Vietnam

Status Index
4.82 # 90 on 1-10 scale out of 137

Economic Transformation
6.07 # 53

Governance Index
4.73 # 76 on 1-10 scale out of 137
This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2020. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at https://www.bti-project.org.


This work is licensed under a Creative Commons Attribution 4.0 International License.

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

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>95.5</td>
</tr>
<tr>
<td>HDI</td>
<td>0.693</td>
</tr>
<tr>
<td>GDP p.c., PPP</td>
<td>$7435</td>
</tr>
<tr>
<td>HDI rank of 189</td>
<td>118</td>
</tr>
<tr>
<td>Gini Index</td>
<td>35.3</td>
</tr>
<tr>
<td>Pop. growth¹</td>
<td>1.0</td>
</tr>
<tr>
<td>UN Education Index</td>
<td>0.626</td>
</tr>
<tr>
<td>Poverty³</td>
<td>% 8.4</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>75.2</td>
</tr>
<tr>
<td>Gender inequality²</td>
<td>0.314</td>
</tr>
<tr>
<td>Urban population %</td>
<td>35.9</td>
</tr>
<tr>
<td>Aid per capita</td>
<td>$25.1</td>
</tr>
</tbody>
</table>

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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 remains an authoritarian state ruled by a single party, the Communist Party of Vietnam (CPV), that is however increasingly integrating into the international community and world economy. In 2016, the CPV and National Assembly elected a new leadership, which will stay in office until 2021. After being re-elected as the CPV’s General Secretary for a second five-year term in 2016, Nguyen Phu Trong, an orthodox Marxism-Leninism theorist, took over the office of president following the sudden death of Tran Dai Quang, a former public security tsar, due to an “unidentifiable and unknown virus” in mid-2018. Occupying two of the four traditional power pillars, Trong is considered Vietnam’s most powerful leader since Ho Chi Minh. Apart from being the chairman of the Central Party Military Committee, he is also chair of the National Defense Council, the Commander-in-Chief, member of the Standing Board of the Police Party Committee and chair of the Central Anti-Corruption Steering Committee.

In 2017 and 2018, an anti-corruption campaign led by Trong gained momentum. Four thousand three hundred public officials and party members, including a member of the Politburo, two members of the CPV Central Committee, several former ministers and chairs of local governments were disciplined, expelled from the CPV, and/or sentenced to imprisonment. Also, under Trong’s leadership, the CPV intensified party discipline through a resolution aimed at rectifying the ethics and life-style of its party members. This Soviet-type resolution was executed to silence or even expel those party members who make statements “contradictory with the party’s lines and the state policies.”

Notwithstanding political stability, Vietnam’s rule-of-law remains highly deficient and the country’s human rights records worsened. In fact, since the new leadership took office, at least half a dozen activists and bloggers have been imprisoned. The disciplining and purge of Chu Hao, a former vice minister of science and technology, from the CPV for “publishing articles [and] making statements that contradict the political program, statutes, resolutions, directives and rules of the party and state, demonstrating an obvious decline in political thinking, self-evolution and
“self-transformation” was seen, for example, by human rights activists as an attack on freedom of speech. The adoption of the 2018 Law on Cybersecurity is also considered a step backwards by the party and state in regard to freedom of speech and freedom of information. Civil society activists are often harassed and strictly monitored by public security forces.

Other social issues of importance include increasing corruption, inequality and environmental pollution. Gender inequality is on the rise, as evidenced by a very high rate of abortions, including a high number of sex-selective abortions, and a growing difference between men’s and women’s pay. The gap between the majority ethnic group (Kinh) and most ethnic minorities is widening. The country has struggled to deal with serious environmental crises since 2016.

Under the government of Prime Minister Nguyen Xuan Phuc (since 2016), Vietnam’s economy has shown resilience, though the global environment is more challenging with no end in sight to the trade war between the United States and China. This is supported by robust domestic demand, export-oriented manufacturing and unprecedented growth in the private sector. In 2017, for the first time after 30 years of economic reforms, the CPV adopted a separate resolution on boosting the development of the private sector, acknowledging it to be an “important driving force of the socialist-oriented market economy.” As a result, hundreds of thousands of private enterprises have been established. The GDP growth rate was 6.81% in 2017, increasing to 7.08% in 2018.

The party-state has frequently stepped in the spotlight of international media. In 2017, it hosted the APEC Summit and related activities. Notably, U.S. President Donald Trump and Chinese President Xi Jinping paid official visits to the country right after the APEC meeting. In 2018, it joined 10 other countries in signing an agreement establishing the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), a replacement for the Trans-Pacific Partnership after the United States withdrew from it. At the regional level, while Vietnam continued to play an active, important role in the Association of Southeast Asian Nations (ASEAN), a rift remained in Vietnamese-Chinese relations because China has continued militarizing islands claimed by Vietnam. In early 2019, the second summit between North Korean leader Kim Jong-un and the U.S. President Donald Trump in Hanoi brought the country back to the world media spotlight.
History and Characteristics of Transformation

In 1986, the Vietnam Communist Party’s sixth party congress formally adopted an economic reform program (known as Đổi Mới) after allowing some experiments at the local level. The Communist Party of Vietnam (CPV) openly conceded its errors and failure in carrying out the centrally planned economy and installing Soviet-style economic institutions, leading to a comprehensive socioeconomic crisis. The reforms paved the way for a market economy to develop, the nation’s deeper integration into the region and the world through joining such institutions as ASEAN and WTO, expansion of bilateral relations with countries around the world and normalization of relationships with former foes, including China and the United States.

After the end of the civil war in 1975, initial economic reform measures, such as the significant reduction of internal trade barriers and steps toward liberalizing foreign trade, remained largely ineffective due to galloping, triple-digit inflation. The desired results were attained only after the role of agricultural cooperatives was reduced, planned-economy structures abolished, prices for goods and services allowed to float and additional trade liberalization measures implemented in 1988 and 1989. The number of state-owned enterprises (SOEs) was radically reduced from around 12,000 in 1990 to 6,224 in 1993 to 2,701 in 2017, a process which caused around a million SOE employees to be laid off. Vietnam soon recovered and achieved its current position as the world’s second-largest exporter of both rice and coffee beans.

Since 1990, the Vietnamese economy has shown continuous improvement. In 2010, Vietnam’s GDP per capita reached $1,160. The country attained lower middle-income status in 2015 with a GDP per capita of slightly over $2,000, according to World Bank criteria. International trade and inflows of foreign direct investment – mainly into export-oriented manufacturing – have been the main drivers of economic growth. The government-engineered industrialization process included the establishment of Export Processing Zones (EPZ), which, due to cheap labor, attracted foreign investment in manufacturing plants. Although macroeconomic instability since 2009, especially in 2011, undermined external perceptions of Vietnam as one of the most successful and promising economies in the world, “fears of an economic meltdown,” as the New York Times put it, were premature. With a rather steady economic growth rate on average of 6% in the past several decades, Vietnam’s economy has proven its resilience in the midst of global economic challenges.

Vietnam is a market-based economy with fewer product and service monopoly markets than in prior decades. The private sector has been recognized a driver of the national economy. Nonetheless, SOEs receive privileges from the government through special bank loans and other policies. Privatization, which advanced only half-heartedly during the assessment period, exposes firms to competition. Having to compete with other firms for customers and market shares creates pressure that stimulates efficiency and profitability.

Thanks to a successful foreign policy focused on multilateralizing and diversifying international relationships, the Vietnamese government was better able to absorb the economic and political aftermath of international structural changes than other communist regimes. Since the late 1990s,
Vietnam has quintupled the number of its active international relationships and joined most of the important regional and global international organizations. In 1995, Vietnam scored a triple diplomatic success by joining the ASEAN, establishing official relations with the United States and signing a framework cooperation agreement with the European Union. In 2007, it joined the largest global trade organization, the World Trade Organization (WTO). In 2018, the National Assembly ratified a regional multilateral trade agreement, known as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). In 2018, negotiations for the EU-Vietnam Free Trade Agreement (FTA) and the EU-Vietnam Investment Protection Agreement (IPA) were completed.

Economic reforms have been accompanied by only moderate structural changes to the political system. Efforts to democratize have been related to improving the intra-party political process. Implementation has been largely at the local level, in the form of encouraging popular participation in existing political institutional frames with regard to issues the party assigns. Over the last three decades, as the economy has continued to grow steadily, the party/state has consistently been under pressure, primarily from domestic forces demanding political rights, democratic change and respect for human rights. Since the mid-2000s, a nascent civil society has emerged that demands substantial political reforms and societal democratization. There has been no indication of any movement toward a multiparty system among the political elites in the formal political system. Political reforms have been focused largely on improving the rule of law, in particular on reducing the high level of corruption. While the government has scored a number of high-profile successes in its campaign to eliminate graft, these efforts are almost exclusively tied to its efforts to attract investment and official development assistance (ODA). Recent developments in intra-party democratization and progress in enhancing the National Assembly’s lawmaking authority have been praised. However, these developments do not indicate the advent of landmark political reform that would introduce a multiparty system and an independent civil society.
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

The Communist Part of Vietnam (CPV) is the only political party to rule Vietnam since national unification in 1976. The party-state, established by the CPV, gives the state a monopoly on the use of force across the country. Due to the bipolar structure of the “socialist” party state, differentiating between the state and the party/regime is often difficult. Hence, challenges to the monopoly of power of the party are often viewed as challenges to the state’s monopoly on the use of force (and vice versa).

There is no formal political competition, given that the CPV banned all other political parties and established a security machine that will crush any anti-government forces and movements in the country. However, attempts to challenge the party’s monopoly on power have emerged, particularly since the nation embarked on the Đổi Mới (renewal) in the late 1980s. Most of these challenges concern the party, not the state’s monopoly on the use of force. One potential challenge to the state comes from ethnic and religious groups, such as the Hmong in the northwest, Montagnards/Degar and Protestants in the central highlands and the Khmer Krom in southwestern regions of the country. In 2004, the Politburo of the CPV established three steering committees in order to implement its policies in response to the situation in these regions. In 2018, the CPV dissolved the agencies in an attempt to downsize and streamline its public sector, though the challenge remains.

Two successive, successful fights against French and American forces united the country geographically and liberated it from foreign occupation. There is a strong sense of national identity among Vietnamese, as indicated by most international comparative public opinion surveys. However, since in the communist party-state, state, regime and nation are closely related, the question of national or state identity cannot be discussed without reference to regime legitimacy.

The introduction and implementation of the Đổi Mới (renewal) policy at the end of 1986 undeniably restored the CPV’s legitimacy and consolidated its grip on power.
Nevertheless, an emerging independent civil society, corruption, government inefficacy and vested interests in the post-Dổi Mới era have posed a challenge to the ruling party’s legitimacy. People whose rural or urban land was confiscated for development projects with little compensation consolidated as a group that frequently confronted the regime and staged protests. The government cleverly responded to their outrage, fearing that the confrontation could threaten the regime’s stability and the CPV’s legitimacy. Maintaining high economic performance and respect for individual freedoms and rights and continuing to fight corruption with an iron fist would mean the state’s legitimacy remains unchallenged.

Vietnam is a secular state. The government recognizes 42 religious organizations affiliated with 15 distinct religious traditions, namely: Buddhism, Islam, Bahai, Catholicism, Protestantism, Mormonism, Hòa Hao Buddhism, Cao Dai, Buu Son Ky Huong, Tinh Do Cu Si Phat Hoi, Tu An Hieu Nghia, Phat Duong Nam Tong Minh Su Dao, Minh Ly Dao Tam Tong Mieu, Khmer Brahmanism and Hieu Nghia Ta Lon Buddhism. Buddhism is Vietnam’s major religion, attracting the most followers, more than 12% of the population. It has been linked to Vietnamese history and culture for thousands of years, while the second major religion, Catholicism, arrived with French colonialism.

Religious dogmas do not influence legal order or political institutions, though religion has a key role to play in Vietnamese culture and society. Religious dogmas provide moral guidelines, affecting the way Vietnamese people think and act. The regime follows Marxism-Leninism, influenced by Ho Chi Minh, and attempts to control all aspects of society, including religious life. However, in its pursuit of a modern, secular state, the government adopts a legal framework that recognizes religious freedoms of its citizens. It does not ban government officials from visiting religious establishments to worship as long as such visits do not violate civil servants’ protocol or party members’ rules, such as using government cars for this purpose. Since introducing Đổi Mới in the late 1980s, along with emphasis on improving material life driven by high economic growth, the government removed restrictions on citizens’ spiritual life, which was prohibited prior to Đổi Mới. It is hard to prove a direct correlation between religious dogmas and government officials’ conduct, but most official believe in the “cause and effect” doctrine rooted in religions such as Buddhism.

The country’s basic administration is divided into four levels: central, provincial, district and commune.

The operational machinery of executive departments or agencies responsible for daily public services is identical throughout the system. The ruling party controls and manages the administrative system in accordance with an outdated, Soviet-style model. In parallel with the state system, the CPV sets up party apparatuses at all levels
that not only take charge of party affairs but purportedly hold the executive accountable, creating the party-state structure.

Even though the state’s administrative structure extends throughout the entire territory of Vietnam, the effectivity of basic administrative services is uneven: high in urban areas and medium to low in rural and remote areas.

The state structure has allowed the CPV to control the system effectively and remain resilient. Nevertheless, the cumbersome bureaucratic apparatus limits the country’s economic growth and development. Moreover, it generates a fertile ground for office holders to abuse their power for personal gain, such as “selling and buying public office positions.” Corruption is rampant throughout the system; natural resources are exploited indiscriminately as a result of mismanagement.

The state’s repressive capacity is overdeveloped compared to its administrative and extractive capacities. Nonetheless, it is able to deliver basic services in most parts in the country and, partly because of its highly developed repressive capacities, able to maintain law and order.

2 | Political Participation

Vietnam holds one-party “elections” every five years for both the National Assembly and local people’s councils across the country. The Vietnam Fatherland Front, which is in charge of drawing up the list of candidates based on negotiations and consultations, must follow the CPV Politburo’s instructions and guidelines of the elections, including the selection and nomination of candidates.

Voting is mandatory on election day, but turnout is cosmetic. Very often, a single family member casts votes not only for him- or herself, but also for the entire family. Citizens who reach 18 years of age are eligible to stand for election, but they must be nominated by the party cells they join. News of the elections and meetings between candidates and voters are broadcast on state-controlled media.

During the 2016 election for the National Assembly, there was a movement led by prominent intellectuals, lawyers, artists and civil society activists to nominate themselves as candidates. For the first time, social media were used by some of these self-nominees to mobilize netizen support for their candidacy. A well-known civil society activist even posted on his Facebook page a statement listing his platform if elected and a declaration of his private assets. Although none of the self-nominees had their names listed on the final ballots, the movement demonstrated a real challenge to the ruling party’s legitimacy and monopoly on power.
There are no democratically elected political decision-makers in Vietnam. That said, the ruling party holds a national congress every five years where directions and plans for development, including foreign policy, for the next five years are adopted. To govern the country, the congress elects a central committee, which is the CPV’s most powerful decision-making body. The party employs democratic centralism and the majority win principle as working rules. This means that in theory a Politburo or central committee member can say “no” to a party policy during deliberations. But once a policy is adopted, all party members are obliged to follow it. Usually if a decision is made by the Politburo, it is not reversible. However, there have been cases recently when a Politburo decision was rejected by the central committee or on the National Assembly floor. These cases seem to demonstrate increasingly democratic practices within the oligarchy.

The country’s constitution of 2013 affords citizens the right to freedom of association and assembly. However, the government severely restricts the exercise of this right. A report presented by the Vietnamese government at the Human Rights Council’s Universal Periodic Review (UPR) in 2019 stated that, as of 2017, there were more than 68,125 associations including five mass organizations under the direct management of the ruling party, namely the Vietnam General Confederation of Labor, Vietnam Farmers’ Union, Ho Chi Minh Communist Youth Union, Vietnam Women’s Union and Vietnam Veterans Associations. Non-governmental organizations can be established, but in one way or another, should be affiliated with a larger state-sponsored organization or association.

The government has been drafting a bill on associations, but there is no confirmation yet as to when the bill will be submitted to the National Assembly. The law is delayed because the government fears that more independent non-governmental organizations will be established, opening the window for opposition political parties in the future. Leaders of the communist party have directed the police to prevent opposition political and reactionary organizations from being formed on the ground in the country. In the meantime, the government applies the criminal code and other legal documents arbitrarily to control and suppress public gatherings, demonstrations and strikes by workers – a right announced in the Labor Code of 2012 – if it perceives these activities as a threat to the regime.

All public gatherings, especially those on “sensitive” topics such as human rights, democracy and civil society, must receive permits from the authorities and are very often closely monitored, especially the police.
Freedom of expression is protected by the constitution of 2013, the Press Law amended in 2016, the Publication Law of 2012 and the Criminal Code of 2015. However, the laws also list as crimes “propagandizing against the state,” “conducting propaganda to slander the people’s government; conducting psychological warfare and spreading rumors; creating, storing and disseminating cultural products with anti-socialist government contents,” “taking advantage of democratic freedoms and rights to violate the interests of the state and social organizations,” “slander and questioning the legitimacy of the people’s government,” and so on. The government often uses these vaguely defined crimes to restrict freedom of expression.

According to international human rights organizations and the U.S. Department of State, hundreds of bloggers and activists have been arrested and imprisoned. Well-known activists are kept under constant surveillance and prevented from leaving their houses for meetings or protests. The most recent notorious suppression of the freedom of expression is the party’s disciplining of Chu Hao, a former senior government official and party member, with the charge of “making statements in contradiction with the views and policies of the party and the state.” Hao, also director of Tri Thuc Publishing House, was disciplined and expelled from the CPV for allegedly making speeches and publishing books and articles contradicting the party’s lines and policies. More than 200 former party members and 81 international academics signed an open letter to the CPV protesting these actions.

Freedom of expression is in greater danger since the National Assembly adopted a law on cybersecurity in June 2018. The law went into force on January 1, 2019. The internet has been a public space for citizens to express their political views in a country where no independent media is allowed. Internet users in Vietnam are now more cautious in posting their expressions online than before for fear of being charged against one of the crimes listed above.

### 3 | Rule of Law

The separation of three branches of power – executive, legislature, and judiciary – is constitutionally established, but actual power rests with what is dubbed as “four pillars,” meaning four powerful persons – the CPV General Secretary, the state president, the prime minister and the chair of the National Assembly. Recently, the first two positions were combined and vested in one person after the sudden death of the president in September 2018.

The current central committee has 180 official and 20 alternate members who elect the Politburo and the Secretariat. Since there is only one ruling party in the country, the party chief, the General Secretary, elected by the central committee and a Politburo member, is technically considered the most powerful man. The state president, the prime minister and the chair of the National Assembly are also members of the Politburo. All directors of government ministries, ministerial
agencies and provincial party committees are members of the central committee. This power distribution aims to ensure effective and consistent party leadership at the central and local level.

In the three branches and at all levels of government there are party committees, the function of which is to oversee routine operations and control important matters including, for example, personnel and organizational structure. Heads in the executive branch are the chairs of their respective party committees, such that a minister is also the chief secretary of the ministry’s party committee.

The current National Assembly has 496 members, of which 475 are party members and 21 not party members. All the members of the Politburo and Central Committee of the CPV are also in the National Assembly. Party domination means the National Assembly is known as a rubber-stamp for the party, even though in recent decades, the National Assembly has rejected projects that were endorsed by the Politburo.

The judiciary in Vietnam is institutionally differentiated but under full control of the CPV. Chief justices and judges are party members and bound to the decisions made by organizational party committees. If they are high up in the hierarchy, they are approved by the CPV-controlled National Assembly and appointed by the state president. Low-level judges must be selected, nominated and verified by the party committees where they are employed.

The judiciary has no function or power to interpret or review laws. During amendment of the constitution in 2013, there were proposals and recommendations to establish a constitutional court in response to the fact that quite a few laws and legal documents were unconstitutional. However, the idea was not accepted. Hence, the only function of the judiciary is to apply laws.

Office abuse is common. One example is the arbitrary appointment of party members to public office. Though a merit-based system is in place as a pretext, approval by party committees at the same or a higher level is required. Moreover, personal relationships, bribes and family connections (nhất quan hệ, nhân tiền thế, thủ ba hữu duyệ) are significant. The state-controlled media has exposed quite a few scandals over the past several years, in which relatives or children of incumbents or retiring senior leaders or unqualified persons were elevated to senior positions.

Corruption often takes the form of office abuse for personal gain, causing significant losses and damages to state property and assets. Since being elected as CPV General Secretary and Chair of the Central Anti-Corruption Steering Committee in 2012, Nguyen Phu Trong who is also the state president, has intensified the fight against corruption. The committee created a list of grand corruption cases. Under Trong’s stewardship, a dozen incumbent and retired senior government and party officials, including a Politburo member and two members of the Central Committee, have been disciplined and imprisoned. Most recently, on February 23, 2019, two former
ministers of information and communication were arrested for allegedly abusing their power and causing the loss of trillions of Vietnamese dong in the sale of a state-owned mobile phone company to a private-run corporation.

The prosecution of office abuse cases has increased with the anti-corruption campaign, but is constrained by the party-controlled mechanism which prevents “big fishes” from being arrested and disciplined. This is because the ruling party sits “above the law,” as is stipulated in the constitution. Thus, high-ranking party members who abuse their office are first subjected to party discipline procedures before being tried in court. The Central Commission for Inspection of the CPV is in charge of the party procedures. The commission’s statements on its findings relating to “wrong-doing” – a nuanced term for corruption – committed by office holders are irreversible and often are taken as directions for judicial procedures. The party controls the legal process by selecting and limiting the scope of cases. Doing this eases public outrage regarding corruption, while saving the regime’s face.

According to the constitution of 2013, human rights are the same as citizens’ rights and not differentiated from citizens’ duties and responsibilities, as stated by law. Citizens are therefore bound to their duties to the state and society. Furthermore, citizens’ enjoyment of their rights is subject to “national defense, national security, social order and security, social morality and community well-being.” The CPV and its security machinery often adopt these concepts as a pretext to silence voices or suppress activities considered to pose a threat to the power and legitimacy of the party and the survival of the regime.

For instance, the law restricts freedom of the press and fines journalists, newspapers and online media outlets VND20 million to VND30 million for writing and publishing information deemed harmful to national interests, and up to VND50 million for information considered to distort history and the achievements of the socialist revolution.

Violations of civil rights are frequent and include harassment, torture and cruel treatment, arbitrary arrest and detention, denial of fair public trials, infringement on privacy and censoring the correspondence of activists and members of certain religious groups. The recent adoption of the law on cybersecurity allows the authorities to monitor freedom of speech on social media. There have been concerns over abuse of this law to suppress online activism and statements that contradict party policies.
4 | Stability of Democratic Institutions

All political institutions in Vietnam are strictly controlled and “placed under the leadership of the party.” The National Assembly, the state’s lawmaking body, has nearly 500 members, but over 90% of them are party members who are bound to party rules and orders. The National Assembly in recent years has reformed its operations such that it holds live, televised questions and answers sessions and votes of confidence on elected positions, including the president, prime minister and chair of the National Assembly. However, these platforms must be first approved by the CPV Politburo. Beyond this, the National Assembly aims to exert moral pressure on the government ministers by “showing and shaming,” rather than requiring ministers to step down. Furthermore, the scope of democratic deliberations is limited by the CPV Politburo. In 2018, the National Assembly set a “democratic example,” when the draft law on special economic zones was not passed and returned to the government for further improvement. This would not have happened if the CPV Politburo had not given the legislature the “green light.”

Public opinion polls and value surveys such as the Asian Barometer Survey and World Values Survey seem to suggest that there is (a) strong support for democracy in general, (b) high satisfaction with the working of democracy and (c) fairly high trust in political institutions. Obviously, the fact that most citizens seem to be fairly satisfied with how democracy functions in their autocratic political regime raises questions as to the validity of these findings and how people understand democracy in Vietnam.

However, the authoritarian regime and its political institutions seem to enjoy solid support. At the same time, there is an independent civil society, nascent but functional, which quite often has views contradictory to the state. Moreover, there is dissent within the CPV. The party calls this challenge “self-evolution and self-transformation” (tự diễn biến, tự chuyển hóa) among particularly senior party and government officials. In recent years, the CPV employed the vague concept of “combat-ability” (sức chiến đấu của đảng) as a tactic to purge outspoken party officials who supported a regime change and called for the removal of the party’s monopoly on power.
5 | Political and Social Integration

Vietnam is a single-party system ruled by the Communist Party of Vietnam (CPV). The CPV’s mass engagement and success in the country’s national liberation from foreign occupation has enabled the party to become deeply rooted in the society. The CPV is cited in the constitution as the only political force that can lead the country. It has been able to stay in power and keep society stable. The CPV does not allow the establishment of any opposition political party that might challenge its grip on power. It has undertaken controlled political reforms in response to public demands, demonstrating its adaptability to changing situations and the durability of one of the most resilient communist governments in the world.

In Vietnam, there is a diversity of government-sponsored associations representing different social interests. These include the Vietnam Fatherland Front, the Vietnam Women’s Union, the Vietnam General Confederation of Labor, the Vietnam Farmers’ Union, the Ho Chi Minh Communist Youth Union and the Vietnam Veterans Association. These organizations serve the party’s social and political purposes. There are also professional organizations such as the Vietnam Lawyers’ Association and Vietnam Bar Federation, the Vietnam Union of Science and Technology Associations (VUSTA), the Vietnam Union of Literature and Arts Associations and so on, which are also influenced by the CPV. Usually chambers of commerce, since they represent the interests of business communities, are independent from the government. However, the Vietnam Chamber of Commerce and Industry (VCCI) is a government agency managed by a party committee.

In addition to the “big name” organizations above, there are thousands of small, private groups and associations established with the government’s permission of the government, though they often are affiliates of one of the major organizations named above. Most of these are financially autonomous and their operations merely benefit their members. In Vietnam, there are informal associations that are groups of people from the same town, school class and so on. These organizations, though not formally established, enhance and maintain social cohesion and to some extent contribute to social resilience, rather than posing a threat to the regime.

Various international, cross-regional survey projects collect data on public opinion in Vietnam. In addition, there are local surveys that aim to measure support for and levels of satisfaction with administrative and political institutions at the subnational level. The latter are carried out with the involvement of international consultants. Hence, they are fairly independent and objective. Local authorities often examine these surveys to direct reforms in local governance. Some government institutions occasionally conduct public surveys with limited scope. Regional projects such as the Asian Barometer Survey indicate that a very large majority of the respondents (more than 80%) approve of and prefer democracy; the same surveys, however, show that
respondents are satisfied with how the “democratic” system in their country works, raising questions about the cross-cultural applicability of survey questions and the concept validity of such measures.

Measuring social capital in Vietnam is difficult. There are few if any valid measures and reliable data is rare. Different opinion polls seem to suggest there are fairly low levels of trust among the population. At the same time, the mechanisms and structures of self-help and mutual support are fairly solid; for example, the culture of village life is also a source of social capital that strengthens the cohesion and maintains the stability of a society. Unofficial cohort-based organizations help to enhance and maintain social cohesion and contribute to social resilience, instead of posing a threat to the regime.

II. Economic Transformation

6 | Level of Socioeconomic Development

The Đổi Mới (renewal) policy brought remarkable progress to all aspects of economic and social life in Vietnam over the past three decades. The most significant achievements were in the reduction of poverty and hunger alleviation. The share of the population living on less than $2 a day was brought down to 13.5% in 2014, which is lower than the Philippines but higher than Indonesia. Over the years, the government has repeatedly raised official poverty levels which effectively lowered the percentage of those living in poverty while also raising the bar on living standards. Vietnam was hailed by the United Nations as one of a few developing countries that successfully fulfilled its commitments to achieve the targets set for the eight millennium development goals (MDGs), of which poverty reduction was its most impressive achievement. Life expectancy has progressively increased over the years and is higher than many other countries in the region. The country also had the highest literacy rate in the region in 2017.

Vietnam’s level of socioeconomic development reflects its level of national income. By 2015, Vietnam was ranked as a lower-middle income country. Consequently, many bilateral and multilateral development aid programs were terminated. By the end of 2018, Vietnam had 14 U.S. dollar billionaires and was among the countries with the fastest growth of super-wealthy people. Vietnam’s inequality-adjusted HDI indicators in 2017 show that the country has less social inequality than its neighbors.

There are large gaps between and among social groups in terms reaping the benefits of the economic progress spurred by Đổi Mới. The poverty rate in mountainous regions and among distant ethnic minorities remains higher than among their counterparts in urban areas, almost 58% or nearly 10 times higher than poverty
among the Kinh (the majority ethnic group). The rich-poor gap continues to increase and become more defined. Mortality rates for children less than a year of age among ethnic minorities is four times higher than it is among Kinh children. The rate of malnutrition in the former group is the same as it was 10 years ago, despite a tripling in the number of millionaires in the last decade.

As Vietnam becomes more urbanized, the flow of people migrating from rural to urban areas has increased. One problem that these migrants face is that their residential status sometimes impedes them from finding employment. There have been suggestions to remove the household registration system (hộ khẩu) in order to enable freer movement of citizens, but nothing has been undertaken yet.

<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (M)</td>
<td>193241.1</td>
<td>205276.2</td>
<td>223779.9</td>
<td>244948.4</td>
</tr>
<tr>
<td>GDP growth (%)</td>
<td>6.7</td>
<td>6.2</td>
<td>6.8</td>
<td>7.1</td>
</tr>
<tr>
<td>Inflation (CPI) (%)</td>
<td>0.9</td>
<td>3.2</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Foreign direct investment (% of GDP)</td>
<td>6.1</td>
<td>6.1</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Export growth (%)</td>
<td>12.6</td>
<td>13.9</td>
<td>16.7</td>
<td>14.3</td>
</tr>
<tr>
<td>Import growth (%)</td>
<td>18.1</td>
<td>15.3</td>
<td>17.5</td>
<td>12.8</td>
</tr>
<tr>
<td>Current account balance (M)</td>
<td>906.0</td>
<td>8235.0</td>
<td>5207.0</td>
<td>5898.6</td>
</tr>
<tr>
<td>Public debt (% of GDP)</td>
<td>57.1</td>
<td>59.7</td>
<td>58.2</td>
<td>55.6</td>
</tr>
<tr>
<td>External debt (M)</td>
<td>77828.6</td>
<td>85662.6</td>
<td>104090.5</td>
<td>108096.3</td>
</tr>
<tr>
<td>Total debt service (M)</td>
<td>6630.3</td>
<td>7333.4</td>
<td>13556.0</td>
<td>18432.3</td>
</tr>
<tr>
<td>Net lending/borrowing (% of GDP)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax revenue (% of GDP)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption (% of GDP)</td>
<td>6.3</td>
<td>6.5</td>
<td>6.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Public education spending (% of GDP)</td>
<td>-</td>
<td>4.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Public health spending (% of GDP)</td>
<td>2.4</td>
<td>2.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure (% of GDP)</td>
<td>0.4</td>
<td>-</td>
<td>0.5</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure (% of GDP)</td>
<td>2.4</td>
<td>2.4</td>
<td>2.3</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Sources (as of December 2019): 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

Vietnam has a market-rules-based and socialist-oriented economy. The contradiction between market rules and socialist ideology constrains the country’s economic competitiveness but serves the CPV’s political purposes.

Vietnam joined the World Trade Organization (WTO) in 2007 and is one of 11 signatories of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), which is a second version of the Trans-Pacific Partnership that does not include the United States. Significant barriers to a full market economy remain in pricing, currency management, certain important markets and non-state forms of ownership.

Vietnam ranked 104 out of 190 countries in the World Bank’s starting a business category in 2019. It takes eight procedures, 17 days and costs 5.9% of GNI per capita to start a business. The current government has requested that its ministries to simplify the process and cut administrative procedures to facilitate business operations. In 2017 to 2018, the Ministry of Industry and Trade removed 675 out of 1,215 (55.5%) business requirements for 27 sectors and industries under its management. The Ministry of Labor, War Invalids and Social Affairs invalidated 60 (56.07%) business requirements in the vocational education sector. It also plans to simplify or do away with 78 other administrative procedures in 2019 to 2020, aiding businesses operating in areas under the ministry’s oversight.

According to the 2012 Law on Prices and Decree 146 (November 2016), Vietnam maintains price controls on important commodities, such as gasoline, electricity, liquid petroleum gas, certain transportation fares and veterinarian services. Prices for 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 what the prices are. For most of these commodities and services, the market is dominated or monopolized by state-owned firms. Price controls ostensibly serve national interests (such as keeping inflation low) or social functions (such as guaranteeing the poor a certain level of consumption).

Even though the government frequently claims that all enterprises are equal regardless of ownership, in reality the state-owned sector is heavily favored. The CPV continues to adhere to a policy of maintaining this as the driving sector of the economy for reasons of ideology and power. The 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 run by people 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 the risk of government investigation and harassment.

The informal sector in Vietnam is large, as expected for the country’s 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 wageworkers without work contracts (14%). These compared with 11.3 million wageworkers with contracts (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 the domestic private sector (7.5%).

In June 2018, Vietnam passed a new Competition Law, replacing the 2004 version of the law. The new Competition Law will come into effect on July 1, 2019. Guidelines for its implementation were being drafted at the time of writing.

The new law will address competition-restraining agreements, market dominance, economic concentration and unfair practices. The new law has an expanded scope that includes both Vietnamese and foreign companies and individuals, in case their actions have or potentially have a competition-restricting impact on Vietnam’s domestic market. The law defines that competition-restriction impact as impact that will exclude, reduce or hinder market competition. For the first time, the law provides for the Vietnamese government to have authority over offshore activities, if those have an impact on the domestic market. The law will apply to foreign entities that partake in competition-restricting agreements, economic concentration or other unfair activities, even if they do not have a subsidiary in Vietnam. In addition, public service units, such as hospitals and schools, have been brought under the ambit of the law, which was not the case previously.

Under the new law, the existing Vietnam Competition Authority and the Vietnam Competition Council were merged to form the National Competition Committee (NCC). A Competition Investigation Agency was also established under the NCC. It will be responsible for monitoring and investigating breaches of competition law. The NCC will operate under the Ministry of Industry and Trade, but its chairperson and associate members will be appointed by the prime minister. The new law prohibits certain types of anti-competitive agreements, if the firms are in the same market or if the agreements can impact market competitiveness.

A leniency program has also been introduced in the new law. Consequently, companies that are part of an anti-competitive agreement may be entitled to leniency, if they voluntarily reach out to the government authorities before an investigation is formally opened. This program will only be available to the first three applicants, with the first applicant being eligible for a penalty exemption of 100%, while the second and third will be eligible for a penalty exemption of 60% and 40%, respectively.
Vietnam has made strong commitments to foreign trade in terms of opening its domestic market and promoting exports. The World Bank has reported that the overall tariff rate applied by Vietnam was reduced from 15.29% in 2001 to 3.14% in 2015. However, this rate went down to almost zero after Vietnam’s National Assembly ratified the CPTPP at its sixth session on November 12, 2018. In addition to CPTPP, Vietnam’s free trade agreement with the EU is pending approval in of the EU parliament. The country participated in negotiations for the Regional Comprehensive Economic Partnership (RCEP), which includes 10 ASEAN member states and Australia, China, India, Japan, the Republic of Korea and New Zealand. Vietnam also signed more than a dozen bilateral trade agreements with major economies, including the United States, China, Japan, Chile and South Korea.

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.

As Vietnam’s economic growth relies heavily on exports, the country’s banking system carries many risks. Structurally, the state still plays the dominant role in the system. The State Bank of Vietnam (SBV) does not function as a central bank in real terms and is apparently not independent.

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. The National Financial Supervision Committee (NFSC), a government body independent from the State Bank of Vietnam, reported that by the end of 2017, the ratio of non-performing loans stood at 9.5%. As per the NFSC’s report, the banking sector settled VND70 trillion (or $3.08 billion) worth of non-performing loans in 2017. According to the most recent World Bank data (2017), non-performing loans accounted for 2.3% of the GDP.

Following the collapse of several joint-stock banks and criticism for poor performance, the government of Prime Minister Nguyen Tan Dung announced a plan to consolidate small local banks into larger ones. 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 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 to start applying Basel II standards in 2020. Since 2016, the banking system’s operations have been deemed to be “healthier” with the SBV functioning like a central bank.

8 | Monetary and fiscal stability

The State Bank of Vietnam (SBV) has the responsibility “to curb and keep the inflation at a sustained low rate” and “to stabilize the financial market, and foreign exchange market.” The SBV is not an independent central bank, but acts like a ministerial agency under the government.

After Vietnam tightened monetary policy in 2008, inflation decreased gradually, to 1.84% in 2014 and to a record low of 0.6% in 2015. In 2016, however, inflation was 4.74%. This was thanks to the government’s project restructuring credit funds and organizations in the 2011 to 2015 period.

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 to 2009 forced Vietnam to devalue the dong by nearly 10% in 2011. Since 2012, the SBV has adopted a more flexible foreign exchange rate policy, particularly in 2015 and 2016, when major world economies like the United States were in recovery following the crisis in 2008. 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.

Since early 2016, the SBV has applied a centralized exchange-rate administration policy. This approach allowed the SBV to publish and adjust the exchange rate on a daily basis, setting the exchange-rate baseline for credit funds and organizations to transact between the dong and the U.S. dollar within the margin of +/- 3%. However, since Vietnam’s economic growth is dependent on exports to major markets, implementation of an exchange-rate policy that both supports the economy and maintains the pace of economic growth is always a challenge for the SBV.
Vietnam’s economy is currently facing new challenges with a rising debt burden and with the government’s failure to reduce the budget deficit. The budget deficit has remained high and persistent at 5% or higher of the GDP since 2000. The government has made numerous efforts over the last decade to rein in spending, including trimming the bureaucracy and cutting 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. The World Bank’s estimate of Vietnam’s public debt in 2016 was $117 billion or about 62% of the 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 to 2013 to 15.6% in 2015.

From 2016 to the end of 2018, the financial market clearly improved. The amount of money mobilized from public and economic organizations for deposit in the banking system steadily increased. In 2018, for instance, the aggregate assets value of credit funds and organizations went up about 11.5%, as compared to the end of 2017. Facing a high ratio of bad loans in 2015 to 2017, the National Assembly adopted a resolution on handling bad loans in 2017. As a result, by the third quarter of 2017, 30% of bad loans in the network of credit funds and organizations were managed, leading to a slight decrease in bad loans, by 2.4% in 2018 against 2.5% in 2017.

9 | Private Property

The Vietnamese government has a poor track record in protecting private property. According to 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. The constitution and the 2013 land law allow local governments to requisition land for a variety of purposes related to national security and socioeconomic development. There are widespread complaints of inadequate or delayed compensation, official corruption and a general lack of transparency and due process in the government’s confiscation of land and displacement of citizens to make way for infrastructure projects. The law gives considerable decision-making authority over pricing, allocation and reclamation of land to local people’s committees and people’s councils, which many assert contributes to unfair business practices and corruption.

In 2017, there were numerous reports of clashes between local residents and authorities at land expropriation sites. Disputes over land expropriation caused public grievances. Many villagers, whose land the government had forcibly seized, protested at government offices against failure to address their complaints. Some coercive land seizures resulted in violence and injuries to both state officials and villagers, as happened at Dong Tam Commune (a suburb of Hanoi) and in Thua Thien Hue Province (a central province of Vietnam).
At the seventh party congress in 1991, the CPV formally recognized that the “state economy, collective economy and private economy are the foundations of the national economy.” Since then, numerous laws have been adopted to create a legal framework for the operation of the private sector. In 1999, the Law on Enterprises was created. It outlines the authority of the state, the rights of investors and businesses and especially the freedom to do business. The law became a catalyst for a surge of newly registered enterprises. However, private enterprises have only enjoyed a fair and equal playing field with their state-owned counterparts when the new law on enterprises was announced in 2005. In 2014, the National Assembly passed a revised version of the 2005 law on enterprises, reiterating the importance of private enterprises to the national economy.

The current government under Nguyen Xuan Phuc has focused significant attention on private enterprises. On several occasions, Phuc called for the promotion of startups and emphasized that his government supported entrepreneurialism. At the end of 2018, there were about 688,000 operating enterprises, of which 126,859 were established in 2017. As of 2017, private enterprises contributed 43.22% to the GDP and 39% of investment capital to the national economy.

Despite their increasingly important role in the economy, private enterprises still face several challenges as a result of the government’s policies and laws. Administrative procedures are cumbersome, creating conditions for corruption and bribes. There are also discrepancies between the laws on investment, land, procurement and so on, impeding private enterprises investments and generating an unequal playing field between private and state-owned enterprises.

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 increased from 1.5% to 2.5% of the GDP from 2000 to 2015 and is now higher than most of its neighbors. Health insurance enrollment increased from 15% to 70% of the population in the same period; 30% of the population remains uninsured. Out of pocket medical expenses can drive many households into poverty. Corruption is pervasive in the system, with 22% of recently surveyed respondents reporting 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, but that covers only 20% of the workforce. 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 to 79 and 79% of those at 80 or above.
The benefit level is modest, at under 10% of per capita income. Social assistance programs have been introduced since 2000, but government spending for these programs remains low, at about 0.69% of the GDP during 2008 to 2013.

Despite some progress, discrimination and unequal treatment are widespread, particularly for women, people with disabilities, ethnic minorities, migrants and rural residents. Vietnam has the highest rate of female participation in the workforce, at 72% in 2018. Yet, there are gaps in terms of job structure, placement and wages between women and men in the same occupations. For instance, 7.8 million female workers were involved in the informal economic sector, but 59.6% of them were employed in vulnerable jobs, while the number was 31.8% for men. In Asia, Vietnam has the second highest percentage of women in business leadership positions at 36%, just behind the Philippines at 37.46%. As of 2017, women comprised 26.7% of parliament; 66.2% of adult women have reached at least a secondary level of education, compared to 77% of their male counterparts. The figures reveal that barriers for women remain in accessing career opportunities, compared to men. The unemployment rate among women was also higher than that of men. Unequal treatment was also found in foreign-invested enterprises: 73.91% of male workers signed contracts with an indefinite term of employment, compared to 67.67% for female workers. More critically, women with the same qualifications doing the same jobs were paid less than men: on average, 10.7% less.

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.

People with disabilities (PWD) and bisexual and transgender people are face discrimination. Vietnam passed a law on disabilities in 2010 and joined the U.N. Convention on the Rights of Persons with Disabilities in 2015, but PWDs have challenges in getting access to basic social services including health care and education. More than half of children with a disability have never been to school.

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 families of existing or retired officials. It is now common for children to inherit the offices of their parents, regardless of their ability. More importantly, only party members are appointed to leadership positions. This rule indiscriminately applies across the public sector and the state apparatus. It requires public employees to choose between becoming a party member to have a career or quitting the job and not participating in decision-making.
11 | Economic Performance

Vietnam’s economy has performed remarkably well over the course of 30 years. It has expanded at an average of nearly 7% per annum. As a result, per capital income has increased nearly tenfold from about $240 to $2,100 at current prices. Vietnam has emerged as a thriving lower middle-income economy and an export powerhouse. Growth has been relatively inclusive, benefiting almost all social groups, especially communities in rural and remote areas. Poverty has fallen to just below 7% compared to over 60% in the late 1980s. FDI has been a major driver for economic growth in the past two decades. FDI inflow per year averaged from around $1 billion in the early 1990s to over $10 billion since 2008. In 2018, Vietnam attracted $35 billion in FDI, becoming the most attractive destination in the region for foreign investors. In terms of FDI stock per capita, Vietnam has left its ASEAN neighbors far behind with a ratio of over 60% of the GDP, compared to around 40% for Malaysia and Thailand.

Despite consistent growth over the years, the country’s labor productivity in 2017 was among the lowest in Asia. According to the Vietnam Annual Economic Report 2018, average productivity in Vietnam increased by 36% from VND38.64 million per worker in 2006 to VND60.73 million ($1,660 to $2,600) in 2017. Nevertheless, it remained below Japan, South Korea, China, Singapore, Thailand, Malaysia, the Philippines, Indonesia and Cambodia. The General Statistics Office stated in a report released in 2018 that Vietnam’s labor productivity was only 1/18th of Singapore, 1/16th of Malaysia and 1/3 of both Thailand and China.

12 | Sustainability

Vietnam has a rather comprehensive policy and legal framework to address environmental challenges. Policy documents range from the Climate Change Strategy (CCS) and the Green Growth Strategy (GGS), both signed by the prime minister, to a Resolution of the Communist Party on Climate Change and the Environmental Protection Law. The recently revised penal code even includes a separate chapter on “environmental crimes.” In response to recommendations from the 2015 United Nations Climate Change Conference, Vietnam adopted an action plan to implement the Paris Agreement on climate change, becoming one of the first countries to do so. However, these policy documents and laws end up merely looking good on paper, as their application is severely hampered by three factors: incoherence in policies, an overall top-down approach in political decision-making and a lack of control over policy implementation. Consequences of ineffective implementation include, among others, that 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 the northwestern and central regions. These dams are now believed to contribute significantly to a high incidence 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 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, which triggered mass protests across the country. In the face of great public outcry and protest, the company hastily agreed to pay compensation of $500 million. Despite causing damage to the environment, none of these companies was criminally prosecuted. The government may fear that if it prosecutes foreign companies, it could lose FDI inflows.

Vietnam’s education and training system includes formal and informal education at four levels: early childhood education: nurseries and kindergarten; general education: primary school, lower-secondary and upper-secondary schools; vocational education and training (VET); and higher education. Under Resolution No. 25/2016/QH14 – a five-year national financial plan for 2016 to 2020, the government aims to allocate 20% of the total budget to education and training.

Article 48 of Vietnam’s Education Law 2005 describes three types of educational institutions: public education institutions, established, funded and monitored by the government; people-founded institutions, often established and funded by social or economic organizations with permission from the state; private educational institution, established and financially supported by individuals or groups of individuals with permission from the state. The second and third type are commonly referred to as non-public educational institutions. In November 2018, the National Assembly passed a revised Law on Higher Education, which gives more autonomy to higher education institutions.

In June 2018, the government issued Decree 86, replacing Decree 73 (2012), which applies to foreign cooperation and investment activities in education and training in Vietnam at all levels except VET. According to Decree 86, foreign cooperation and investment in education and training can been implemented in early childhood education. This is to deliver integrated Vietnamese and foreign school curricula to Vietnamese students. This is open to private Vietnamese schools and kindergartens in partnership with legal and accredited educational institutions abroad. Major education reforms program supported by international donors include the Renovation of General Education Project (2016–2021), the Secondary Education Sector Development Program, phase II (2017–2023) and the Enhancing Teacher Education Program (2016–2021).

According to UNESCO, Vietnam stands out among East Asian countries for the state’s domination of 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 economic growth. R&D expenditure as a percentage of the GDP (0.19% in 2002 and 0.4% in 2016) and the number of researchers per million people (fewer than 500 in 2011, just over 600 in 2016) are among the lowest in East Asia.
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. Vietnam is favorably located in the most economically dynamic region in the world, with abundant natural resources and a young, entrepreneurial population. Economically and socially, after three decades of Đổi Mới (renewal), the country has been able to eradicate extreme poverty and join the rank of middle-income countries. Continued economic growth has also boosted infrastructure development. The improved transport and logistics system and networks meet the requirements for internal connections between regions for economic development and the country’s deep integration and engagement with the outside world. The CPV has undeniably undertaken administrative reforms at all levels, enhancing public administration and governance.

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 African swine and dengue fever. In addition, Vietnam is among the countries in the world most severely affected by climate change and extreme weather events. 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. Finally, the most serious structural constraint is the lack of an effective public service free from corruption that operates according to the principles of full accountability, integrity and impartiality.

Civil society traditions are weak in Vietnam. Under communist party rule, civil society is considered antagonistic to the regime. With the impact of the market economy and the country’s integration into the world community, Vietnamese civil society is currently vibrant in economic space, but severely controlled in the political sphere. The state nevertheless knows how to make use of civil society traditions for political purposes when necessary.
Historically, Vietnam does not have sharp cleavages along ethnic or religious lines. The major cleavage has been political as a direct consequence of foreign occupation. During 1950 to 1975, the country was under two different governments and experienced a civil war. This war was a confrontation between the capitalist and socialist blocs. Though the country united in 1976, the war still leaves some bitterness and hatred among many Vietnamese and it is hard to know how deep this cleavage remains.

There have been reports of ethnic tension in the lower Mekong Delta as ethnic Khmer groups react to and resist certain government policies viewed as oppressive. Rising social inequality, popular resentment against government land policies, infrastructure development, environmental protection and China’s actions in the Eastern Sea (or South China Sea) all contribute to potential conflict in Vietnamese society.

II. Governance Performance

14 | Steering Capability

The ruling party and the government have full capacity to set priorities and long-term development strategies. The CPV adopts development strategies at its national congress every five years. Those strategies and their underlying priorities do not correspond to BTI’s normative framework, as they seek to prevent democratic liberalization or democratization.

Since Vietnam embarked on the Đổi Mới road three decades ago, the state has adopted three 10-year socioeconomic development strategies for 1991 to 2000, 2001 to 2010 and 2011 to 2020, respectively. The current strategy aims to turn the country into a modernized and industrialized nation by 2020 with a restructured economy, renewed growth, improved institutional reforms and quality infrastructure and human resources. The government consistently implements these strategies without being affected by changes in government as a result of elections. However, strategic goals may be adjusted annually in response to the circumstances at home and abroad.

The government is accountable for the implementation of socioeconomic development strategies adopted at national party congresses. The prime minister heads a committee in charge of drafting these strategies. The previous government under Nguyen Tan Dung failed to achieve most of the development goals described in the strategies, even though his government’s performance reports were always positive. However, since there is no independent media or checks-and-balances, false positive reports are to be expected. Nevertheless, the reality is that under Dung’s government, corruption was rampant in the public sector. Many banks and state-owned economic groups and corporations went bankrupt.
The current government, headed by Prime Minister Nguyen Xuan Phuc since 2016, has made efforts to achieve its strategic goals. Phuc has called for an “enabling government” (chính phủ kiến tạo) that promotes entrepreneurship and gives favorable conditions to businesses. This approach has borne fruit, becoming the driver for Vietnam’s sustained economic growth, an average of 6%, in the past three years. It is one of the fastest-growing economies in the Asia-Pacific, given the instability of the world economy and international financial system affected by enhanced protectionism and rising rivalry between the two largest economies. Thousands of administrative procedures and business conditions have been removed by government agencies, loosening the hold on business operations. However, policy implementation may be hampered by institutional capacity and lack of human resources.

Since Đổi Mới, all Vietnamese prime ministers have established their own advisory bodies, the principal duty of which is to provide the prime minister policy advice on economic affairs. Unlike his predecessors, Prime Minister Nguyen Xuan Phuc included overseas Vietnamese scholars in his 14-member economic advisory group. An outstanding achievement in the current government’s policy learning is that thousands of administrative procedures, regulations and business eligibility requirements have been removed.

The CPV has a policy advisory body named the Central Council of Theory Studies, the main duty of which is to give advice to the CPV Central Committee, Politburo and Secretariat on the political theories that lay the foundation for the party to develop policies to rule the country. The council holds dialogs with foreign counterparts, mainly with Chinese, Laotian, Cuban and other communist parties, to learn not just how to protect socialism, but also how the communist party can stay in power and attract new members, given that young people are more interested in pursuing the cult of capitalism.

Both the government and the party are eager to engage in policy learning and consult industry experts. But not all expert advice is taken, especially recommendations relating to the power and the rule of the CPV or to politically sensitive matters. Furthermore, groups close to the government and party leaders influence policy-making in their own interests.
15 | Resource Efficiency

Vietnam has an inept administrative system constructed of parallel state and party structures. Since 2017, based on a CPV Politburo order, the central government has enhanced its efforts at re-organizing and streamlining the administrative apparatus at all levels. According to a recent report by the CPV Commission for Organizational Affairs, by the end of 2018, seven directorates, 202 departments and more than 14,800 divisions or the equivalent had been dissolved or merged, thus reducing the number of executives: 11 at the directorate, 180 at the department and 900 at the division level. Within one year, more than 900 bureaucrats were laid off or rotated to another job in the system. Among central government agencies that considerably downsized their personnel were the Ministry of Industry and Trade, the Ministry of Public Security and the Ministry of Defense. Local governments have followed suit. The same report stated that provincial governments across the country have trimmed 65 departments or equivalent and 5,120 divisions or equivalent, effectively reducing the massive number of local executives, including over 170 at the department and approximately 8,350 at the division level.

The use of public assets continues to be ineffective. In February 2019, the current prime minister signed Decision No.213/QD-TTg to “take stock and address completely the remaining problems and weaknesses of state-owned and state-run enterprises; take resolute action against enterprises breaching the law, causing loss and wastage of state funds and assets, as well as investment projects that have been delayed, ineffective or face protracted loss.” It is no surprise that the prime minister made this executive decision, given that the state media produced a series of articles on the loss of millions of dollars in a failed joint oil venture between PetroVietnam (PVN), a state-owned enterprise, and a Venezuelan partner, Petroleos de Venezuela (PDVSA). The PVN is one of a dozen of large state-owned corporations that not only used state assets ineffectively in the past several years, but became fertile ground for bureaucrats to abusively gain personal benefits. Other examples include excessive spending in wasteful white-elephant projects like the Thai Nguyen Steel Complex, the Dung Quat Chemical and Petroleum Refinery Complex, Vinalines and the Mobifone-AVG transactions.

Policies are designed by relevant ministries, which very often suggest regulations that favor sectoral management and administration. In a parliamentary session in 2018, the minister of justice suggested that ministries drafting policies always manage to set rules for their own benefit. That vested interests influence policy design is known as “policy corruption.” This practice leads to a high level of incoherence in policies. By the end of 2017, more than 5,000 policy documents were denounced due to non-compliance with the law.
Coordination between government departments in policy development is inconsistent and lax. Thus, policy implementation is usually boosted by agreements signed between departments and organizations. Policies that relate to national security and defense are rarely verified. The Ministries of Public Security and Defense are states within a state, having extensive powers. Market-oriented policies can be approved only 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 government leaders are subordinate to the prime minister in the state hierarchy, but also have to follow orders from provincial party leaders, who have quasi-equal status with the prime minister as members of the party’s Central Committee (the prime minister is only a primus inter pares, not their superior). Sarcastic digs are said, like “lower level ignores the higher level” (trên báo dưới không nghe) or “the higher level is hot, but the lower level is cold” (trên nóng dưới lạnh). These denote that policy coordination at all levels is problematic and challenges the central government’s authority.

Corruption threatens the legitimacy of the ruling party and the survival of the regime. In 2013, the fight against corruption was taken away from the government of Prime Minister Nguyen Tan Dung and entrusted to a new mechanism known as the Central Steering Anti-Corruption Committee chaired by the CPV General Secretary Nguyen Phu Trong. At the committee’s year-end review meeting in 2018, it was reported that in the past five years, the committee had been directly involved in “57 serious and complicated economic (corruption) cases, of which 40 have been brought to trial.” Also, 4,300 public officials and party members, of which 56 were under direct supervision of the central government or the Politburo, including one member of the Politburo and several members of the CPV Central Committee, have been disciplined, expelled from the CPV or sentenced to imprisonment. Despite enhanced efforts by the CPV, corruption continues to be pervasive in all public sectors. A member of the National Assembly recently stated that corruption was rampant but rarely punished. High-ranking officials and party members are required to self-report their assets, but a researcher in Hanoi said that this poses problems because there is no independent transparency mechanism in place to verify the sources of assets.
16 | Consensus-Building

The CPV rejects liberal democracy, but favors what it refers to as a “socialist” democracy, that is inclusive participation under the leadership of the communist party. There are two main challenges to this status quo vision of authoritarian leadership, one that originates from society and another one that emerges from within the regime.

The first challenge is posed by an emerging independent civil society, which is not accepted by the party-state. Members of this society include political dissidents, former senior officials, and autonomous non-governmental organizations. These individuals and organizations employ different means, including social media platforms, to express disagreement with and criticism of the CPV’s monopoly on power and government policies.

The second challenge arises from within the ruling party itself. The CPV calls this challenge “self-evolution and self-transformation” (tự diễn biến, tự chuyển hóa), particularly among senior party and government officials. As of now, “reformers” from within the CPV are far too weak to have a concrete positive impact on Vietnam’s transformation.

Party oligarchs agree on liberalizing the economy. After more than 30 years of Đổi Mới that elevated the nation to the rank of a lower middle-income country, CPV leaders are increasingly confident pursuing a market economy. They have joined various international economic and trade organizations founded by Western liberal economies, such as the World Trade Organization and recently the Comprehensive and Progressive Trans-Pacific Partnership, and have signed free trade agreements with the European Union. In the party/state hierarchy, actors may not necessarily agree on how to undertake economic reforms. But they share a consensus that only high economic performance can intensify the legitimacy of the CPV, keep it in power and consolidate its authoritarianism. To protect its survival, the party keeps the military and police under its direct control and grants special treatment to members of these two forces. Compromises are made between party factions in order to maintain unity. Many grand corruption cases have not been brought to court due to the complex engagement of various actors including high-ranking officials and party members.
There are two groups of reformers. Members of these groups have the same background, including non-party members, party members, ex-government and army officials, intellectuals, journalists, civil society activists and so on. One group publicly criticizes the ruling party and advocates for democratization. The other group, while supporting a multiparty system, seeks to ally itself with the CPV and introduce gradual regime transformation. The CPV generally labels these actors “anti-party and anti-socialist regime.” They are often subjected to criminal charges under the Penal Code. The CPV considers party-members and ex-government officials who join either group “decadent in [socialist] ideology, self-evolved and self-transformed” and marginalizes them from party activities. These actors are silenced and expelled from the party, as was the case with Chu Hao, a former vice minister of science and technology. The most anti-democratic actors are perhaps the military and public security forces, who are not willing to sacrifice their benefits, special treatment or veto powers. Others include the conservatives in the party who believe in the supremacy of communism.

Generally, Vietnam does not have ethnic, class, regional and religious cleavages. However, there are conflicts and cleavages between reformers and conservative forces, as well as pro- and anti-China factions, within the state apparatus. In addition, in the past 30 years, conflicts have emerged in different social areas, including in economics, politics and ideology, culture, lifestyle and ethics. The state has failed to manage these conflicts. Some former ranking government officials have pointed out this is essentially attributable to the “system,” implicitly acknowledging the failure of the single-party political system. Nevertheless, the party has never admitted fault, occasionally ascribing it to what it refers to as “hostile forces” outside the country, including political parties established by overseas Vietnamese that call for political reforms and democratization in Vietnam.

As of 2017, the government reported that there were 68,125 people’s organizations – a term for non-governmental organizations – of different types and sizes, ranging from community-based and self-help groups, research centers, institutes to associations, unions and federations. In addition to these NGOs, there are five major social-political mass organizations, which are considered as arms of the CPV and are fully funded by the state, namely the Vietnam Women’s Union, the Ho Chi Minh Communist Youth Union, the Vietnam General Confederation of Labor, the Vietnam Farmers’ Union and the Vietnam Veterans’ Association. These organizations have their networks nationwide from the central down to the grassroots level. Sporadic demonstrations against China’s aggression in the South China Sea (or East Sea) and peasant protests indirectly exerted some influence on the government’s domestic and external agenda. In recent years, active participation by these NGOs in policy formulation and implementation, deliberation and decision-making as well as performance monitoring have been seen as the emergence of a nascent civil society.
However, the engagement of civil society organizations (CSOs) by authorities is often merely cosmetic or formalistic in nature.

The party-state draws a line for civil society participation. Excluding the five major mass organizations, whose leaders are appointed by the country’s governance mechanisms at all levels as axiomatic members, CSOs whose operational costs are not from the public budget cannot participate in politics. Furthermore, CSOs involved in any activities relating to politically sensitive topics such as law-drafting, human rights, democracy and political reforms, funded by foreign entities, are legally required to seek approval from the authorities. The party-state adopts flexible and pragmatic approaches to civil society participation. It neither formally recognizes civil society as a concept, nor openly rejects the latter’s participation in contributing to its documentation. It opportunistically maintains this status quo as long as the CPV’s power and the authoritarian regime’s survival are not challenged.

Issues of reconciling past injustices center around three, interrelated topics: the class struggle of the 1950s and 1960s in North Vietnam, the atrocities committed during the Vietnam War (1965–1975) and the post-1976 period. The period spanning from the 1950s until 1975 left especially deep wounds. In 2004, the CPV adopted for the first time a public document, Resolution 36 NQ/TW, that outlines the state’s policy toward overseas Vietnamese, including those used to support South Vietnam. The document calls for the unity of all Vietnamese and reconciliation between the war’s victors and losers. As a gesture of reconciliation, in 2006, the government agreed to re-open the military cemetery of the former South Vietnam regime, allowing the relatives of fallen soldiers to visit and care for the graves of their loved ones. Former high-ranking South Vietnam government officials, living abroad, have been welcomed to return to the country. Nevertheless, a former chairperson of the government’s Committee for Overseas Vietnamese Affairs recently acknowledged that after more than 40 years since the end of the war and 15 years since the CPV Resolution, the wound remains, despite reconciliation efforts from progressive elements on both sides.

17 | International Cooperation

Đổi Mới enabled political leaders to open the country’s doors to receive all sorts of support from external parties, including loans from multilateral financial institutions like the World Bank, which in reality began supporting Vietnam in 1976, and the Asian Development Bank; official development assistance (ODA) of non-refundable and privileged refundable grants from bilateral and multilateral donors; and international investments. ODA grants have made up a substantial ratio in the government’s gross budget earmarked for infrastructure development since 1993. Overall, this support has been effectively used to achieve socioeconomic development goals set out by the political leadership, turning the country from one of the poorest nations to a lower middle-income state after 30 years of Đổi Mới.
However, economic growth is more advanced than the political structure, which has changed little, except for strengthening its authoritarianism. Without checks-and-balances in place, the administrative apparatus has allowed pervasive rent-seeking and corruption, including in foreign-funded projects. There have been calls for institutional reforms or “Đổi Mới 2.0” from both domestic and international communities, if the political leadership wants to increase the country’s level of development and make effective use of international support and deeper international integration.

Vietnam has gained credibility in the international community for its commitments as a member party to myriad bilateral and multilateral agreements, as well as international treaties in numerous areas, including but not limited to climate change, nonproliferation of nuclear weapons, arms control, trade and human rights. It has been elected to important U.N. bodies such as the Human Rights Council and the Security Council. At the moment, it is lobbying to obtain a non-permanent seat for the second time on the Security Council in 2020. The party-state has recently come into the global spotlight by hosting a second summit between U.S. President Donald Trump and North Korean leader Kim Jong-un in Hanoi.

However, the state has a very bad record of human rights violations among the international human rights community. That the government continues to arrest and imprison bloggers and face-bookers who advocate for peaceful political reforms. Still, this has little to no impact on Vietnam’s standing in most international and regional organizations and has not prevented the United States and many European governments from developing friendly and cooperative relationships with Hanoi.

Vietnam’s foreign policy since the late 1980s has given priority to improving relations with neighboring countries, especially with Laos, Cambodia and China. With Laos, its leaders maintain a special friendship and with China, they promote a comprehensive strategic partnership. Hanoi has also enhanced bilateral relations with other countries in the region. It has established a strategic partnership with five countries in Southeast Asia (Singapore, Thailand, Indonesia, Philippines and Malaysia); three countries in East Asia (China, Japan and South Korea); and one in South Asia (India). Cooperation between Hanoi and these countries has been economically effective and politically supportive. Notably, Vietnam still has disputes in the South China Sea (or the East Sea in Vietnamese) with China and three other Southeast Asian nations including Malaysia, the Philippines and Brunei.

Within the Association of Southeast Asian Nations (ASEAN), Vietnam contributes to the building, rule-setting and consolidation of the group, as well as the expansion of the group’s relationship with non-regional countries. More broadly, Hanoi has actively and proactively participated in other regional political and economic mechanisms such as the Asia-Pacific Economic Forum (APEC) and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). The political leadership not only sees expansion of regional cooperation as economically beneficial, but also as a way to enhance the regime’s legitimacy.
Strategic Outlook

While the CPV has been successful in implementing economic reforms in the past 30 years, political and institutional reforms are not keeping pace with economic development. This poses a dilemma for the ruling party, as it understands that a stagnant institutional regime hinders economic performance. Lessons learned from the past three decades and elsewhere have shown that effective performance by the state, particularly in setting objectives and achieving them, is closely associated with better development outcomes. More specifically, state performance rests on effective institutions, including a well-organized government with a disciplined, meritocratic bureaucracy and mechanisms to ensure checks-and-balances and broad public participation. Institutionally, Vietnam faces various problems, including: (1) a lack of clear hierarchy and assignment of roles and responsibilities both within the central government agencies and between the central and local government in formulating and implementing policy, as well as overlapping mandates with conflicting rules and decisions; (2) the absence of merit-based management of public servants exacerbating the adverse effects on the quality of public administration; (3) a gap in practices ensuring citizen participation in influencing decision-making processes; (4) a lack of robust election processes and mechanisms for engaging citizen organizations that would provide true citizen representation and the lack of a system of effective checks-and-balances between the three branches of government. Furthermore, in the post-Đoì Mới era, social malaise has emerged. Corruption is rampant at all levels. Basic freedoms and human rights, such as the freedoms of press and assembly, are violated. Social ethics are degrading due to unsystematic education reforms. Inequality is rising between and among social groups.

The agenda for the state’s political leadership to turn Vietnam into an economic dragon like Singapore, Taiwan, Malaysia and South Korea in the next generation is full and challenging. An all-embracing and bold approach needs to be undertaken. There is a long list of wishes the political leadership should implement. In economic development, it is imperative to carry out reforms to improve productivity growth. After 30 years of Đoì Mới, Vietnam’s productivity is the lowest within the region. To raise productivity, it is important to strengthen the micro-economic foundations of the market economy and to carry out institutional reforms including eradicating the civil registration system (hộ khẩu). Institutionally, there is a strong link between good governance and high economic performance. Good governance requires accountability, transparency and inclusion in the political system. An incapable public administration, fragmentation of responsibilities between government levels and agencies and a lack of checks-and-balances constrain the quality of state governance. The political leadership needs to have a strong political will to implement institutional and political reforms, in which the first things to do are to build a meritocratic bureaucracy, strengthen state accountability and enhance citizen participation in decision-making processes. In summary, the outlook for the party/state in the coming decades is promising, though the political leadership needs to strategically deal with the relationships between the state and society, the market and society and the state and market.