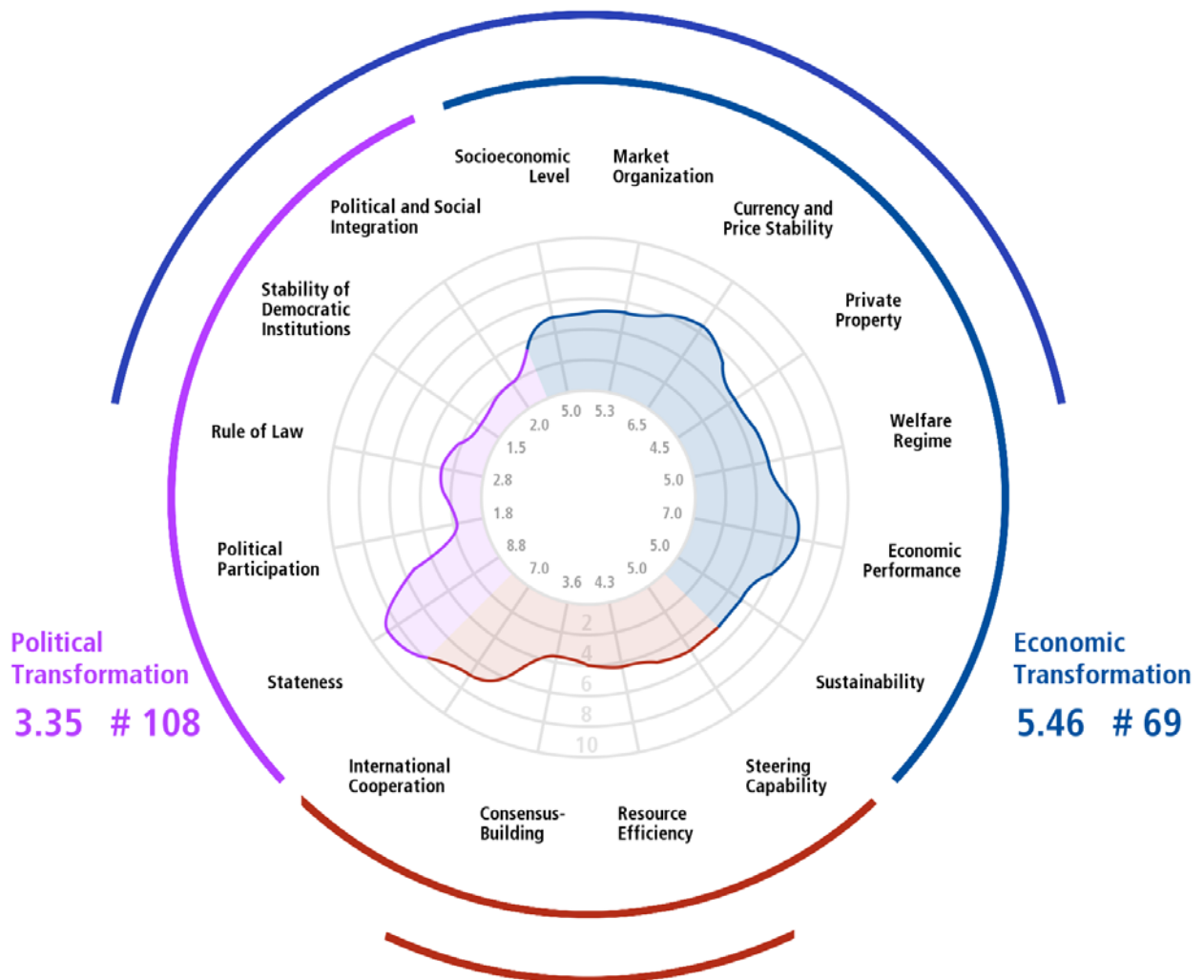


Vietnam

Status Index

4.41 # 94

on 1-10 scale out of 129



Governance Index

4.51 # 78

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2018 Country Report — Vietnam. Gütersloh: Bertelsmann Stiftung, 2018.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	92.7	HDI	0.683	GDP p.c., PPP \$	6424
Pop. growth ¹	% p.a.	1.1	HDI rank of 188	115	Gini Index	34.8
Life expectancy	years	75.9	UN Education Index	0.643	Poverty ³	% 11.6
Urban population	%	34.2	Gender inequality ²	0.337	Aid per capita \$	34.4

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Vietnam has had the most stable dictatorship in the region for decades, yet this is rapidly changing under the influence of three forces. From within, the Vietnamese Communist Party (VCP) has undergone a process of decay, diminishing most of its once strong vitality. Money today thoroughly penetrates the party and its patronage networks. From local to central leaders, most lack a sense of public service and are interested in using their positions to benefit themselves and their factions. Tense factional struggles at the top have become common. Top leaders are no longer respected by their subordinates. In 2016, the chief of the State Forestry Service in Yen Bai province shot to death two top provincial leaders before killing himself. A corrupt deputy provincial chief slipped out of the country while under investigation, then appeared on social media to criticize party leaders and challenge the government to prosecute him.

The year 2016 witnessed the party's 12th Congress and the National Assembly "elections." The Congress retained the incumbent General Secretary Nguyen Phu Trong for another five-year term. As a career instructor of Marxism-Leninism, Mr. Trong's continuing position at the helm of the party does not bode well for both democracy and the market economy. Even worse is the unprecedented selection of a police general and minister of public security, Mr. Tran Dai Quang, to be state president. The trend of increasing suppression of political freedoms is also shown in the presence of, besides Mr. Quang, three other former or current police generals in the 19-person Politburo, the most important executive body in the political system. In fact, since the new leadership took office, at least half a dozen activists and bloggers have been imprisoned. Another unprecedented development was the appointment of two former executives of state-owned monopolies to the Politburo. This development is ominous for the reform of the corrupt state-owned sector and the creation of a full market economy.

From below, democratic pressures continue to build up. In the National Assembly "elections," a group of about 50 prominent intellectuals, lawyers and democracy activists joined forces to nominate themselves for the ballots. Their goal was not to be "elected" but to show Vietnamese

(through social media) how the election was rigged and violence was used to prevent any independent candidate from winning office. In mid-2016, the release of toxic chemicals into the ocean by the Taiwanese Formosa Steel Complex caused massive fish deaths along four coastal provinces in central Vietnam. As the government was trying to cover up this large-scale environmental disaster, numerous protests by farmers, fishermen and their families took place. Some were led by Catholic priests, and one involved an unprecedented 10,000 people.

The third force of change comes from outside Vietnam. The security situation involving the South China Sea has not improved. Even though Sino-Vietnamese relations have recovered from its lowest point in 2014, China has continued to build up its military capability in the region. The VCP's close relationship with the Chinese Communist Party will further hurt its domestic legitimacy in the face of future assertive Chinese behavior. Another profound change involved the decision by President Trump to withdraw the U.S. from the Trans-Pacific Partnership (TPP). Without the TPP, the economy of Vietnam may not attract the level of foreign investment its government hoped for. Maintaining the current level of growth at 6% is an urgent need now that the government budget has a 7% deficit, foreign debt reaches 62% of GDP, and the banking system is sagging with bad loans. These weak fundamentals promise a rocky period ahead in terms of macroeconomic stability.

Other issues of importance include rising corruption, social inequality and environmental pollution. Gender inequality is on the rise as evidenced in a very high rate of abortions, including the high number of sex-selective abortions, and a larger gap between men's and women's pay. The gap between the majority ethnic group (Kinh) and most ethnic minorities is widening. The country witnessed the worst environmental crisis ever in the mass fish deaths in 2016.

History and Characteristics of Transformation

In the mid-1980s, Vietnam found itself in a deep and prolonged economic and political crisis. Economic mismanagement and the leaders' excessive confidence in the centrally planned economy regardless of reality led to falling production, widespread famine, hyperinflation and ballooning foreign debt. In a desperate situation, the ruling Vietnamese Communist Party (VCP) accepted market reform but steadfastly rejected any political liberalization as soon as economic conditions improved. Market reform involved the dissolution of rural cooperatives, the legalization of private enterprises and trade and an open-door policy for foreign investment and tourism. In less than a decade, the state-owned sector, which had previously accounted for about 80% of the economy, was scaled back to less than 50%.

Unlike what many conservative party leaders had feared, reform delivered rapid recovery and impressive growth during the next two decades. Growth, which averaged 7.4% annually during 1990-2005, came from multiple sources. The first source was simply the liberation of repressed capacity under socialism. Hard-working farming households now could decide on what to grow and where to sell their crops to maximize their income and welfare. Entrepreneurial individuals

could open a private business or engage in trade without fearing arrest and confiscation of property. Resources were more properly priced and efficiently used, as the authorities gradually lifted restrictions on the market. A second source of growth was foreign trade and investment mostly from Vietnam's neighbors. Billions of dollars poured into the country as foreign investors sought to take advantage of low labor costs and favorable investment conditions. Still a third source was foreign aid and overseas remittances worth billions of dollars per year. This third source was critical for the upgrading of Vietnam's dilapidated infrastructure and for raising domestic consumption.

Sustained growth over two decades tripled Vietnam's GDP by 2010. The driving force of growth has been exports. From \$2.4 billion dollars in 1990, exports were valued at \$72 billion in 2010, and at \$150 billion in 2014. Vietnam rose to become one of the world's top exporters for several commodities such as rice and coffee. Foreign trade accounted for about 120% of GDP. The structure of the economy changed from predominantly agricultural to one with the industrial sector accounting for the largest share. By the 2000s, poverty was brought down to less than 20%.

Despite impressive progress made in the first two decades, since 2005 the momentum has slowed down markedly. Growth has averaged less than 6% in the last decade despite continually rising investment. Inflation rates were in the double digits in the late 2000s. Exports of primary commodities, such as agricultural produce and crude oil, still make up a large share of total exports. Manufactured products for exports are mostly low value-added goods such as garments and footwear that depend heavily on imported raw materials. With a large state-owned sector that accounts for about 40% of the domestic economy and that enjoys substantial monopolistic privileges, the economy is still far from being a market economy. While the government has shown effectiveness in mobilizing resources and in managing the macroeconomy, corruption is now ubiquitous and may threaten future growth prospects. State-owned enterprises (SOEs) are particularly prone to large-scale corruption that could, in a single case, result in billion dollars of losses equivalent to 10% of GDP. Yet efforts to reform them have repeatedly faltered, in part because the leadership wants to protect them as a symbol and foundation of socialism and state power, and in part because they generate huge rents for individual leaders' patronage networks. The private sector has grown rapidly and contributed significantly to the economy, yet this sector is dominated by small and very small businesses due to the Communist Party's general weariness of domestic capitalists, the government's heavy tax burden, cumbersome regulations and discrimination in terms of access to land and credit.

Although poverty has declined sharply, inequality is rising not only in income but also in consumption, in particular with regard to social services such as education and health care. The quality of life for ordinary Vietnamese appears to have worsened in recent years. Cities have become overcrowded, while rural regions suffer from environmental degradation due to the destruction of forests for timber and for energy production and to the large-scale exploitation of natural resources for agricultural production.

Although satisfactory economic performance has allowed the VCP to stay in power, it is confronting rapidly mounting political challenges from a restless public and from volatile security conditions in the region. Farmers whose lands were grabbed by corrupt local governments in the

name of development are a major source of anger and protests against the regime. Due to its ideological loyalty, the VCP has maintained a close relationship with the Chinese Communist Party, which has inflamed deep-seated anti-China nationalist sentiments among the Vietnamese public. The authorities have frequently deployed brutally repressive measures against dissent and protests, but they are increasingly ineffective. Some protests against land grabbing and against China's aggressive moves in the South China Sea have turned violent, threatening the state's monopoly of violence.

Economic liberalization and rising living standards have produced independent intellectuals and middle-class professionals who are increasingly vocal in demanding a say in the governance of the country. Yet the party's dogged refusal to permit any meaningful political liberalization has forced many into taking a confrontational stand against the regime. The formation of a dozen groups, such as Independent Writers' Union, Independent Journalists' Association, Civil Society Forum, Movement for Independent Unions and the Association of Former Political Prisoners, indicates the rise of a nascent democratic movement. Despite government repression, these groups continue to attract new and young followers, thanks in part to the growth of social media. The question is not whether, but when, an opposition party will emerge to challenge the communist government.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Although no organized guerrilla movement exists in Vietnam today, the state's monopoly of force is vulnerable to three indirect challenges. First, state control of the border is weak due to the long land border and rough terrain. Smuggling in goods and people has always been widespread for decades. In the 1980s, goods were smuggled from Thailand through Laos and Cambodia into Vietnam, and boatpeople were smuggled out of Vietnam. Today, the daily smuggling of goods across the border with China is on a massive scale, whereas smuggling of young men to Europe through Russia is a significant phenomenon. Members of Vietnam's poorly paid security forces and diplomatic missions often collude with smugglers.

A corrupt security force, especially the police, poses a second challenge to the state's monopoly of force. Corruption is now pervasive in the police and the military. The buying and selling of office is common; bribes have been reported at every level; and patronage networks at the top frequently battle each other over turf and appointments. There is evidence that the state has lost unified control over its security forces. In 2014, credible reports indicated that the police for unclear reasons incited violent protests by workers against foreign firms in Binh Duong and Ha Tinh provinces. During the 12th Party Congress in 2016, for the first time, the party chief had to order special military forces to take charge of security in the capital as there was rumor of a coup by military officers loyal to the outgoing Prime Minister Nguyen Tan Dung.

A third and more direct challenge involves armed protests against land grabbing or against police brutality. Recently some protesters have armed themselves and organized resistance to the police coming to take their lands. Some acted individually, shooting officials to death and then killing themselves. While these episodes are still few, they are signs of cracks in the system.

Question
Score

Monopoly on the
use of force

9



1

While the state's monopoly on the use of force is not yet challenged directly, its legitimacy remains potentially contested. The ruling communist party rose to power thanks in part to its claim as being the savior of the country from colonialism and foreign invasion. A significant number of Vietnamese did not support communist-led class struggle and anti-religion policy. They rallied to the Republic of Vietnam, which existed for two decades from 1954 to 1975. Millions left the country after the war as boatpeople, but million stayed and suffered harsh treatment by the authorities. Their loyalty to the government is suspect.

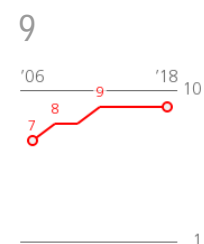
Since 2005, China has acted aggressively in enforcing its claims of sovereignty in the South China Sea, resulting in the emergence of a broad anti-China nationalist movement in Vietnam. Members of this movement include prominent intellectuals, retired officials and many youths. Through social media and street protests since 2007, this movement has accused the government of selling national resources and territories to China. As the authorities violently cracked down on this group to appease China, the legitimacy of the state has suffered a serious setback.

Another group that has frequently confronted the state is farmers whose land has been taken for development projects with little compensation by the authorities. In recent years, this group has staged open protests with slogans and statements comparing the party to organized crime, calling the state a police state. The conflict between this group and the state predicts the coming collapse of communist rule. These groups have joined forces with other groups calling for the establishment of a multiparty democracy and for constitutional changes to guarantee political and religious freedoms and the rights to private property.

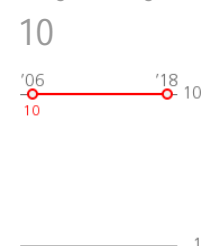
Vietnam's legal and political order is secular. The government's relationship with religious groups has improved in recent years, but its past efforts to suppress them still cast a long shadow. Leaders of the United Buddhist Church, some Cao Dai and Hoa Hao Buddhist groups, and many Catholic priests have been under house arrests for decades. Recently several Catholic Church priests have openly criticized the government for its pro-China policies and for its failure in handling environmental disasters. In general, however, the government has been able to control religions effectively.

While secular in common terms, Marxism-Leninism-Ho Chi Minh ideology has always played the role of a (secular) religion in the system. The state is quasi-theocratic in this sense. For example, public criticisms of Marx, Lenin, and Ho are not tolerated and prosecutable according to Articles 88 and 258 in the criminal code as "a crime of abusing freedom and democracy" or of "creating propaganda to slander the people's government." Even today, no scholarship is allowed to question the doctrine, which is a mandatory subject for students throughout the school system. Christians as a rule have always been denied membership in the party, the state bureaucracy and the security forces. They have been denied admission into

State identity



No interference of religious dogmas



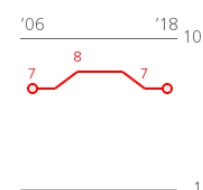
pedagogical colleges and not been appointed to leadership positions in schools and universities.

The M-L-H as a religious dogma bounds the state to the VCP. All public officials from middle-level up are required to study at one of the party schools that teach mostly the doctrine and little else. Instructors at these schools, who function similarly to priests, have gone on to hold top party and state positions such as the current General Secretary Nguyen Phu Trong. For decades the subject of morality taught to children has been restricted to loyalty to the political leadership and to abstract values of socialism. Students are not taught other values and practical issues such as personal hygiene and sexual relationship. The unchallenged status of communist values in education perhaps contributes to Vietnam's very high rate of abortion. According to the Vice President of Vietnam's Association of Gynecologists, that rate is highest in Southeast Asia, and among the world's top three. One out of every five cases of abortion involve a child under 18. One out of four abortion cases is unsafely conducted, contributing to 13% of birth mothers' deaths.

A basic structure of the state exists throughout the country down to the hamlet level. This administrative system provides most basic public services, including law and order, health care, education, communication, transportation and more. In fact, the administrative system has a quasi-totalitarian scope. Its payroll includes organizations that are normally considered parts of civil society elsewhere, such as Farmers' Association, Writers' Union, Women's Union, Communist Youth League, Fatherland Front, and largest of all, the Communist Party. These political organizations are funded by the government's budget and some do provide public services in a limited fashion. However, their main missions are to inculcate loyalty and to mobilize support for state policies. These hierarchical organizations reinforce state structure but are a huge drain on public resources by employing about one-third of all state employees. Territorially, the administrative system is dense in big population centers and thin in remote and mountainous regions, where most ethnic minorities live. These populations tend to be greatly underserved.

Basic administration

7

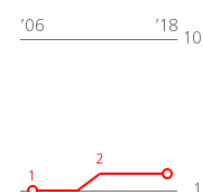


2 | Political Participation

National elections for local People's Councils and the National Assembly are held every five years, but all candidates are screened and must be approved by the Vietnam Fatherland Front (VFF). Voting is mandatory, so turnout rates often exceed 99%. On voting day, neighborhood chiefs knock on everyone's house to remind people to hang the national flag and to go cast their votes. If someone does not vote, he or she might be denied future services by the local government. Although secret ballots are used, it is common for a household head to cast votes for the whole family.

Free and fair elections

2



In every National Assembly "election," the Communist Party nominates (more accurately, assigns) particular members to run in particular districts. Communist

Party members are not allowed to run for office without approval from central leaders. There are on average 1.5 to two candidates for every elected position. The total number of candidates was 870 for 500 seats in the most recent election in 2016 (1.7 candidates for one seat). The party took pains to ensure all demographic groups in society were represented in the roster. It has also allowed a small percentage of citizens who were not party members to run and be elected (4.2% in 2016, compared to 8.4% in 2011). Self-nominated non-party candidates have run in past elections, but few have ever been elected.

All candidates are vetted by the Fatherland Front, which is under full control of the Communist Party. The Front simply excludes from the process those whose loyalty to the Communist Party may be suspect. In the election of the National Assembly in 2016, there were 154 self-nominated candidates (twice the number of the 2011 election), but only 11 were eventually allowed to have their names on the ballots, and two (0.4%) were allowed to be elected (compared with 15 allowed to have their names on the ballot and four or 0.8 percent elected in 2011).

The 2016 election witnessed a movement led by prominent intellectuals and lawyers to nominate themselves as candidates. Taking full advantage of social media, these candidates announced that their goal was not to win or even to be allowed on the ballot, something which they knew would never happen, but to expose how the system was rigged. Throughout the process, these candidates regularly reported the struggle they went through to register and to participate in meetings with the Fatherland Front – how they were verbally abused and physically threatened at every step along the way. The movement marked a critical step that these individuals gathered and made a collective challenge to the Communist Party, beating it in its own game (at least on social media). The movement signaled the maturity of the opposition in Vietnam, and it is possible to imagine its leaders leading a new political party when the opportunity arises.

Incumbent members of the Communist Party's Central Committee, with the Politburo at the top, form an oligarchy which selects their own subordinates to rule the country. As the oligarchs' function more or less on consensus, a Politburo member normally has veto power over any policy. Within the 19-member Politburo, which is the highest executive body, the security apparatuses form a powerful group with more veto powers than any other organizational interests. However, in the 12th Party Congress in 2016, the police for the first time gained greater representation in the Politburo at the expense of the military – there are four former or current police generals compared to one general from the military. For the first time, two leaders with close ties to the state-owned sector also joined the Politburo.

Association and assembly rights are severely restricted by laws and extra-legal methods. Decree no. 88/2003, for example, requires all associations to apply for a permit and be subject to the oversight of a state agency. Associational leadership and bylaws must be approved by that agency. The Ministry of Home Affairs decides how

Effective power to govern



Association / assembly rights

2

many members an association can have. The decree's definition of associations indicates that only those that "contribute to the socioeconomic development of the country" are permitted. In other words, political associations are not welcome.

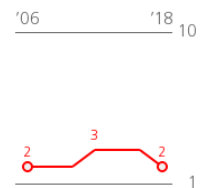
In the 2012 labor code, workers have the right to establish, join and participate in activities of a trade union. However, the concept of independent labor unions is not even acknowledged legally. The 2012 trade union law outlines "labor unions" as "a great socio-political organization of the working-class and laborers. Trade Unions are founded on the voluntary basis and are a component part of the political system of the Vietnamese society, placed under the leadership of the Communist Party of Vietnam." The law thus allows only a single national labor union that has always been under the control of the VCP.

Legally, workers are guaranteed the right to strike, but the process of organizing a legal strike is extremely cumbersome, apparently to prevent it from happening. Vietnam does witness hundreds of strikes annually, and all have been technically illegal as workers ignored what the law required. Rather than suppressing strikes, in most cases the authorities have sought to mediate between workers and their employers for mutually satisfactory solutions.

At the same time, the government has sought to criminalize those who exercise the freedom of association and assembly to form political associations, including independent unions. Article 258 of the criminal code states that "anyone who takes advantage of the freedoms of expression, press, religion, association, assembly, and other freedoms to harm the interests of the State and the rights and legal interests of other organizations and citizens, shall be punished." Punishments range from warning, re-education (hard labor camp) up to three years, and imprisonment up to three years (and up to seven years in serious cases). This law has allowed the police to crack down on peaceful protests with excessive violence, and to imprison many political activists who peacefully advocate for political rights, democracy, and changes in government policies toward China.

Laws and police practices severely restrict and violently violate the freedom of expression. For example, Article 88 of the criminal code specifically targets the freedom of expression by stipulating that "anyone who conducts propaganda to slander the people's government; who conducts psychological warfare and spread rumors; and who creates, stores and disseminates cultural products with anti-socialist government contents, will be punished with imprisonment from three to twelve years, and from ten to twenty years in serious cases."

According to the Press Law of 2016, only an organization or agency of the government or authorized by the government can engage in a media business. Media must provide information "to serve the interests of the people and the country." Article 9 of this law is an extended version of Article 88 of the criminal code cited above. In particular, it is forbidden to publish information that, among other things,



“slanders and questions the legitimacy of the people’s government;” that “causes division among the people, between the people and the people’s government, the people’s armed forces, and other socio-political organizations;” that “distorts history, denies revolutionary achievements, and criticizes the nation and national heroes;” that “sabotages international solidarity policies;” and that “provokes war against the independence, sovereignty, and territorial integrity of the Socialist Republic of Vietnam.”

Despite legal restrictions and threats of crackdown by the police, Vietnamese citizens continued to express their views through numerous protests in 2015 and 2016. Although no survey exists, protests by farmers were perhaps the most common, followed by political and environmental activists. A typical protest involved a few dozen, but a large protest of about 10,000 farmers led by Catholic priests took place in October 2016 to demand compensation for the massive fish deaths caused by the Formosa Steel Complex in Ha Tinh province. This protest was preceded and followed by many other protests from other communities along the coast in central Vietnam that suffered from similar damages.

Hundreds of bloggers and activists were arrested and many were imprisoned in this period of assessment. Well-known activists are constantly surveilled and prevented from going out of their houses for meeting others or for protest. Famous blogger Nguyen Huu Vinh and his assistant, Nguyen Thi Minh Thuy, were arrested in May 2014 on charges of violating Article 258 and 88, but were not brought to trial until March 2016, nearly two years later. Vinh was sentenced to five years in prison, and Thuy to three. In late 2016 and early 2017, two well-known activists, Nguyen Ngoc Nhu Quynh and Tran Thi Nga, were arrested on the same charges. According to the Committee to Protect Journalists, Vietnam imprisoned six journalists in 2015 and eight in 2016 (ranked 10th in 2015 and 6th in 2016 among countries that imprisoned the most journalists).

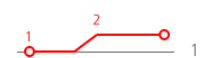
3 | Rule of Law

The most important principle on which the Vietnamese political system rests is the absolute and comprehensive leadership of the VCP as stated in Article 4 of the 2013 constitution. The VCP rejects separation of powers, but allows the division of labor among various state organs, whether executive, legislative or judiciary – all under the leadership of the party. While the party controls all branches of government, there is a certain element of checks and balances, due to the Vietnamese leadership principle of “triarchy” (separation of the offices of party head, president, and prime minister), a more self-aware legislature vis-à-vis the government and an increasing awareness of the public and elements of the communist party for the need to strengthen the effectiveness of the judicial system.

Separation of powers

2

'06 '18 10



The VCP assigns its cadres into leadership positions in all branches or units of government. These cadres are under the authority of the Party Committee of the unit or branch. All party committees are in turn placed under the direction of party committees at a higher level. At the top, the Central Committee of the VCP usually meets twice a year to make decisions on major policies. Day-to-day management is conducted by the Politburo assisted by the Secretariat. Judges and legislators in popularly “elected” institutions at all levels of government are all held accountable to Party Committees at their respective levels.

The judiciary is not independent but under full control of the party. Judges are appointed for a fixed term of five years by the Party Committee of the same level, with the approval of the Party Committee of higher level. The judiciary includes three tiers: district, province, and national (Supreme Court). There are also three Appeals Courts located in three regions of Vietnam. A ruling by a district court can be appealed only once. A separate Prosecutorate exists and is organized parallel to the court system, following the Soviet model. The Ministry of Justice and its local branches are charged with overseeing legal education, vital statistics, and with drafting some laws. It does not have the power to appoint judges or to administer the justice system.

The judiciary is not vested with the power to interpret or review laws, nor has it tried to do so; it only applies the laws. The judiciary is one of the most corrupt institutions. There has been no systematic study, but cases of bribery have frequently been exposed in the press. The government has recently, with foreign assistance, sought to reform the judiciary system by raising and standardizing legal education and professional qualifications for judges and other court personnel. Due to decades of neglect (Vietnam used to consider law a capitalist tool to oppress the working classes and had no law school deserving of the name, or criminal code until the mid-1980s), the system suffers from a serious shortage of qualified judges, and many have simply been transferred from other bureaucratic positions to serve the court without much formal legal education.

While the constitution’s preamble states that “the constitution is the [legal] institutionalization of the VCP’s Political Program,” Article 4 stipulates that the VCP “operates within the boundaries of the constitution and the law.” In reality, the VCP places itself above the law and the party statutes override the country’s constitution. According to the party statutes, party members are obligated to abide first by the VCP’s program, its statutes, resolutions and instructions, then after these, by the state laws. Party members who violate state law would face disciplinary actions by the party first before being brought to trial at the court, if at all. Even if a party member is ordered to stand trial by the law, which has only taken place in cases of highly egregious violations, a sentence is not decided by the judges but by the Party Committee of the Court. These party members are frequently given light or reduced sentences.

Independent
judiciary

2

'06 _____ '18 10



Prosecution of
office abuse

3

'06 _____ '18 10



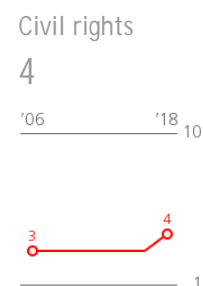
The current Party General Secretary Nguyen Phu Trong has sought to rein in rampant corruption through two mechanisms. One mechanism is to take personal control of and revamp the Anti-Corruption Authority since 2013. Under his leadership at the central level, this authority has 16 members and is dominated by party apparatchiks (as opposed to state bureaucrats). Seven out of 16 members are also Politburo members. The second mechanism was to convene a Central Committee meeting in late 2016 to issue a party resolution linking corruption to the broader issue of declining ideological loyalty, party discipline and personal morality. The anti-corruption strategy is not new, which continues to rely on ideological exhortations, periodical inspections through party organizations and the Maoist technique of criticism and self-criticism.

Trong was immediately challenged by other party factions for his anti-corruption initiatives. His protégé, Nguyen Ba Thanh, the handpicked Standing Vice Chair of the Anti-Corruption Authority died of mysterious causes after less than a year in office. Trong's recommendation that Prime Minister Nguyen Tan Dung be disciplined for corruption was rejected by the Central Committee of the VCP. Even though Dung retired in early 2016, corruption and abuses of power by officials have not abated but actually increased. A late 2016 report by the government Inspectorate concluded that corruption was rampant and severe, and that the determination to fight corruption was shown merely on paper. The two most recent heads of the Inspectorate themselves were embroiled in corruption scandals after their retirement as reports became available of their massive real estate holdings and their rush to appoint dozens of officials in the agency without following appropriate procedures within the last six months of their terms.

In 2015 to 2017, no information about the number of corruption cases has been made public. Several high-profile corruption cases that have been disclosed involve the Ministry of Commerce and Industry and the state-owned oil conglomerate. The corruption at the oil conglomerate is as large a case as that with Vinalines but its investigation has been stalled. This case involves the current Ho Chi Minh City Party Chief and Politburo member Dinh La Thang and several protégés.

In the review period, the state of civil rights in Vietnam is showing an even greater gap between rhetoric and reality, between the law and practice. As Vietnam became more integrated into the global order, the government can no longer reject the concept of human rights as irrelevant to Vietnam. For the first time in history, the 2013 constitution devotes a separate section to human rights, guaranteeing the right to life, to privacy, and to be free from arbitrary arrest and torture. According to Article 16, all citizens are equal before the law and no one shall be discriminated in political, economic,

In practice, however, these rights remain restricted and police suppression of these rights remain widespread. The police have been so powerful in part because they control the prison system, which allows them in most cases to deny detainees access



to lawyers during the investigation, even though it is required by law. In 2013 and 2016, two men, who a decade earlier were tortured, forced to confess, and sentenced to life in prison, were now found not guilty and released. In response to public outcry, in late 2015 the Minister of Public Security agreed to install cameras in the rooms where suspects are questioned (but he maintained that camera footage was meant only for internal police inspection). Two police investigators in the two cases were tried and received prison sentences of 20 months total, while one of the two victims has been paid \$320,000 as compensation for his loss of property and 10 years spent in prison. These are high-profile cases; normally police officers who abuse power tend to get away with it.

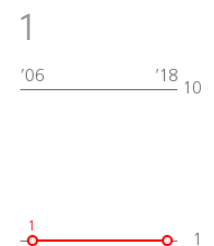
No information is available on de facto and systematic discrimination based on religion, ethnicity, gender and sexual orientation in terms of schooling or employment opportunities. Such discrimination exists but Vietnam does not seem to have a serious problem. Exceptions are certain religious sects (United Buddhists, Hoa Hao Buddhists, and Protestants) and ethnic groups (Khmers, Hmongs) that are closely surveilled and sometimes harassed by the authorities. In addition, the rate of abortions for sex selection in Vietnam ranks third in the world and deserves the highest concern.

4 | Stability of Democratic Institutions

Vietnam does not have democratic institutions, only the appearance of democracy. More than 90% of National Assembly (NA) members are VCP members and required to follow the party's orders. About a quarter of members are full-time legislators, and the assembly meets only twice a year. There are regular but brief televised sessions for NA members to question top government officials, but this is more for show than for substance. Discussion of important policies are not public even though the discussion is in most cases simply to rubber-stamp decisions already made by the Politburo (in some cases the Politburo may use the forum to test certain policy proposals, especially when it cannot reach consensus itself). The "elected" People's Committees at local levels are under even greater control of the local party. Given the party's tight control over these nominally democratic institutions, the potential for them to lead democratization is small.

After a riot by farmers in Thai Binh province in 1997, the government issued a law on grassroots democracy. This law requires some degree of local officials' transparency and accountability to the unit of work or administration through regular meetings and the timely dissemination of important information. According to an official report on this law in mid-2016, in many places no effort to implement the law has been made. No further official information is available, but various informal sources suggest that the law has been largely circumvented by local officials. An indication of this is the continuing rise in the number of petitions and claims against

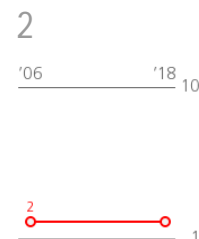
Performance of democratic institutions



local administrations sent to the National Assembly (a rise of 14% to more than 30,000 in 2016 compared to 2015).

Like the judges who take orders from party committees, members of the National Assembly are kept on a short leash. Typically, more than 90% of legislators are party members who have to cast their votes on the order of the Politburo. Only about a quarter of NA members are full-time legislators, and most policies are drafted by the relevant ministries or state bureaucracies. There have been lively yet brief televised question and answer sessions at every meeting, but these have never had any significant impact on legislation. Only once or twice in the past had the NA voted down an important policy, but these occasions seemed to reflect the failure in the Politburo to achieve consensus rather than the power of the NA to check that of the Politburo. There is little potential for future democratization of the NA as long as the VCP remains in power.

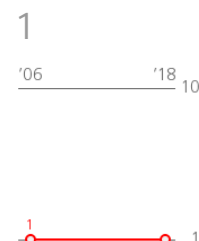
Commitment to democratic institutions



5 | Political and Social Integration

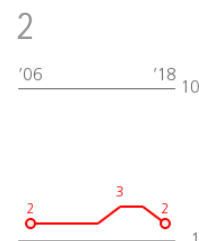
Vietnam has a single-party system dominated by the VCP. Prior to its taking full control of Vietnam in 1975, the VCP was adept at mobilizing nationalist sentiments and gained support from particular classes such as poor peasants. The party was well-institutionalized and more or less socially rooted. Since 1975, it has experienced a slow decay. Today it no longer has strong roots or legitimacy in society as party members have morphed into a special class mostly concerned with seeking wealth and privileges for themselves, their families and cronies.

Party system



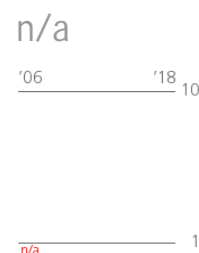
The VCP controls several large national mass organizations that maintain branches throughout the country. Since market reform was launched, most of these organizations, including the Workers' Union, the Communist Youth League, the Fatherland Front, and the Writers' Union have become mere talk shops and highly ineffective in aggregating interests. Yet the VCP does not permit any associations with an independent political agenda to form. Thousands of small, private groups and associations exist legally, but their members share common interests only in cultural, economic, professional or hobby activities – not in politics. Most social groups and political interests are not represented in the political system.

Interest groups



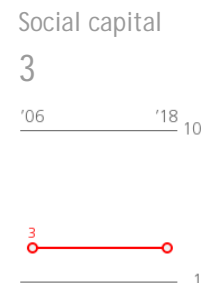
In Vietnam, at the national level, there is no public opinion survey on the state institutions' performance. There are, however, different surveys conducted at the local level with annually publicized findings (e.g., the PAPI and PAR indices) that are conducted in a fairly independent manner. Local authorities very often look at these surveys to encourage reforms of local governance. The findings of regional survey projects such as the Asian Barometer Survey indicate that a very large majority of the respondents (more than 80%) approve and prefer democracy; the same surveys, however, show that respondents are satisfied with the working of the

Approval of democracy



“democratic” system in their country, raising questions about the cross-cultural applicability of such survey questions and the concept validity of such measures.

The level of trust among Vietnamese is not known as no proper survey of public opinion is allowed. Self-organizations include those sharing personal hobbies and narrow social and economic interests, but not political. Whether these can be called “civic” is questionable (see 2.3 for a more detailed discussion on these organizations).



II. Economic Transformation

6 | Level of Socioeconomic Development

Vietnam has achieved significant progress in poverty reduction during the first two decades of market reform. The share of the population living on less than \$2 a day has been brought down to 13.5% in 2014, which is lower than the Philippines but higher than Indonesia. Life expectancy was 75 years of age in 2014, higher than both the Philippines and Indonesia. Gross enrollment for both sexes was higher than Indonesia but lower than the Philippines.

Overall, Vietnam’s level of socioeconomic development reflects its level of national income. The World Bank’s Human Development Index ranked Vietnam at 116 out of 188 countries in 2014 – below all its neighbors except much poorer Cambodia, Laos and Myanmar. Vietnam does have less social inequality than its neighbors, with its Gini coefficient at 35.6 in 2013. Data from the UNDP shows that income and life expectancy inequalities in Vietnam were less than those ratios for the Philippines in 2014, but inequality in educational opportunities was much higher. The overall Inequality HDI put Vietnam at 0.666 in 2014, slightly higher than the Philippines.

Vietnam’s Gender Inequality Index ranked it 60 out of 155 countries in 2014, higher than most of its neighbors. Women made up 24.3% of parliamentary membership and 73% of the labor force in the same year. Nearly 60% of adult women have reached secondary level of education or higher, compared to about 71% of their male counterparts.

Despite the progress, significant barriers exist for women, ethnic minorities, the handicapped and migrants. Women accounted for only 18.3% of party leadership at the commune level, 14.2% at the district level, and 11.3% at the municipal level in 2014. The most troublesome indicator is the sex ratio at birth, which has increased



from normal male/female level of 106 to 100 in 1999 to nearly 114 to 100 in 2013. This was the world's third highest rate after only India and China.

The poverty rate among ethnic minorities, most of whom live in mountainous and remote areas, is nearly 60%, almost ten times higher than that for the Kinh (the ethnicity of majority Vietnamese). Mortality rates for less than one year of age for children of ethnic minorities is four times higher than that for Kinh children. The malnutrition rate of the former group is the same as it was ten years ago despite the tripling of the number of millionaires in the last 10 years. More worrisome, the rate of mortality at birth for ethnic minorities nearly doubled from 27 to 44 per 1,000 between 2003 and 2012 (compared to a reduction from 20 to 10 per 1,000 for Kinh children in the same period). Although ethnic minorities' children have closed the gap with their Kinh counterparts in elementary education, the gap remains large for high school (40 compared to 70%).

Vietnam passed a law on persons with disability and joined the U.N. Convention on the Rights of Persons with Disability in 2015, but the disabled face significant barriers. Members of this group, who account for between 8% and 15% of the population above five, are often excluded from society. For example, more than half of children with disabilities have never been to school. More than 70% for those between 10 and 14 years old with mobility handicap or mental development problems have been found to be in the same situation.

Migrants who account for more than 5% of the population are another group facing many barriers. A key barrier is the household registration system [ho khau] which makes it difficult for them to gain legal residence in many cities. About three million residents of Ho Chi Minh City are not officially registered with the government, whereas the number for Hanoi is more than 1 million. Without official residency, migrants would face difficulties in accessing social services such as medical care, education and other facilities. Migrant workers are paid lower wages and often denied medical insurance and pension. Very few children without ho khau are enrolled in middle and high schools compared to those with ho khau.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	171222.0	186204.7	193241.1	202615.9
GDP growth	%	5.4	6.0	6.7	6.2
Inflation (CPI)	%	6.6	4.1	0.9	-
Unemployment	%	2.0	1.9	2.1	2.2

Economic indicators		2013	2014	2015	2016
Foreign direct investment	% of GDP	5.2	4.9	6.1	6.2
Export growth	%	17.4	11.6	12.6	13.9
Import growth	%	17.3	12.8	18.1	15.3
Current account balance	\$ M	7745.0	9359.0	906.0	-
Public debt	% of GDP	51.8	55.1	57.3	60.7
External debt	\$ M	65452.0	72429.8	77827.4	86952.5
Total debt service	\$ M	4515.8	6720.5	6622.3	7342.0
Net lending/borrowing	% of GDP	-5.7	-	-	-
Tax revenue	% of GDP	19.1	-	-	-
Government consumption	% of GDP	6.2	6.3	6.3	6.5
Public education spending	% of GDP	5.7	-	-	-
Public health spending	% of GDP	3.8	3.8	-	-
R&D expenditure	% of GDP	0.4	-	-	-
Military expenditure	% of GDP	2.2	2.3	2.4	2.4

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

As Vietnam became more integrated into the global economy since market reform, the authorities have gradually removed market barriers and improved the competition in the market. Significant barriers to a full market economy remain in pricing, in currency management, in certain important markets and for non-state forms of ownership.

According to the 2012 law on prices and Decree 146 (November 2016), Vietnam maintains price controls over many important commodities, such as gasoline, electricity, liquid petroleum gas, certain transportation fares and veterinarian services. The prices of cement, construction steel, coal, sugar, rice, newsprint paper, textbooks, milk and nutritional powders for children under six, animal feed and medicines are not controlled, but producers are required to report prices. For most of these commodities and services, the market is dominated or monopolized by state-owned firms, and price controls are ostensibly to serve national interests (such as to

Market-based competition

3

'06 '18 10

4 3

1

keep inflation low) or social functions (such as to guarantee a certain level of consumption for the poor).

According to the World Bank, Vietnam's business environment was ranked 91 out of 189 countries in 2016, an increase from 82 out of 190 in the previous year. Yet significant barriers exist in product and factor markets. For "national defense and security, social order and safety, and social morality and health," the 2014 investment law listed 267 products and services to be permitted only if certain conditions have been met. This was a reduction from 386 in previous legislation – a still very high number that includes such services as automobile maintenance and private tutoring. There exist nearly 6,000 conditions for establishing businesses in these areas, of which 4,000 are believed to contradict other laws.

A different kind of barrier involves well-connected and protected state monopolies in key markets from electricity to telecommunications, and from construction to transportation. Red tape and corruption are two other barriers. Corruption is pervasive, and it is practically impossible to acquire a business permit or a bank loan without paying some bribes.

Even though the government frequently claims that all enterprises are equal regardless of ownership, in reality the state-owned sector is heavily favored. The VCP continues to adhere to the policy of keeping this sector the driving sector of the economy for ideological and power reasons. This sector receives far more favorable access to land and credits from the government than the private sector. Even enterprises with foreign investments are treated better by the government than Vietnam's own private enterprises, especially those without political connections. The latter face onerous regulations, hostile government policies, and much more powerful competitors in state-owned and enterprises with foreign stakeholders. The larger a SOE is, the more favor it receives from the government. The larger a domestic private enterprise is, the more it is exposed to risks of government investigation and harassment.

The informal sector in Vietnam is large, as expected for its level of development. According to World Bank data, there were an estimated 22.5 million smallholder farmers (43%) and 11 million non-agricultural laborers (21%) among 52.6 million people in the labor force in 2014. There were another 7.4 million wage workers without work contracts (14%). These compared with 11.3 million wage workers with contract (22%), of which 1.4 million were employed in state-owned enterprises (2.6%), 2 million in foreign-owned enterprises (3.8%), and 3.9 million in domestic private sector (7.5%).

Since 2016, the new prime minister has made many statements about improving conditions for doing business, but whether the political system is moving in that direction is an open question. A USAID report released in March 2017 concluded that the situation has in fact worsened since 2013. Two-thirds of businesses were

found to have to pay “unofficial expenses” to conduct their business, about 12% higher than five years ago. These expenses now account for about 10% of their total revenues, compared to about 7% five years ago.

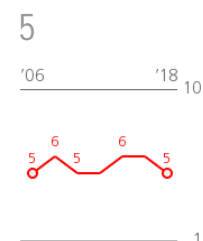
The government has made a more sustained effort to “equitize” and merge many state-owned enterprises since 2010. By the end of 2016 the number of SOEs has declined to 652 from nearly 1,500 in 2010. However, the program has slowed down in 2016 for unclear reasons. About 200 of the largest SOEs remain in the state’s hands. Privatization in most cases seems determined by a combination of the central government’s need for funds and the desire of enterprises’ executives to enrich themselves as public property can be drastically undervalued before being transferred to private ownership. Many executives and their families such as the recently disclosed case of Vice-Minister of Commerce and Industry Ho Thi Kim Thoa have recently become millionaires thanks to these transactions. This process does not seem to affect the market economy positively as it is simply a predatory practice of powerful and well-placed officials to rob the country of its assets.

The competition law was promulgated in 2004. This law appears to be an attempt to demonstrate to Vietnam’s international partners that it has a market economy (to gain trading privileges that accompany that status). Yet this law contains significant exceptions when it comes to state monopolies (Articles 15 and 19). Up to the end of 2015, reportedly more than 300 complaints had been submitted, with 158 investigated and rulings issued in 150 cases by the Department on Competition Management, the agency under the Ministry of Trade and Industry that enforces the law. Most cases (62%) involved advertisement. According to Nguyen Phuong Nam, the deputy head of the agency, the number of cases brought under investigation was small compared to the very wide range of illegal practices. The agency did not have a great impact due to its limited and inadequate staff. The Council on Competition, which supervises the Department on Competition Management and is tasked with issuing final decisions, is composed of officials from several ministries who may not have knowledge on the issue and who only work part-time. Another official observed that violations of the competition law have proliferated in recent years.

In May 2016, the newly installed government of Prime Minister Nguyen Xuan Phuc issued a resolution calling for expanding the domestic private sector and creating a friendlier environment for business in Vietnam. Yet it would be a mistake to expect any radical change as the SOEs have been so entrenched in the Vietnamese political-economic system.

Since market reform began, Vietnam has gradually liberalized foreign trade to promote exports. The drop in tariff rates over the last 15 years has been significant. According to the World Bank, the weighted mean applied tariff rate was reduced from 15.29% in 2001 to 3.14% in 2015. Vietnam concluded a Bilateral Trade Agreement with the United States in 2000 and joined the WTO in 2007. As a member of ASEAN, Vietnam is also a member of the ASEAN Free Trade Agreement and ASEAN free

Anti-monopoly
policy



Liberalization of
foreign trade

8

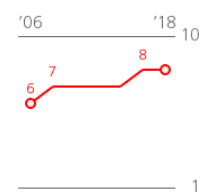
trade agreements with China, India, South Korea, Australia and New Zealand. In the last five years, Vietnam signed other bilateral free trade agreements with Japan, Chile, South Korea and the EU. In 2014 Vietnam's exports were valued at \$165 billion, while its imports were worth \$157 billion. Foreign trade now equals 173% of Vietnam's GDP. Although Vietnam's economy is quite open to trade, privileged treatment for SOEs is a source of concern. Some barriers remain in certain sectors such as export quotas on certain commodities.

Since its creation in 1990, the banking system in Vietnam has undergone rapid growth. In 2015, five fully or majority state-owned commercial banks accounted for 44% of the industry's assets. These were followed by 33 joint-stock commercial banks (42%), which have a more diversified shareholding structure. The remaining financial institutions were 10 joint ventures and 100% foreign-owned banks or branches (11%). According to regulations, banks must maintain a minimum charter capital of about \$140 million. According to the latest World Bank figures the ratio of non-performing loans was 2.9% in 2014, and the bank capital to assets ratio was 8.8% (2014).

Despite its rapid growth and gradual consolidation, Vietnam's banking system carries many risks. Structurally, the state still plays the dominant role in the system, and the central bank, the State Bank of Vietnam (SBV), is not independent. This structure opens the system to political manipulation by politicians like former Prime Minister Nguyen Tan Dung who pursued a lax monetary policy to build up his patronage network. Dung's policies led to high inflation and increased budget deficit, not the higher GDP growth rate that he promised.

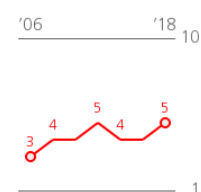
Other risks facing the banking system involve cross-ownership of banks and the overall fragmentation of the system, with more than 100 financial institutions competing in a relatively small economy. Nearly 60% of the joint-stock commercial banks have low charter capital (less than \$150 million). The SOEs are not part of the banking system but they provide evidence of a soft budget constraint that poses a tremendous risk to that system. During the credit and housing boom in the mid-2000s, SOEs took out large loans from state-owned banks not for productive purposes but for real estate speculation. This led to a large amount of non-performing loans when the boom went bust in the late 2000s; SOEs are estimated to account for 60% of those loans. Although the official estimate of those loans is about 5% of GDP, Moody offers a much higher estimate at 15%.

In 2011 the government announced a plan to consolidate small local banks into larger ones by raising the required charter capital from \$45 to \$140 million and the required minimum capital adequacy ratio from 8 to 9%. Reserve funds were also made mandatory and increased from 10% of net income to 25% of charter capital. Despite several mergers and acquisitions since, the consolidation process has been slow, in part because of the difficulty in assessing the amount of non-performing loans. The SBV transferred some bad debts to the state-owned Asset Management Company in



Banking system

5



2015. It also announced the list of 10 commercial banks to apply Basel II standards. The government wants these banks to fully comply with those standards by 2018, and the remaining banks in the system will start applying Basel II standards in 2019.

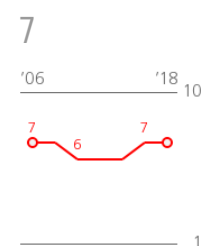
8 | Currency and Price Stability

The State Bank of Vietnam (SBV) is not an independent agency, but is under the direction of the VCP. In the late 1980s, Vietnam experienced hyperinflation of 700% annually, but proper monetary policies subsequently brought inflation to a low and stable level throughout the 1990s. In the 2000s, inflation was back. Economic boom in the U.S. led to increased prices of imports, while domestically the Nguyen Tan Dung government pursued lax monetary policy ostensibly to accelerate growth. As a result, inflation rose from insignificant to nearly 10% in 2004, then to 23% in 2008. Throughout the whole time, the rate of GDP growth did not increase noticeably. After Vietnam tightened monetary policy in 2008, the inflation rate fell to less than 7% in 2009. Then Vietnam implemented a stimulus package in response to the world's economic recession in 2009, which caused inflation to soar to nearly 20% in 2010. The rate has since been brought down gradually, to 1.84% in 2014. In 2015, inflation fell to a record low of 0.6% thanks to falling oil prices and a glut of imports following the removal of many tariffs the previous year based on free trade agreements. In 2016, inflation was 4.74%.

Vietnam's currency, the dong, is not convertible. Until recently, the SBV pegged the dong against the dollar and allowed it to adjust within a narrow band. The policy was criticized for resulting in an overvalued currency and in greater exposure to the risk of currency shocks due to dollar volatility. The high rates of inflation during 2004-2010 forced Vietnam to devalue the dong by nearly 10% in 2011. This appeared successful in reducing pressures on the currency for the next few years. After the U.S. Federal Reserve raised interest rates in 2015, Vietnam lost more than \$7 billion in foreign exchange reserve as the government tried to defend the dong. The SBV has coped by raising interest rates, by relaxing control over currency movements and also by pegging the currency against a basket of key foreign currencies instead of just the dollar. Thanks to an improved trade balance, by mid-2016, the amount of foreign exchange reserve recovered to about \$38 billion, equivalent to about 12 weeks of imports. However, the new way to calculate and adjust the dong is not made public, leading to greater risks for enterprises that are dependent on imports.

Although Vietnam survived the macroeconomic instability of the 2000s, the economy is currently facing new challenges with a rising debt burden and with the government's failure to reduce the budget deficit. Budget deficit has remained high and persistent at 5% or higher of GDP since 2000, with peaks in 2009 (7%) and 2013 (6.6%). In 2015 the ratio was 6.1%. The government has made numerous efforts over the last decade to rein in spending, including trimming the bureaucracy and cutting

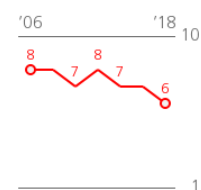
Anti-inflation /
forex policy



Macrostability

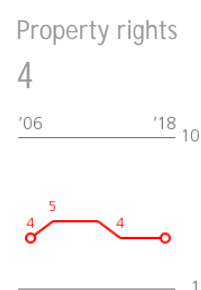
6

back on wasteful investment projects, but these have not been effective. The budget deficit has contributed to inflation and rising debt incurred to finance deficit. Vietnam’s public debt continued to rise since 2000, and has doubled since 2011. The World Bank’s estimate of Vietnam’s public debt in 2016 is \$117 billion or about 62% of GDP. Debt service payment has similarly risen rapidly. If 22.4% of Vietnam’s annual revenues in 2013 was used to pay debt, the ratio was nearly 30% in 2015. The rising debt service is cutting into government expenditure for development, which declined from an average of 27.7% during 2007-2013 to 15.6% in 2015.

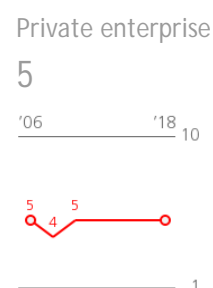


9 | Private Property

The Vietnamese government has a poor track record in protecting private property. According to Article 53 of the 2013 constitution, land and other resources are publicly owned and state-managed. Individuals, households, and businesses are given land use rights but not ownership. Article 54 of the constitution and Article 16 of the 2013 land law allow local governments to requisition land for a variety of purposes related to national security and socioeconomic development. On this pretext, many local authorities have taken land from farmers with little compensation and sold to developers for a much higher price. Land grabbing has resulted in numerous protests by farmers who rarely receive fair treatment. Recently some desperate farmers have resorted to violence in the face of a recalcitrant state.



The 2014 law on enterprise offers all enterprises equality before the law regardless of ownership and protection of assets and capital from nationalization. Article 51 of the 2013 constitution also guarantees that all economic sectors are to be treated equally by the law, yet the state-owned sector is given the leading role. In fact, SOEs possess great political power since their directors are often members of party committees with legislative, executive and judicial authorities that no private enterprise can match. Thanks to their political status, SOEs enjoy market domination and numerous other privileges in the economy compared to their private counterparts. To reform the corrupt and loss-generating state-owned sector, the government has carried out “equitization” but this has affected mostly smaller SOEs in less strategic sectors.



Since beginning his term in early 2016, the new Prime Minister Nguyen Xuan Phuc has stated that he wanted to promote business development. Throughout the year, it is reported that various government agencies have been reviewing existing regulations toward that goal. However, a March 2017 report by USAID shows that the situation is not better and may be even worse (see 7.1 for more detail about this report).

10 | Welfare Regime

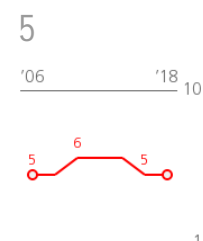
Vietnam's social welfare system has slowly developed as the market economy continues to evolve. Progress has been made more in poverty reduction and health care than in pension provision. In health care, government spending has increased from 1.5 to 2.5% of GDP from 2000 to 2015, which is now higher than most of its neighbors. Health insurance enrollment has increased from 15 to 70% of the population in the same period. 30% of the population remains uninsured, and out of pocket medical expenses can drive many households into poverty. Corruption is pervasive in the system, with 22% of recently surveyed respondents reported having paid a bribe at a health facility last year.

Vietnam has a pension system that pays pension either to workers in the formal sector or to people of old age for their past contributions to the revolution. Data for 2013 indicates that the formal system covered just 20% of the workforce and favored those with higher income. Public spending on pensions is below the global average, but social contribution to pensions by employees and employers is high as a percentage of total spending, ranking only below China and Malaysia in East Asia. Social pension covers 1.3% for those aged 60-79, and 79% of those at 80 or above. The benefit level is modest, at under 10% of per capita income. Overall, most people aged 60 and above have no pension whatsoever, and among those who do, half receive very low benefits. Social assistance programs (including cash transfers) have been introduced since 2000, but government spending for these programs remains low, at about 0.69% of GDP during 2008-2013.

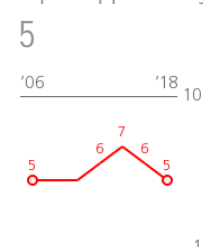
Equality of opportunity is a problem facing women, ethnic minorities, migrants and rural residents in the areas of work and social services (education, health care) – as discussed above. Vietnam has one of the highest rates of female participation in the work force, at 72% in 2012. Yet a wage gap exists and has widened recently between men and women working in the same jobs. A study shows that the wage of female workers on average was equal to 87% of their male counterparts in 2004, but only 80% in 2012. Ethnic minorities, migrants and rural residents are much poorer and have more limited access to services than the Kinh and urban residents. Christians, who account for about 10% of the population, and children of former government officials of the Republic of Vietnam (South Vietnam) may face career and political barriers if employed in state institutions.

Access to public office is gained in most cases either with money or political connections. It is difficult and perhaps even impossible for those with talents but without money or connections to gain public office. Leadership positions, or opportunities for promotion for public employees, are further reserved for those who can demonstrate their political loyalty. In most cases this means they come from

Social safety nets



Equal opportunity



families of existing or retired officials. It is now common for children to inherit the offices of their parents, regardless of their ability.

11 | Economic Performance

Vietnam's economy has performed reasonably well since market reforms were implemented. GDP growth rates averaged 7.7% during 1990-2010, and 5.4% during 2010-2015. GDP per capita increased from about \$240 to \$2,100 at current price. GDP in purchasing power terms rose from \$970 to about \$6,000 in 2015, putting Vietnam in the group of low middle-income countries. Growth has been driven mainly by foreign direct investment. FDI inflow per year averaged from about \$1 billion in the early 1990s, \$2.5 billion in the early 2000s, to more than \$10 billion since 2008 following Vietnam's entry into the WTO. In terms of FDI stock per capita, Vietnam has left its ASEAN neighbors far behind with a ratio of more than 60% of GDP, compared to about 40% for Malaysia and Thailand.

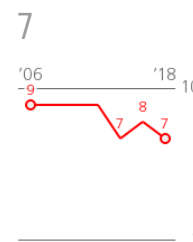
Despite consistently positive growth rates, economic performance has not been stable or solid during the past decade. Current account was negative for most of the period, and deficit during 2007-2008 reached more than 10% of GDP. Since 2012 current account balance has turned positive but remains vulnerable to shifts in the global economy and domestic politics. Another source of concern is stagnant labor productivity. While total factor productivity (TFP) contributed to nearly 34% of growth during 1990-2000, the ratio declined to a mere 2.3% for 2000-2010. Average labor productivity growth rate has declined since its peak in 1997 at the five-year moving average rate of more than 6% and is currently at less than 4%.

12 | Sustainability

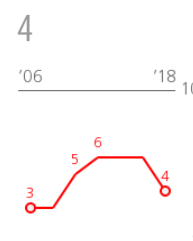
Vietnamese leaders have never paid much attention to the environment in their quest to achieve economic growth. Although Vietnam can be proud of being the world's top exporter of rice and coffee, it is now confronting the problem of soil degradation and the depletion of groundwater. Between 1990 and 2005, the country lost nearly 80% of its primary forests, although the rate of forest destruction has declined. An important cause of deforestation is the construction of hydroelectric dams in northwestern and central regions. These dams are now believed to contribute significantly to a high level of floods in central Vietnam during the monsoon season.

Official statistics show that violations of environmental regulations take place in 80% of Vietnam's industrial zones. Most of the violations involved FDI enterprises but the authorities have either ignored or even tried to cover up and protect the violating businesses, as evidenced in several environmental disasters in the past decade. In 2008, after 14 years of dumping untreated wastewater into the Thi Vai River in southern Vietnam, the MSG Taiwanese company Vedan was forced to stop the

Output strength



Environmental policy



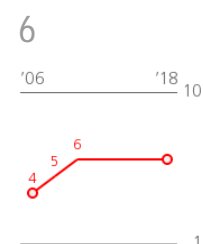
practice and pay compensation to farmers for the damage to the river, but farmers had to go to great lengths to attract attention from the government. In 2011, another company, this time the SOE Sonadezi, was caught dumping industrial sewage into the river but the government protected it from public pressure.

In 2016, the Taiwanese Formosa Steel Complex in Ha Tinh released tons of untreated toxic chemicals into the ocean, causing massive fish deaths along the coast of four provinces in central Vietnam. After great public outcries and many protests, and after secret negotiations with the government, the company hastily agreed to pay compensation of \$500 million. It is unclear if the amount of compensation takes full account of the damages, and if the company would actually pay anything. The government has thus far refused to prosecute the case as a crime despite clear evidence otherwise.

Education remains one of the least reformed sector in Vietnam due to ideology, corruption and the concentration of power at the national level. There has been limited progress: Vietnam's U.N. Education Index increased from 0.38 in 1980 to 0.51 in 2013 – slightly higher than Cambodia but significantly lower than China, Indonesia and the Philippines. According to the World Bank, government expenditure on education as a percentage of total spending increased from 18 to 21.4% during 2008 to 2012, which was still lower than most of Vietnam's neighbors. Inequality in access to higher education is high in Vietnam: 51% of the population aged 20 to 24 years whose household wealth belongs to the top quintile were found in 2011 to have attended higher education, whereas the rate for the lowest quintile was only 3%.

According to a UNESCO report, Vietnam stands out among East Asian countries for the state's domination in tertiary education, with 187 public institutions of higher education compared to 28 private ones (the public/private ratio is 7/1). Yet universities and businesses employ only 43% of researchers: the rest work for the government, which is the highest rate in East Asia. The government's attention to and investment in research has not kept pace with the rate of economic growth. R&D expenditure as a percentage of GDP (0.19% in 2002) and the number of researchers per million of people (less than 500 in 2011) were among the lowest in East Asia.

Education policy /
R&D



Governance

I. Level of Difficulty

Compared to many other countries in Southeast and South Asia in particular, structural constraints to governance in Vietnam are moderate. The country enjoys the benefits of its favorable geographic location in an economically dynamic region and relative natural and human resource wealth (i.e., a long coastline, rich natural resources, and a relative large, young and literate population).

While vulnerable to the negative consequences of climate change, such as rising sea levels, extreme weather and declining biodiversity, annual threats of typhoons do not appear to be particularly debilitating compared to natural calamities in other countries.

Moreover, and in spite of the wars fought in the country after 1945, Vietnam has a fairly strong tradition of autochthonous stateness and national identity. The extreme poverty found in the country prior to market reform was largely a product of autarkic and mistaken socialist policies. This explains in part why Vietnam has rebounded so rapidly since many of these policies have been abandoned.

Nonetheless, there are certain contextual conditions (i.e., structural constraints) that include growing urban vs. rural disparities and strained interethnic relations between the Vietnamese majority and various ethnic minorities. Infrastructure remains underdeveloped, and the health system is vulnerable and ill-equipped to handle pandemics such as SARS. Finally, while education levels are relatively high compared to many other countries at a similar (or lower) income level, the quality of education and the capacities of the educational system are deficient and perhaps insufficient for future economic development.

The destruction and neglect suffered by Vietnam's weak physical infrastructures during the war years poses a challenge, but the long coastline continues to compensate for the lack of roads.

Vietnam does not have a strong tradition of civil society. Local- and clan-based organizations may have been robust, but this did not translate into any civic culture or something deserving to be called a civil society. Such traditions were destroyed or seriously eroded during the decades of totalitarian government prior to market

Structural
constraints

5

'06 _____ '18 10

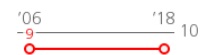
5 ————— 1

_____ 1

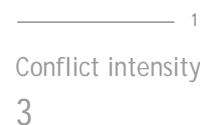
Civil society
traditions

9

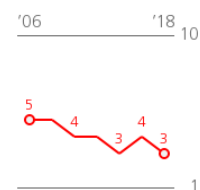
reform, especially following the Maoist land reform in North Vietnam in the 1950s when members of the same family and neighbors were mobilized to attack each other.



Vietnam does not have sharp cleavages along ethnic or religious lines. The major historical cleavage has been political. During 1950 to 1975, the country was under two different governments and experienced a civil war. This war still leaves some bitterness and hatred among many Vietnamese and it remains hard to know how deep this cleavage remains.



There have been reports of ethnic tension in the lower Mekong Delta as ethnic Khmers react to and resist certain government policies viewed as oppressive. Rising social inequality in Vietnam’s context is not likely to lead to social conflict but rather to regime change. Popular resentment against vast wealth accumulation by officials and their families is likely to translate into demand for regime change.



II. Governance Performance

14 | Steering Capability

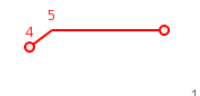
Executive power is fragmented within the Vietnamese state, spreading out across various communist party organizations and state agencies at different levels. In general, the prime minister and ministers of state are in charge of day-to-day governing, while the party’s general secretary is invested with the power to keep the country within the boundaries of vague “socialist orientations.” Domestically this means maintaining ideological loyalty to the communist doctrine, tight control over coercive apparatuses, severe restrictions on political rights and autonomous civil society, the public ownership of land, and the dominance of the state-owned sector in the economy. Externally, “socialist orientations” means a close and strategic relationship with fellow socialist state China, and a guarded relationship with the U.S. Overall, “socialist orientations” means the subordination of market policies to the imperative to preserve the political status quo.

Question
Score

Prioritization



The party’s main concern has been to stay in power and many of its top leaders have neither deep economic understanding of the market economy nor political vision beyond the Soviet model. Technocrats who have such understanding and vision have never made it to the powerful Politburo and Central Committee, and their proposed policies have often been overridden by superiors. The party is capable of proclaiming strategic, long-term priorities, but its proclamations have typically not been based on careful and pragmatic calculations due to its top leaders’ disregard of technocrats. In



1996, for example, the party set the goal of making Vietnam into an industrialized country by 2020 without any clear idea or study of how to get there. In April 2016, the Chair of the National Assembly went on record to admit that the goal would not be met. Worse, it is unclear when that goal will be achieved, if ever at all.

The VCP claims to set strategic priorities at its Congress that takes place once every five years, but the resolution issued by the Congress is a mixture of a wish list that appeal to key players and vague slogans without any information about strategies. The Ministry of Planning and Investment has capable staff but not the power to set agenda and generate priorities. Political bargaining determines policy priorities and their implementation. Central leaders are primarily interested in benefiting themselves and their faction rather than the country.

Conflicts of interest have in fact always existed in Vietnam's political system, but pre-reform political institutions were able to aggregate and channel most of them quite effectively. These same institutions today no longer have this capacity, which is why one can say that they have decayed. While the influence of vested interests in policy processes is a normal phenomenon, when institutional solutions to conflicts of interest result in a strong tiny minority (officials, business tycoons, state executives) brazenly dominating and suppressing the weak majority, that's the blatant show of oligarchic power rather than democratization. It reveals the rising potential of regime change.

There are several ways to move up quickly, and one common way is to attract as much foreign investment as possible to their province to impress central leaders. Ambitious municipal and provincial officials thus have an incentive to chase after white-elephant investment projects. Given that provincial leaders form the largest voting block in the party's Central Committee, they represent a powerful interest group advocating for greater allocations of investment in their provinces regardless of efficiency.

Another group of powerful players are large SOEs and more recently even some private tycoons who have substantial influence on government policies. Foreign donors have broad leverage on the general direction of market reform for Vietnam but not its politics. Finally, China has maintained a strong and intimate influence over Vietnam in terms of leadership appointments, foreign policies and major economic investment decisions. The government has not been effective when it comes to SOE reform, setting investment priorities, selecting sound investment projects and fighting corruption.

A big question in the Vietnamese case is what has been learnt and from whom. The collapse of the Soviet bloc was one lesson that left a profound impact on the party's thinking. Party leaders blame Gorbachev for wavering and deviating from socialism, and vow that they will never let it happen by rejecting any meaningful political reform. It is not clear that the party is learning the right lesson as the collapse of the

Implementation

5

'06 '18 10

5

1

Policy learning

5

Soviet Union was due fundamentally to the bankruptcy of the Stalinist model more than to Gorbachev's political reform. But the party has steadfastly rejected political reform.

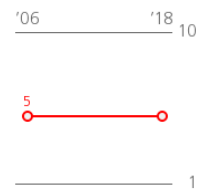
Vietnamese leaders have also learned from the experience of isolation and complete dependence on the Soviet Union in the 1980s. Vietnamese diplomats frequently mention this experience and promote a policy of friendship with as many countries as possible. Many observers have criticized this policy because the friendships Vietnam has built are mostly shallow. In terms of economic management, hyperinflation of the late 1980s left a deep scar on policymakers' thinking. The government has been innovative and flexible when dealing with exchange rate and monetary policy, thanks in great part to memory of hyperinflation. This last case is a clear example of effective learning.

Learning has also taken place through knowledge exchange and observation. To protect socialism, the party has sent numerous officials to study in and from China. Vietnam has maintained close collaboration with China, especially in matters of military modernization, trade liberalization and ideological adjustment. Vietnam delayed signing a Bilateral Trade Agreement with the U.S. until after China had joined the WTO. Every few years the VCP and its Chinese counterpart organize a conference on ideology. The VCP opened its membership to private entrepreneurs a few years after China had (but Vietnam has been slow in implementing this policy due to great internal resistance). Unlike party leaders, government technocrats do seek to learn more from the West, and in areas where they have authority such learning has been demonstrated in policies. There are many examples of effective learning in social policies (policies toward the disabled and homosexuals), in education (policy to push for internationalization), and in foreign policy (greater participation in multilateral organizations).

The party does consult "experts" regularly, but it does not seem to value the advice of real experts that may threaten its power. In politically-sensitive matters, it does not demonstrate a great capacity for effective learning in policy areas such as anti-corruption.

15 | Resource Efficiency

The government does not make efficient use of available human, financial and organizational resources. Political and bureaucratic appointments are commonly based on family connections and political loyalty regardless of education and ability. Government payroll includes not only state bureaucrats, but also the Communist Party and a dozen of large mass organizations such as Trade Union, Communist Youth League and Women's Unions. These political organizations employ about



Efficient use of assets
4

one-third of the four million state employees (excluding the armed forces) and consume a huge amount of taxpayers' money.

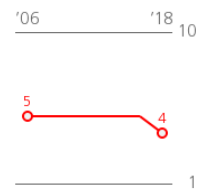
The bureaucracy as a whole is notorious for inefficiency. The current prime minister once said that up to one-third of government bureaucrats should be fired for doing nothing in their jobs. While pay is generally low, perks are numerous, which makes government jobs very attractive. Selling and buying of office is pervasive. An informal survey estimated that a young college graduate would have to pay about \$5,000 to get a state job even though he or she has passed the entrance examination into the bureaucracy.

The budget is perennially in the red due to excessive spending, often on wasteful white-elephant projects like the Thai Nguyen Steel Complex or the Dung Quat Chemical and Petroleum Refinery Complex. The budget deficit has come close to unsustainable level in the last few years, and debt service payment is now eating into state expenditures for development. The national budget has been made partially public, but the budget of the VCP and key state organizations such as the police, the military and the SOEs are still not. There is no independent agency to audit government budget.

Strong technical capacity for efficient administration may exist in some government ministries or agencies that oversee the central bank, telecommunication and public security. But these efficient agencies tend to be isolated or do not form a critical mass to transform the system (the Ministry of Public Security is a bulwark of conservatives who oppose political reform). Regular public administration reforms have been implemented but their impacts have been limited. The public employee examination, for example, does not prevent the selling of office or hinder officials from appointing their children to lucrative positions.

The Vietnamese system of public administration is centralized from the outside but decentralized from within. Provincial governments can have significant autonomy because provincial party chiefs are also members of the Central Committee. Top central party leaders are not their superiors, only primus inter pares. Financially, the central government has great control over provincial budget, which helps increase central authority over provinces but which has not been strong enough to reign in the high level of wasteful spending in many provinces.

Coherent policies in Vietnam are rare. In general, social, economic and other policies are thus made slowly and in a piecemeal fashion. The political commitment to abstract and vague socialist goals in a market economy guarantees a high level of incoherence and even sharp tensions in many areas. Many political institutions such as propaganda and coercive apparatuses are relics of the revolution but still hold extraordinary powers. The Ministries of Public Security and Defense are states within a state, having extensive veto powers. Market-oriented policies can be approved only



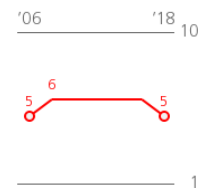
Policy coordination
5

when those political and security gatekeepers benefit institutionally or personally or both. Effective coordination in these cases smacks of either collusion or corruption.

Even if consensus among various state organs has been achieved, implementation is usually ineffective due to the fragmentation of authorities and the decentralization of the system. The head of a line department in provincial governments is accountable to not only the provincial chief but also the provincial party committee and the line ministry in its area of activity. Provincial leaders are subordinate to the prime minister in the state hierarchy, but have quasi-equal status with the prime minister as members in the party’s Central Committee (the prime minister is only a primus inter pares, not their superior).

Corruption continues to be pervasive. In the period of assessment, several bank and SOE executives were arrested. Officials responsible for massive losses of state assets were simply moved to other bureaucratic appointments because of their family connections.

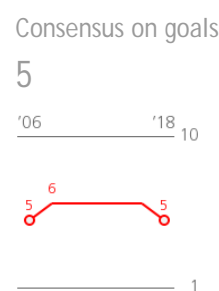
Corrupt officials have been likened to “domestic invaders” and “worms” by government leaders. Numerous promises and several formal efforts have been made to fight corruption, to no avail. A hierarchy of anti-corruption offices has been established since a decade ago under the prime minister and provincial chiefs. Yet corruption has not abated and actually increased. Government spending has not been audited or, if audited, not publicized. Many state bureaucracies, including the VCP and the public security and armed forces, are off-limits to any public scrutiny. The public procurement system is opaque. Journalists who reported on corruption cases have been jailed for technical violations of the law. High-ranking officials are required to self-report their assets, but these have not been audited or made public. The VCP general secretary has launched an anti-corruption campaign, but the primary tool he deploys is the archaic Maoist technique of criticism and self-criticism. In the campaign, corruption is to be fought using the party’s secret channels and disciplinary measures, not state laws.



16 | Consensus-Building

The VCP dominates Vietnamese politics and does not accept any opposition. Party oligarchs in politics, economy, and society agree on the need to maintain the absolute rule of the communist party so that they and their children can benefit from it. Democracy must be rejected, and the long-term and strategic goal of the party is to maintain the authoritarian regime.

The party is no longer a unified organization as it once was, and the most serious cleavage in the leadership concerns the ideological goal of socialism and communism. A majority of the party would perhaps abandon the ideology today if



given a voice. But they cannot accept democratization. This is why the VCP is still able to stick together for the time being despite a deep disagreement over ideology.

Party leaders are less united on the market economy. A minority of oligarchs are wary of what they fear to be a too open market economy, while the majority have a more benign view of the market. To some extent they care about key market institutions such as free competition; yet at the same time they are easy to be persuaded by arguments for state control.

The long-term and strategic goal of the party is to develop the market economy only to the extent that it does not threaten its rule. The market economy must be under its full control and must serve its political needs. A significant faction in the party only cares about using the market economy to benefit their families and cronies financially. This group advocates for a controlled market economy that allows them to collect rents, rather than a free market economy from which it would be harder for them to profit personally.

Outside reformers who advocate democratization include many prominent intellectuals, retired officials and young activists. They have sought allies in the VCP and the government but have not been successful. It is perhaps impossible to democratize while completely excluding incumbent power holders. It is also possible that parts of the military and many in the party may not resist democratization.

The VCP rose to power thanks mostly to a strategy that exploited conflicts, whether with foreign powers or with domestic class enemies. The party is therefore skilled in inciting conflict and inculcating hatred, but it has not been adept at moderating conflicts and cleavages. Since market reform, party propaganda has made some unnamed “hostile forces” (sometimes mentioning the U.S. or overseas Vietnamese) into a kind of boogeyman to justify the dictatorship. There seems not to be much faith among most top party leaders in a strategy of moderating conflicts, although some of them may realize the need for such a strategy. The deepest cleavage in Vietnam is between the north and the south due to the civil war, and most leaders have shown little concern about it. Vietnam also has an unusually large and generally hostile overseas community, and the government has infrequently reached out to them in part to attract tourists and remittances.

Market reform has given rise to a nascent civil society and to a sizable group of independent intellectuals who no longer depend on the state for their livelihood. Recently the government has become more restrictive as it senses the danger to the regime of allowing too much freedom. Truly autonomous civil society organizations

Anti-democratic actors

2

'06 '18 10



Cleavage / conflict management

6

'06 '18 10



Civil society participation

2

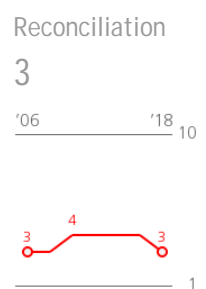
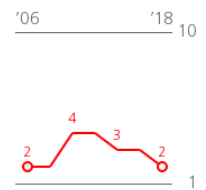
have thus been suppressed. In 2007 the first and only quasi-private think tank was forced to close or face government persecution.

The government allows civil society actors to participate throughout the policy process, only as an exception to the rule and never in decision-making. Whether civil society actors can participate depends first on their ability to obtain information about the issue and to articulate a demand for participation. Civil society actors have a better chance of being allowed to participate, often only in their individual capacity if the particular policy issue involved is a local one with direct relevance to the livelihood or welfare of their communities; if civil society participation would not threaten the interests of powerful government officials (they can have personal interests in certain issues); and if the issue is not politically sensitive (this can involve most national policies, land, powerful central leaders and their families).

There are state-sanctioned associations and organizations, but whether these can be called civil society actors depends on an analyst's definition of civil society. These associations and organizations are embedded within the state structure and their officials have bureaucratic ranks, party membership, as well as salaries and perks. They certainly participate in the policy-making process through established bureaucratic channels. For example, the chairs of the official Farmers' Union, Fatherland Front and Trade Union are all members of the powerful Central Committee of the VCP. Their salaries and perks are equivalent to a line minister, although their bureaucratic clout is far less and their perspective is marginal in the system. The positions are in fact often reserved for senior cadres who are about to retire. At local levels, the heads of the branches of these organizations down to the commune level are members of similar policy-making bodies at the same level. In these capacities, these associations primarily adopt the government perspective and function as part of the government apparatus in formulating and implementing policy.

The political leadership continues to manipulate memories of historical injustices through its propaganda. It has rejected any suggestion to revisit past injustices committed during class struggle campaigns decades ago that robbed many innocent victims of their property and lives. The party has refused to admit its mistakes in the political purges of the 1950s, 1960s, and 1970s in which many intellectuals and writers who criticized the leadership for their wrong policies were imprisoned. In the past, just the private act of accusing the party of having been wrong would bring imprisonment. Today such statements are simply ignored unless the victims try to disseminate their views through social media and other public venues.

A big issue in Vietnamese history is the legacy of the civil war between North and South Vietnam during 1954 to 1975. After its victory, Hanoi imprisoned tens of thousands of former officials, military officers and southern intellectuals for years, with some spending decades in hard labor camps and thousands dying from hard labor and the lack of food and medicine. Many had their property taken from them, while their spouses and children were denied school and employment opportunities. Very



few were ever brought to trial, and for nearly all of them, their only “crime” was to serve the southern government – a political crime. Most of these former detainees have been allowed to seek asylum in the U.S. – only as a U.S. condition for normalizing relations with Vietnam, not because Hanoi was happy to let them go. Given their experience, these people have become powerful spokespeople for many anticommunist organizations among overseas Vietnamese communities. These communities are now sending billions of dollars to Vietnam annually, besides the money spent during their visits to Vietnam. Remittance and tourist dollars from these communities have accounted for 5% to 10% of Vietnam’s annual GDP. In the U.S., young leaders of the community have entered the U.S. Congress and state and local legislatures, and their voices increasingly matter to U.S. leaders. For these reasons, in the last decade, the Vietnamese government has grudgingly made efforts to court the support of overseas communities, but its efforts appear primarily to get money and other forms of support for Vietnam, not to reconcile or amend for past injustices. Some minor gestures have been made, such as opening the cemetery of former South Vietnamese soldiers to the public, 30 years after the war. But these pale in comparison to the grand annual celebrations of the 1975 victory in which these “puppet” soldiers and their leaders continue to be publicly condemned and excoriated.

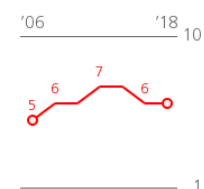
17 | International Cooperation

When Vietnamese leaders embarked on market reform in the late 1980s, they sought assistance from the “capitalist bloc” firstly for financial needs and secondly for expertise. They were wary of foreign subversion of the regime and preferred assistance from multilateral institutions than from individual western countries. The aims of market reform have been to achieve economic growth without regime change. Translated into concrete terms, Vietnam’s strategy has focused on attracting as much aid, FDI, trade and remittances as possible, while trying to preserve the state-owned sector’s domination of the economy and keeping domestic and external pressure for political changes to the minimum.

This strategy works well with all their Asian counterparts but often contradicts the values espoused by their western international partners. Vietnam’s leadership has been able to make use of international cooperation to support their goals of raising living standards, expanding production and exports, building a modern legal system (but not allowing the rule of law), developing institutional and human capacities for socioeconomic management (including security forces’ ability to surveil and suppress political freedoms), and enhancing the legitimacy of the regime. Over time this strategy has encountered difficulties as western donors and partners are outraged by Vietnam’s extensive human rights violations and stubborn resistance to political reform. The strategy also has allowed pervasive rent-seeking and corruption, especially in projects involving Japan and China.

Effective use of support

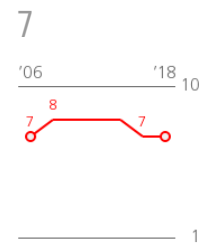
6



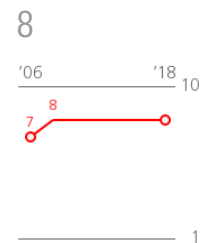
In its relations with the international community, the government acts as a reliable partner on most economic matters except on the issue of SOEs and corruption. It is unreliable on political issues. For example, while Hanoi lobbies to be elected to the U.N. Human Rights Council, its Ministry of Public Security continues to imprison bloggers who advocate peaceful political reforms. Some leaders even think Vietnam has more democracy than capitalist countries (they define “democracy” as the social rights of a national community to development). Others argue that the current one-party dictatorship is better suited to Vietnam than western democracy, given Vietnam’s low level of development.

Vietnam has cooperated well with neighboring countries. Its leaders maintain an intimate relationship with China despite the recent tensions involving the South China Sea. Since joining the ASEAN in 1995, Hanoi has supported greater regional collaboration on many issues. Given its size, Vietnam can even play the role of a leader in ASEAN, but its low level of economic development and communist orientation have tended to create a distance between it and most other ASEAN members. Vietnam has been an active member in regional organizations and regional integration beyond ASEAN, and has cultivated good relations with regional players such as India, South Korea and Japan.

Credibility



Regional cooperation



Strategic Outlook

The key problem in Vietnam is the lack of political reform. The communist dictatorship is an anachronistic system that may be effective in the first phase of market reform but that is overdue for reform. The leadership is like an oligarchy that refuses any demand for democratization. The power of the oligarchy is absolute without effective checks and balances, leading to abuses of power and corruption. The oligarchs are determined to preserve rather than disown the radical past of the regime by clinging to an outdated doctrine. They are determined to protect the power and privileges for their party, and have increasingly relied on violence to suppress popular aspirations for more freedoms and human rights. This is a mistaken strategy that only incites violence against the party as has happened and will become more common. There are alternative strategies that should be adopted.

It is advisable that the party abandon Marxism-Leninism and adopt a new ideology that is better aligned with a rapidly changing Vietnamese society, and with the market economy of Vietnam and its most important international partners. Together with Marxism-Leninism, a wide range of archaic, repressive and corrupt institutions should be abolished. These institutions have been used to suppress the freedoms of press and assembly, to spread propaganda and misinformation, and to surveil and control society. The state-owned sector should be disbanded except a few companies that truly need state ownership.

The removal of outdated ideology and institutions should boost the sagging legitimacy of the VCP. Another positive step to protect the party is to accommodate independent voices and even opposition parties in the National Assembly, as the ruling People's Action Party in Singapore has done. Private press should be permitted. A gradual roadmap for this to happen can help avoid violence and bloodshed associated with eventual regime change. In the last decade, civil society in Vietnam has shown that it has the ability to contribute to a cleaner, more effective, more democratic state.

Successful political reform will boost economic growth in two ways. First, it will enable the government to bring down the budget deficit by reducing the government payroll and introducing stricter budget constraints. It will open up more sectors of the economy to dynamic private entrepreneurs. Second, Vietnam will be more attractive for foreign investment if there is less corruption, it is recognized as a full market economy with a level playing field, and if conflicts with western partners over human rights issues are minimized.

Vietnam has made great progress on social reform, but more needs to be done to alleviate the inequities concentrated in ethnic minority and migrant communities. Removing *ho khau* (household registration) and greater government spending specifically earmarked for the development of ethnic minority communities (as opposed to general poverty reduction programs) are appropriate measures. Finally, something must be done to reduce the rate of abortions and curb sex-selective abortions. Sex education, which has recently been introduced in schools, needs to be

more effective. More rigorous inspection of medical facilities that provide abortions is necessary. The government has banned the use of fetal ultrasound to learn the sex of the baby, but a broad social and educational campaign is needed to change social behavior.