

There is no doubt that the CPV is prepared to continue with Vietnam’s transformation to a market economy. The focus in coming years will be on fighting corruption. The focus will also fall on a further intensification of the fight against poverty and increasingly - with the participation of international donors – on environmental sustainability. In addition, the government will have to look at the problem of unequal development and focus on socioeconomic disparities both within society as a whole and between regions. The latter still endanger the fragile nation-building process and could result in a sharpening of the tensions between the North and the South. Approximately two-thirds of GDP and 80% of tax revenues are produced in the industrial parks on the outskirts of Ho Chi Minh City and the rice fields of the Mekong Delta.

The fact that Vietnam is rich in natural resources and has managed to establish itself as a major exporter of oil, rice, seafood and coffee, but has yet to tap quite a number of resources, presents another challenge. The large farming sector is in desperate need of modernization. Opportunities for expanding the manufacturing industries and for building up an information technologies (IT) sector have not been seized. Vietnam’s integration into the international community will continue. The most significant mid-term goal in this process is joining the WTO, which it seems will be possible by the end of 2005.

While it is not as easy to make predictions regarding political development, it is highly unlikely that the country’s system will become open to democracy in the short term. The CPV still agrees that liberalization measures should be limited to the economic sector and that political changes could, at best, be introduced to the internal relationship between the state and party organs. The CPV believes that development in the direction of a liberal democracy, however, should be prevented at all costs. Despite the population’s growing willingness to protest, particularly among ethnic minorities and socioeconomically disadvantaged groups, there has still been no serious challenge to the CPV’s monopoly on authority. In the coming years, the still small civic sector is nevertheless likely to grow, and intra-party discourse is likely to intensify. The litmus test will be the forthcoming 10th Party Congress. It is improbable that the CPV will give up its hold on power in the near future.
As far as Vietnam’s evolving market economy is concerned, far-reaching structural reforms in the following areas seem to be unavoidable in order to sustain the overall reform process:

- Reforms in the spheres of banking, finance and currency should accompany a further liberalization of pricing for many food products, interest rates and currencies.
- A banking sector reform should focus on the creation of a two-tier banking system, the establishment of viable private sector banks and elimination of the discrimination between the state sector and the private sector as far as access to credit is concerned.
- In the long term, the convertibility of the Vietnamese dong seems to be unavoidable.
- Trade and investment liberalization should be accelerated to take advantage of investment opportunities created by the improved regional and international business environment.
- External trade liberalization will have to concentrate on the dismantling of export bans, quotas and taxes so as to promote trade in the convertible currency area, the replacement of quantitative import controls with tariffs and the gradual opening of trading activities to private business. The protection of the government in selected domestic industries, especially in sectors dominated by state enterprises, should be gradually removed.
- The reform of the SOEs must regain speed and should aim to decrease the quantity of the SOEs significantly and to intensify the efficiency of those SOEs that cannot yet be privatized and must remain in the state sector. Strategies to achieve this could include the elimination of virtually all budgetary subsidies, improvement of productivity and output, increase of the net contribution of the state sector to the state budget and so on.
- The agricultural sector is in urgent need of a fundamental reform to achieve high and sustainable growth in the next years.
- Administrative reform and the establishment of a modern legal system, particularly in the areas of land law, trade law, law on foreign investment, law on domestic investment and company law are an essential precondition for any serious step towards a consolidated market economy.