

BTI 2010 | Vietnam Country Report

Status Index	1-10	4.61	# 89 of 128	
Democracy	1-10	3.30	# 114 of 128	➔
Market Economy	1-10	5.93	# 59 of 128	➔
Management Index	1-10	4.94	# 66 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	85.2	HDI	0.73	GDP p.c.	\$	2600
Pop. growth	% p.a.	1.2	HDI rank of 182	116	Gini Index		37.8
Life expectancy	years	74	UN Education Index	0.81	Poverty ²	%	48.4
Urban population	%	27.4	Gender equality ¹	0.56	Aid per capita	\$	29.3

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Over the past two decades, Vietnam has experienced continual economic improvement. Substantial progress was made in fighting poverty during the observation period, largely because of improved coordination between NGOs, international donors and the state. This progress was reflected in an increase in GDP per capita and improved HDI and Human Poverty Index ratings. At the same time, progress is uneven and poverty remains high among ethnic minorities. In 2008, Vietnam was severely affected by soaring inflation and downward pressure on the country's currency, the dong, raising international concerns about the country's economic stability. This economic turbulence provided a fertile ground for the revival of conservative politicians whose strengthened influence poses a challenge for reform-minded Prime Minister Nguyen Tan Dung.

Economic reforms have been accompanied by only moderate structural changes to the political system, and there have not been any democratization efforts. In 2007, however, for the first time, the government opened the draft Political Report, a comprehensive key strategic document, to public debate over the Internet. Furthermore, party delegates to the Congress were given the responsibility for nominating candidates to the Central Committee, a move that created the opportunity for new faces in the Central Committee and the politburo. In an indication of the progress towards more pluralism and changing decision-making dynamics within the state-party system, decisions made by the Vietnamese Communist Party's (VCP) politburo that once had the power of law remain authoritative today, but not absolute. The influence of Vietnam's Quoc Hoi or National Assembly (NA) in the policy-making process has grown, resulting in increasing pressure on the party and ministers to be more accountable. However, the legislature's increasing proactiveness has not yet translated into support of pro-democracy reforms. In November 2008, the NA rejected a trial plan that would have allowed direct local elections in April 2009.

Corruption and abuse of office remain one of the VCP's most serious problems. Citizens' complaints about official corruption, governmental inefficiency and opaque bureaucratic procedures have increased during the assessment period. Although senior party and government officials have publicly acknowledged growing public discontent, the government has so far mainly responded with a few high-profile prosecutions of officials and private individuals rather than comprehensive reforms. Ongoing crackdowns on corrupt officials and state-owned enterprises are a good indication that the government takes graft seriously, but they are also an indicator of the pervasiveness of the problem.

History and Characteristics of Transformation

After failed attempts at reform from 1979 to 1985, the VCP's sixth party congress initiated the *doi moi* economic reform program. In doing so, the party conceded the failure of the centrally planned economy and paved the way for a market economy. However, economic reforms have been accompanied by only moderate structural changes to the political system, and no efforts to democratize have been made. To date there has been no indication of any move toward a multiparty system, and political reforms have focused largely on improving the rule of law, particularly on reducing the high level of corruption. While the government has scored a number of high-profile successes toward eliminating graft, these efforts are almost exclusively tied to its efforts to attract investment and do not suggest a desire for grassroots political reform. During the assessment period, the VCP maintained its firm grip on power, rejecting domestic and international calls for political reform and pluralism. The following description is therefore limited to the economic sector.

Initial reform measures, such as the significant reduction of internal trade barriers and steps toward liberalizing foreign trade, remained largely ineffective due to galloping inflation rates in the triple digits. Desired results came only after the role of agricultural cooperatives had been reduced, planned economy structures had been entirely abolished as prices for most goods and services were allowed to float, and additional trade liberalization measures were implemented in 1988 and 1989. As a result, Vietnam has risen to its current position as the second-largest rice exporter in the world and the world's second-largest exporter of coffee beans.

In a matter of a few years, Vietnam abolished the neo-Stalinist centrally planned economy introduced in North Vietnam in 1954 and imposed on former South Vietnam following reunification in 1975. Although state-owned enterprises continue to dominate key economic sectors, these sectors also operate on capitalist principles and compete with a growing number of private enterprises. *Doi moi* has not proceeded without setbacks intensified by external factors. The major economic crisis of 1985, which included hyperinflation, famine and the exodus of refugees from Vietnam (the "boat people" crisis), was followed by the collapse of the Soviet

Union in 1991, which meant the loss of the country's most important trading partner and donor of development and military assistance.

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

Particularly important to the success of economic development were the normalization of relations with the United States, the lifting of the trade embargo in 1994, and the conclusion of a bilateral trade agreement in 2000. A framework cooperation agreement was signed between the European Commission and Vietnam in 1995. Vietnam's accession to the World Trade Organization (WTO) in January 2007 marked another major success of the government's internationalization strategy.

Since 1990, the Vietnamese economy has shown continual improvement. GDP has more than doubled in the last decade, and the average per capita annual income reached \$1,024 in 2008. The annual growth rate since 2000 has averaged at 7.4%, second only to China in the Asia-Pacific region. International trade and inflows of foreign direct investment – mainly into export-oriented manufacturing – have been the main drivers of growth. Foreign direct investment (FDI) has been increasing by an average of 16.6% annually since 2001. However, despite the VCP's serious commitment to economic reform and its continual implementation of new reform measures, such as improving investment conditions and reducing corruption, not all goals of economic transformation have been reached. Indeed, a large informal economy (for instance, uncontrolled border trade and smuggling) continues to limit significantly the performance of market economic institutions in Vietnam. In the wake of the 2008 – 2009 global economic crisis, Vietnam has been severely affected by soaring inflation and downward pressure on the country's currency, the dong, raising international concerns about the country's economic stability. The economic turbulences provided a fertile ground for the revival of conservative, reform-critical politicians.

Transformation Status

I. Democracy

1 | Stateness

In the first few years after reunification, the state's nationwide monopoly on the use of force was compromised by two factors: first, the ideological conflict that continued to exist between the North and South; and second, the minority problem, particularly the existence of ethnic enclaves in southern Vietnam. Since the dissolution of Front unifié pour la libération des races opprimées (FULRO) in the late 1980s, there have been few problems with state identity. There are some exceptions to the above, as some South Vietnamese, even three decades after reunification, do not want to accept Hanoi as the seat of the state's monopoly on the use of force. All citizens have the same rights, but discrimination against individual ethnic minorities still occurs due to faulty implementation of national equality laws at the local levels.

Monopoly on the use of force

The Vietnamese nation-state is the result of a long and painful anti-colonial and anti-imperialist struggle for independence. The communist revolution was the key to national liberation. As in China and Cuba, the VCP has indigenous roots. The party was not imposed upon the country by the Red Army, but rather gained power through a war of national liberation. But unlike its Chinese counterpart, the VCP has not been discredited by turning on itself or turning the army against the people. National liberation, nation and communism are tightly intertwined and provide the state with a high level of legitimacy. No relevant state or non-state actor questions the legitimacy of the nation-state or the concept of citizenship.

State identity

The political process is completely secularized, although Confucian teachings continue to be important as a framing principle of governmental organization. These teachings, however, are not part of a religious dogma in opposition to the state; rather, they form a basis for exercising power that enhances communist ideology philosophically and traditionally, and lends legitimacy to the exercise of authority.

No interference of religious dogmas

The party-state apparatus is present all over the country with a tripartite government and administrative infrastructure. Despite efforts to decentralize, political decision-

Basic administration

making takes place in Hanoi. This centralization of power brokering, combined with high levels of corruption, has hindered the implementation of many policies, particularly in the South and in Ho Chi Minh City.

2 | Political Participation

There are no democratic elections at the national or local levels. Vietnam is a one-party state with power vested in the VCP and some dialogue with the legislative National Assembly (NA). The main institutional structures of political power and governance have evolved since 1976. Government policy is set by the politburo, the executive of the VCP, but the National Assembly has had a growing role in this. The politburo is elected by the VCP Central Committee, which is elected by party congresses that are held, more or less, in five-year intervals. The Central Committee party secretariat issues directives to party members and oversees government policy on a day-to-day basis. There is considerable overlap between party and government. While decisions made by the politburo still have the power of law to a great extent, a more assertive National Assembly is emerging, and the pressure on the party and ministers to be more accountable is growing.

Free and fair elections

The NA is a unicameral body with 493 members who are elected to five-year terms. At the last elections on 20 May 2007, as in previous polls, only the Vietnamese Fatherland Front (VFF) – a party comprised of the VCP, mass organizations and affiliated groups, and some non-partisan candidates – was allowed to participate. Forty-two seats were won by non-party candidates within the VFF, and one seat is held by a self-nominated candidate. The assembly meets twice a year and has de jure control over legislation, planning and appointments, but in reality, it simply confirms the decisions made by party organs. The NA has, however, been gradually emancipating itself from party leaders since 1996. The president is elected by the National Assembly to serve a five-year term.

While Vietnam's political leaders are not selected through elections that fulfill minimum standards of free popular choice and fair process, governance follows a legal-bureaucratic approach (as opposed to despotic rule).

Effective power to govern

Article 69 of the Vietnamese constitution stipulates, "The citizen shall enjoy freedom of opinion and speech, freedom of the press, the right to be informed, and the right to assemble, form associations and hold demonstrations in accordance with the provisions of the law." At the same time, these provisions are rendered meaningless by regulations and directives that reduce the peaceful exercise of freedom of association and assembly. Decree 88 provides for strict government control of associations, which effectively serve as agencies of government ministries or the VCP. Vietnamese workers are forbidden from organizing unions independent of the government-controlled labor confederation. Decree 38 bans

Association / assembly rights

public gatherings in front of places where government, party and international conferences are held, and requires organizers of public gatherings to apply for and obtain advance government permission (see also “associational activities”).

The media has emerged as a key battleground between reformers and conservatives. While reformers do not necessarily support the concept of unrestricted press freedom, they do view a freer media as a potentially useful tool for policing corruption and thus minimizing potential sources of popular discontent with party rule. Conservatives perceive even limited press freedom as a serious challenge to the VCP. The conservative view prevailed in 2008 despite a promising signal for more press freedom earlier in the year.

Freedom of
expression

In 2008, the arrest and sentencing of two journalists who reported on a high-level graft case called into question the government’s intention to loosen its tight grip on the press. The government rejected widespread criticism of the trial by the two journalists’ newspapers, as well as human rights organizations, foreign donors, the United States and the European Union, noting that the trial of the journalists was held in accordance with international standards and had been attended by representatives of foreign missions and a number of foreign journalists.

While the government controls the entire media, which consists of 600 newspapers and 100 radio and TV stations throughout Vietnam, its ability to control the Internet has predictably been very limited. Blogs have proliferated in Vietnam during the assessment period, though most are carefully apolitical. The most prominent exception is Bloc 8406, so named because the group was launched on 8 April 2006. Bloc 8406’s “Manifesto for Freedom and Democracy” has since acquired several thousand signatures. The document calls for the restoration of civil liberties, the establishment of opposition political parties, the drafting of a new constitution and democratic elections to the National Assembly. Signatories reportedly include religious leaders, former military staff, scholars and writers. Similar blogs on various issues have sprung up as well, but overall have not drawn much public attention. Consequently, they do not necessarily provide an accurate representation of wider public opinion. The main public concerns are directed at economic hardship and fighting corruption.

3 | Rule of Law

There is no separation of powers in the Vietnamese state. In an attempt to introduce a system of checks and balances, at least on paper, a 2001 amendment to the 1992 constitution gave the National Assembly the right of no-confidence votes on the governmental personnel it elects. The no-confidence vote is more theoretical than real, since the party controls the composition of the National Assembly through the Vietnam Fatherland Front. In addition, the state budget law of 2004 made the

Separation of
powers

National Assembly responsible for the approval of the budget and allocations to the lower government levels (see also “free and fair elections”).

The judiciary is clearly subject to the VCP. As Vietnam becomes increasingly integrated into international politics, its legal system has undergone some reforms. In general, however, the Vietnamese legal system does not conform to international standards. In addition, Vietnam’s legal system is not sufficiently transparent and lacks consistency, stability and efficient implementation. Since the early 1990s, ODA amounting to tens of millions of U.S. dollars has been made available for the support of Vietnam’s legal sector reform, and there was evidence of improvements to the legal system during the assessment period. The independence of the courts has been enhanced by replacing judicial elections with judicial appointments, and by creating better material conditions for judges. The government is currently in the process of implementing two resolutions on legal matters – Resolution 48 (strategy for development and improvement of the Vietnam legal system up to 2010 and vision up to 2020) and Resolution 49 (judicial reform strategy) – which, inter alia, aim at the strengthening of judiciary independence.

Independent
judiciary

Corruption and abuse of office remain the VCP’s most serious problems. Citizens’ complaints about official corruption, governmental inefficiency and opaque bureaucratic procedures have increased during the assessment period. Although senior party and government officials have publicly acknowledged growing public discontent, the government has responded primarily with a few high-profile prosecutions of officials and private individuals rather than comprehensive reforms. Whereas the government’s attempts to punish corrupt officials indicate that the government takes graft seriously, they also underscore the pervasiveness of the problem. In the first six months of 2008, government auditors uncovered fraud worth VND 970 billion (\$61 million) and “misdeeds in economic management” of approximately VND 400 billion. By May, almost 400 people had been charged with corruption-related offences. In addition, the General Department of State Audit found that VND 2.8 trillion (\$170 million) in taxes were not paid in 2007, especially in the construction sector, and authorities have recovered less than 10% of these revenues. Vietnam was ranked 121 out of 180 countries surveyed in Transparency International’s 2008 Corruption Perceptions Index (two positions higher than in the previous year).

Prosecution of
office abuse

While maintaining the pace of economic liberalization, the government has continued to clamp down on oppositional civil society actors in an attempt to retain its monopoly on power. In trials throughout the assessment period, several members of the Bloc 8406 movement (see “freedom of expression”), as well as other pro-democracy activists, were sentenced to prison terms. With the death of Hoang Minh Chinh in February 2008, the pro-democracy movement lost one of its most prominent figures. The veteran activist had been among the first signatories of the 8406 manifesto and re-launched the still-banned Democratic Party of Vietnam

Civil rights

(DPV). Hundreds of Vietnamese relatives and supporters attended his funeral, which was a politically charged event held under heavy police scrutiny.

In December 2008, eight Vietnamese Catholics were charged with disturbing public order and destroying property. Since January of the same year – with a peak of activity in August and September 2008 – hundreds of Catholics have protested the government seizure of 14 acres of land which they claim belongs to the church. The protests took the form of mass prayer vigils on the disputed land, which was part of the capital's Thai Ha parish until 1954 when communist forces took power from the French in North Vietnam and seized most church land.

However, on several other occasions, the government demonstrated that it was willing to listen to societal demands for a stronger commitment to civil rights. In March 2008, the government extended the number of religious organizations that enjoy freedom to practice their faith as long as they do not oppose the party and existing political structures. Operating licenses were granted to 13 additional religious groups, including the Bahá'ís, the Theravada Buddhist sect and the Vietnam Mennonite Church. To date the government has recognized 106 protestant Christian groups, licensed 1,156 groups and granted land-use certificates to approximately 30 religious establishments. Senior government officials now praise the positive contribution of religion to society, though they still insist on vetting senior clerical appointments. Even the 2008 update of the traditionally rather critical Congressional Research Service Report on U.S.-Vietnam relations concludes that “most Vietnamese now are able to observe the religion of their choice.”

Human rights remain a thorn in the side of Vietnam's otherwise prosperous international relations. In October 2008, in a resolution on EU-Vietnam relations, the European Parliament called for Vietnam to be pressed to observe human rights and various key freedoms before a new partnership and cooperation agreement with the EU is finalized. In a similar vein, the 2008 edition of the U.S. State Department's Human Rights Report on Vietnam (which covers the year 2007) found that Vietnam's “human rights record remained unsatisfactory.” The Vietnamese Foreign Ministry rejected both the U.S. report and the European Parliament's resolution.

4 | Stability of Democratic Institutions

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

Performance of
democratic
institutions

There are no democratic institutions as such in Vietnam. Elections of the delegations of people's congresses from county, municipal, provincial and national levels are not freely competitive, even where there are more candidates than seats. The political leadership and the party are very clear in their refusal of parliamentary democratic institutions.

Commitment to democratic institutions

5 | Political and Social Integration

In accordance with the constitution, the VCP maintains its monopoly on the leadership of the state and society. The VCP has approximately three million members. All national associations and interest groups, such as unions, farmers' unions, youth leagues, women's unions and other organizations, are encompassed within the Fatherland Front.

Party system

Unlike in China, where the head of the party also assumes the position of the head of state, Vietnam has upheld its "troika" structure: three different persons occupy the three posts of the party chief, the state president and the government chief. There were attempts in Vietnam by both conservatives (during the tenure of conservative General Secretary Le Kha Phieu) and reformers (in the run-up to the Tenth Party Congress in 2006) to merge these posts but all failed. Vietnam's "troika" structure emerged after the death of Ho Chi Minh to reflect the more equal distribution of power among Ho's successors.

Intermediary actors have been emerging since the early 1990s as a result of economic transformation and the societal and socioeconomic changes associated with it. Most of them work exclusively on a local level and are tolerated by the state as long as their activities are in harmony with the framework set out by the VCP. Interest groups in Vietnam are quickly developing greater capacity and assuming a broader role in relation to governance issues.

Interest groups

Advocates of faster reform for Vietnam essentially view the years between the Ninth Party National Congress in 2001 and the Tenth Congress in 2006 as lost time. In spite of impressive economic growth and government successes in reducing poverty, the reformers increasingly perceived the incremental and slow changes in politics as key impediments holding the country back, well behind faster-paced developments in China and elsewhere. While Vietnam has not shown any clear sign of political liberalization toward democracy, for the first time in 2007 the government opened the draft Political Report, a comprehensive key strategic document, to public debate over the Internet. Furthermore, party delegates to the congress were given the responsibility of nominating candidates for the Central Committee, opening the opportunity for new faces in the Central Committee and the politburo.

Consent to democratic norms

At the same time, Vietnam's policy-making has more and more been influenced by inputs, including demands, from newly emerging social groups and shifting structures of influence within the state-party apparatus. Vietnam is still a unitary state in which a bureaucratic elite shapes policy-making. Developments nevertheless suggest that the spectrum of groups attempting to affect policy has widened, notwithstanding the retention of an effective monopoly over political discussion and policy formulation by the government and the VCP. Although decisions made by the VCP politburo once had the power of law, this power is no longer absolute, suggesting a development towards more pluralism and new decision-making dynamics within the state-party system. The influence of Vietnam's Quoc Hoi, or National Assembly (NA), in the policy-making process has grown.

However, the legislature's increasing proactiveness has not yet translated into support of pro-democracy reforms. In November 2008, the NA rejected a trial plan that would have allowed direct local elections in April 2009. According to the proposal, which had been discussed by NA members and outlined in a detailed assembly paper, citizens in 385 communes nationwide would have directly elected their people's committee chairperson. Comparisons have been drawn with the village-level elections introduced by China some two decades ago. The National Assembly instead voted to extend by two years (until 2011) the terms of commune and district leaders who were indirectly elected in a process vetted by the VCP. However, the plan to abolish the People's Councils at district level on a trial basis in ten districts was successful. The trial is part of a reform program that the government calls "grassroots democracy" measures that aim at widening political participation and increasing transparency in local politics.

The government bans all independent political parties, unions and human rights organizations. However, during the assessment period, the government has become more tolerant of associational activities. For example, in 2008, thousands of workers participated in strikes calling for better wages and working conditions. Labor strikes have become a relatively new and increasingly common phenomenon during the observation period. Labor agitation reflects the concerns of the tens of thousands of Vietnamese who have left rural farming communities to seek work in foreign-funded factories in the new industrial zones around Hanoi and Ho Chi Minh City, only to see the buying power of their wage decrease amid rising food and fuel costs. By mid-year 2008, food costs had risen by an estimated 44%, while transport and housing had increased by around 25%. According to government statistics, about 300 strikes took place in the first quarter of 2008 alone, a three-fold increase compared to the first quarter of 2007, when 103 strikes were recorded. Overall, the Vietnamese have enjoyed more freedom of association as the result of a market economy and Vietnam's increasing international integration. The government is currently considering the submission of a law on the formation of associations to the National Assembly.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Klaus Rohland, World Bank country director for Vietnam in 2007, observed that there was probably no other country in the world that, over the last 15 years, has moved its development so far and so fast as Vietnam. Both the Vietnam Development Goals (VDGs), which are a localized version of the Millennium Development Goals (MDGs), and the MDGs show a consistent improvement of social indicators, from education enrollment to infant mortality. For example, primary school enrollment increased from about 90% of the primary school age group in the early 1990s to 96% in 2008. The child mortality rate fell from 58 per thousand live births in 1990 to 28 per thousand in 2005, and 25 per thousand in 2008. In addition, Vietnam developed its five-year socioeconomic development plan for 2006 – 2010, which is of critical importance for propelling the country towards its declared goal of achieving middle-income country status by 2010.

Socioeconomic
barriers

Poverty decreased during the assessment period. The proportion of poor households decreased from 20.2% in 2005 to 13.1% in 2008. However, progress is uneven. The poverty gap between regions and ethnic groups increased. Poverty remains much higher among the ethnic minorities than among the Kinh and Chinese majority. Inequality is growing, not only between the majority Kinh and ethnic minorities but also within the Kinh majority. Many people who recently escaped poverty are vulnerable to slipping back. Most of the poor live in rural areas, and it is encouraging that rural poverty continues to decline, albeit at a slower pace than before.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	45404.4	52803.9	59835.2	68642.8
Growth of GDP	%	7.8	8.4	8.2	8.5
Inflation (CPI)	%	7.8	8.3	7.4	8.9
Unemployment	%	2.1	-	-	-

		2004	2005	2006	2007
Foreign direct investment	% of GDP	3.5	3.7	4.0	9.8
Export growth	%	25.6	17.8	23.2	21.0
Import growth	%	21.9	14.2	23.3	30.8
Current account balance	\$ mn.	-957.0	-560.2	-163.7	-6992.1
Public debt	\$ mn.	15630.7	16433.4	17517.5	19371.7
External debt	\$ mn.	18049.0	19211.5	20202.5	24222.3
Total debt service	% of GNI	1.8	1.8	1.6	1.9
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	6.4	6.2	6.0	6.1
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.5	1.6	2.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.9	1.8	1.9	2.1

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Since 1986, Vietnam has been slowly transforming into a market economy and has experienced continual improvement in its economic foundations. Vietnam enjoyed a first surge in economic prosperity between 1989 and 1995, following the initiation of reform. In 1994, the National Assembly approved legislation on state enterprises and a labor law that gave workers some bargaining and strike rights. After 1997, a combination of the regional financial crisis, which severely depressed foreign investment, and long-standing constraints within the economy led to a deceleration in growth until 2000. The introduction of the new deregulatory Enterprise Law in 2000 was an important point in Vietnam's development towards a market-based economy. The private sector was subsequently constitutionally granted the same status as the public sector, and party members were permitted to engage in private business, all of which precipitated a rapid expansion in the number of new businesses. In June 2006, the National Assembly appointed Nguyen Tan Dung as

Market-based
competition

prime minister and Nguyen Minh Triet as president. The two new leaders were from more commercialized South Vietnam, reflecting the party's shift towards economic reform and global integration.

However, there are still several obstacles to private sector development. Discrimination in policy implementation with regard to credit, real estate and training results in discrepancies between private and public sector treatment. State monopolies are still common in the Vietnamese economy. While some forms of pricing have been liberalized, the state continues to set several key prices, including the (foreign) exchange rate, interest rate and the prices of some goods. Some economic sectors are market-driven, but many branches still depend on state plans, including telecommunication, finance and banking, transportation, electricity and water supply.

A law on competition went into effect on 1 July 2005. It applies to all business enterprises and professional and trade associations in Vietnam, overseas enterprises and associations registered in Vietnam, public utilities and state monopoly enterprises, and state administrative bodies. The competition law has supremacy over all other enacted laws in Vietnam regarding restrictive business practices and unfair trade practices. The law prohibits five broad types of anti-competitive practices: (1) competition restriction agreements; (2) abuse of dominant or monopoly position; (3) "concentrations of economic power" that substantially restrict competition; (4) acts of unhealthy competition; and (5) anti-competitive behavior and decisions by state agency officials who misuse their position. While the adoption of the competition law has provided important tools to ensure a level playing field for all enterprises, the government still has a strong interest in retaining control over the economy as one of its key assets. In late 2007, the government listed 13 socioeconomic sectors in which state firms continue to enjoy a monopoly role, including, for example, the production and repair of weapons and equipment used in national defense and security; the national electricity transmission network and large-scale power generation; production and import of tobacco products; export of crude oil, postal services, the establishment of publishing houses and press agencies, and deposit insurance. A 2008 report by the Ministry of Planning and Investment found that state enterprises had not taken advantage of the benefits of protection to strengthen their competitiveness and to develop. The report also noted that protection could give the wrong signal to investors, thereby attracting resources (capital, land and labor) to industries that may generate protection-induced artificially high profits. This would cause a waste of resources.

Anti-monopoly
policy

Vietnam has made impressive efforts to liberalize its foreign trade. Vietnam has opened itself up rapidly to foreign influence since the 1980s, a process that has been accompanied by growing trade liberalization. This process has been marked by the following key events: ASEAN membership in 1995, APEC membership in 1998,

Liberalization of
foreign trade

the lifting of the U.S. trade embargo in 1994, and the conclusion of a bilateral trade agreement with the United States in 2000 that gave Vietnam most favored nation status. After long, complicated negotiations and delays, Vietnam joined the WTO as its 150th member on 11 January 2007. As a member of ASEAN, Vietnam became a member of the ASEAN Free Trade Zone (AFTA), leading to sharp reductions in tariffs on imports from Southeast Asian states. In addition, under the U.S. Bilateral Trade Agreement, which was signed in 2001, average tariffs on Vietnam's exports to the United States were reduced from some 40% to 3% to 4%, and Vietnam undertook significant commitments to reduce its own tariff and non-tariff trade barriers.

Prime Minister Nguyen Tan Dung has established strong progressive and pro-globalization credentials since taking office in 2006 by masterminding several trade and investment liberalization policies. In 2008, Vietnam concluded a free trade agreement (FTA) with Japan, acted as the coordinator for EU-ASEAN FTA negotiations (the EU and Vietnam are also considering the feasibility of a bilateral FTA), expressed interest in joining a trans-Pacific free trade deal and started bilateral investment treaty negotiations with the United States and Canada.

The integration of Vietnam into the global economy has accelerated sharply in recent years. Exports represented 64% of GDP in 2007, compared to 34% in 1994, and are concentrated in six product groups – crude oil, textiles and garments, footwear, seafood, wood products and electronic goods – which together account for around two thirds of total exports. Vietnam's exports remain heavily dependent on imported equipment and intermediate goods. This traditional trade pattern is reflected in an increasing deficit with ASEAN countries, China and South Korea, balanced by surpluses with the European Union and the United States. The main traditional exports to Asian countries are raw materials and commodities, while those to the European Union and the United States are mainly manufactured goods, notably textiles and footwear. Effective 1 January 2009, the EU removed imported Vietnamese-made footwear from the general system of preferences. During the assessment period, one of the most significant impacts of liberalization in Vietnam itself was the controversial decision to remove fuel subsidies in 2007. According to the Ministry of Finance's price regulation department, the subsidies represented about 5% of the state budget annually. Though Vietnam is a net exporter of energy commodities, it does not have the refining capacity to turn oil into engine fuel.

Since 1988, and especially since 1992, Vietnam has moved to a diversified system in which state-owned, joint stock, joint venture and foreign banks provide services to a broader customer base. According to the "Trade Issues & Recommendations Bluebook 2008," published by the European Chamber of Commerce in Vietnam, there are more than 80 banks in Vietnam – too many given the country's size, according to most analysts. The top 20 financial institutions are believed to handle the bulk of the banking business while the bottom 25% of the banks have limited

Banking system

business, are undercapitalized and may not be stable enough to go forward. One of the main challenges facing the government is the consolidation of the banking sector to ensure fewer and more stable banks. Among other structural weaknesses, Vietnam has one of the most cash-oriented economies in the region; less than 10% of the country's population has bank accounts.

8 | Currency and Price Stability

Shocked by the hyperinflation of the mid-1980s, the government has made fighting inflation its highest priority and has been able to keep inflation at an average annual rate of approximately 3% (1990 – 2004). However, inflation has reached much higher levels since 2004 due to higher food prices, the impact of rising international commodity prices (mainly oil), buoyant consumer demand and, more recently, the effects of the global economic crisis. In 2008, Vietnam was severely affected by soaring inflation and downward pressure on the country's currency, which raised international concerns about the country's economic stability. This economic turbulence provided a fertile ground for the revival of conservative politicians whose strengthened influence poses a challenge for Prime Minister Nguyen Tan Dung. The main criticism was directed at the prime minister's handling of inflation, which reached a 17-year high of 28.3% in August before slightly easing for three consecutive months. High inflation has been among the main causes for a proliferation of labor strikes.

Anti-inflation /
forex policy

The national currency, the dong, is not convertible. While the government manages the exchange rate to serve political purposes, the dong's exchange rate against the dollar is seen as realistic. The government has adopted a plan to make the dong fully convertible by 2010. The central bank, the State Bank of Vietnam (SBV), is not independent from the government.

In late 2008, Vietnam forex reserves stood at more than \$22 billion and the liquidity surplus of local banks was estimated at \$2.424 billion. More than 80% of the forex reserves are being kept at central banks in the United States, France and Germany, or at the IMF and other international credit institutions, and the remainder is held in foreign commercial banks with ratings of AAA and AA. In March 2009, the SBV tightened control over the foreign exchange trading activities of domestic credit institutions

Vietnam's financial fundamentals are relatively strong in relation to comparable emerging markets. Total external debt fell from 35.2% to 30.5% of GDP between 2002 and 2008. The current debt service ratio is manageable. With a stable debt service payment and strong growth in exports, the debt service ratio has been steadily declining since 1998 and stood at 5.5% of goods and services exports in 2008, down from 8.3% in 2002. However, despite a large oil revenue windfall

Macrostability

during the assessment period, the accumulated domestic public sector debt has rapidly expanded, reaching a level of about 44% percent of GDP in 2008, up from just 10.1% in 2002. This trend is likely to continue in the coming years, as the Socioeconomic Development Plan (SEDP) for 2006-2010 envisages sustained heavy reliance on public investment to improve the infrastructure. Fiscal accounts have been affected by lower revenue growth, while expenditure has remained high and is likely to further increase. As a result, the budget deficit (excluding on-lending) has widened significantly and is likely reach 6.7% of GDP in 2009 (up from 1.9% in 2002). For the first time in 2009, the government publicly revealed the balance of Vietnam's foreign reserves. The State Bank of Vietnam has forex reserves of more than \$20 billion, and commercial banks are keeping more than \$10 billion for enterprises. The SBV published the figures after the government had come under pressure to confirm that Vietnam was capable of protecting the value of the dong, following a central bank decision in March 2009 to widen the daily trading band for USD/VND from 3% to 5%. According to the government's statistical figures the dong has fallen an average of 9.5% against the dollar in the first quarter of 2009, and fell 11.16% from March 2008.

9 | Private Property

Property rights and the regulation of property acquisition are formally defined by law, but are not yet sufficiently protected from intervention by the state. As part of its bid to enter the WTO, Vietnam consolidated its confusing maze of intellectual property rules and regulations into a streamlined law that came into force in July 2006. The law covers copyright, industrial property and plant varieties. However, given the rapidity of change, it is difficult for the law enforcement agencies to keep up.

Property rights

The pace of privatization (the Vietnamese term is "equitization") was rapid in 1999 and 2000, but has slowed since then. While the number of SOEs has fallen from 12,000 in 1998 to below 4,000, most of the SOEs that have been privatized are small, and the most important large companies are still controlled by the government. Furthermore, the pace of privatization has been slow. Statistics released by the Vietnamese Enterprise Renewal Department revealed that in August 2008 just 10 of 45 SOE and economic groups on the government's list for privatization in 2008 had started their process. Many of them have delayed their privatization and initial public offerings (IPO) in the wake of the diving stock market, high inflation and bank loan interest rate increases.

Private enterprise

The government has plans to sell shares in 948 SOEs between 2008 and 2010. A recent survey conducted on 1,600 SOEs that became joint-stock companies has shown that their charter capital increased 58.6% on average, revenues were up by 48%, profits by 331% and employee incomes by almost 52%.

With the exception of one case (the equitization of Vietcombank, which was approved in September 2007), no listed company in Vietnam has a market capitalization of more than \$1 billion in which foreign investors can buy stake. The state owns all land and grants land-use rights to farmers, businesses and homeowners.

10 | Welfare Regime

Vietnam has a compulsory social insurance program that covers labor in the formal sector (public administration, private companies, state-owned companies and foreign-owned companies). In 2007, approximately 7.7 million people were covered by the program, 1.4 million more than in 2005. However, only about 67% of the total eligible workforce participates in the program. Evasion and postponement of compulsory social insurance payments by both employees and employers is a serious problem, and the government has not found an effective approach to combat it. By 2007, corporate arrears to the compulsory social insurance program stood at one trillion VND.

Social safety nets

A voluntary social insurance program has been piloted for more than a decade in Nghe An province. The program currently has 100,000 members. The 2006 Law of Social Insurance introduced voluntary social insurance for farmers and workers in the informal sector on 1 January 2008. Implementation of the program, however, has been very slow and limited.

Overall, the Vietnamese social welfare system is inefficient and faces multiple challenges. Coverage is still limited, inequality is high (the richest group of the population receives 40% of all social welfare resources while the poorest receives about 7%) and public expenditures for social security programs are insufficient.

Vietnam leads the Asia-Pacific region on gender equality indicators. On average, Vietnam performs well in delivering education and health services to girls and boys, women and men. There is only a small difference between male and female enrollment rates at primary and secondary schools. The difference in illiteracy between men and women has been decreasing. With 17.7% female membership in governing bodies, Vietnam has the highest rate of female involvement in national and local government in the region. Furthermore, Vietnam has the highest proportion of women in national parliament in the Asia-Pacific region and ranks 19th in the world for number of parliamentary seats held by women (27.3%). The

Equal opportunity

country also leads Asia in moving toward equal earnings in the workplace. Although female earnings in Vietnam are on average only 68% of men's earnings, this puts Vietnam well ahead of countries like Malaysia (47%) and Japan (46%).

In 2007, the labor force participation rate of women was 65.5% compared to 74% for men – a ratio of 0.88, which is higher than that of countries with the same income level (0.76). In 2007, Vietnam's GDI value was 0.732 (ranked at 91 out of 151 listed countries), up from 0.702 in 2003.

However, gender inequity has not yet disappeared in Vietnam as family violence, abuse of women for prostitution and trafficking of women are still pressing issues in the country. The country still has a high infant mortality rate and a large number of illiterate young ethnic minority women. While Vietnam's gender equality achievements are in part due to the country's strong national legal and policy framework, cultural and social expectations mean that women often do not enjoy all of the rights accorded to them by law or policy. Furthermore, current law and policies do not adequately address some core issues, such as migration and domestic violence.

11 | Economic Performance

Since the beginning of the doi moi reform program in 1986, the country has gone through various growth stages, with GDP more than doubling in the last decade, to attain an average capita income of \$1,024 in 2008 (however, the significant 2008 increase in dollar terms was partly the result of the exchange rate, i.e., the low dollar). The annual growth rate since 2000 has averaged 7.4%, second only to China in the Asia-Pacific region. International trade and inflows of foreign direct investment – mainly into export-oriented manufacturing – have been the main drivers of growth. Foreign direct investment (FDI) has been increasing by an average of 16.6% annually since 2001. FDI pledged for Vietnam in the first seven months of 2008 amounted to a record \$4.53 billion, representing an increase of 373% from the same period a year ago and surpassing the previous high of \$2.13 billion for the entire year of 2007. Growth has equally been driven by strong domestic investment and private consumption. Agriculture's share of economic output has continued to shrink, from about 25% in 2000 to less than 20% in 2007.

Output strength

12 | Sustainability

Until very recently, ecological considerations did not enjoy high government priority in view of the pursuit of economic growth. However, for the past few years the government, in cooperation with international donors, has taken steps towards working out a strategy for sustainable development. During the assessment period,

Environmental
policy

the Vietnamese government has demonstrated a commitment to the strengthening of the strategic, legislative and institutional context for environmental protection and management. The strategic and policy framework has been enhanced through the development and adoption of a number of high-level strategies, including the National Strategy for Environmental Protection to 2010, which acknowledges the links between environment and poverty. However, there is a lack of clear coherence and priority between the various strategies, and the issues and objectives contained in these documents are numerous and the targets (where available) are ambitious.

Reduction of primary forests, continued loss of habitat, uncontrolled dumping of trash and a massive reduction in farmland are all results of unsustainable economic growth. While overall forest cover in Vietnam has been increasing in recent years from a low of 28% in 1990 to a current level of 37.6%, the quality of natural forests is decreasing. Approximately 70,000 hectares of land area are lost each year through ground erosion and the expansion of urban megalopolises. The “5 Million Hectare Reforestation Program” (5MHRP, also known as Project 661) is at the core of the government’s national strategy in the forest sector, which is being implemented with the support of international donors (in the so-called Forest Sector Support Partnership). The program promotes both production forest and improved management of production and special-use forests. In 2008, 201,000 hectares of new forest were planted, and protection contracts for 2.3 million hectares were finalized.

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

Education is a prioritized sector of government spending. The percentage of state expenditure on education increased from 17% in 2005 to 18.9% in 2008 with a target of 20% by 2010. The national budget for education and training increased by 14.1% to \$4.76 billion in 2008 as compared with actual spending in 2007. However, a recent public expenditure review showed that budget allocations are far from being sufficient to meet even routine demands for resources in the education sector.

Education policy /
R&D

Nonetheless, Vietnam has very good enrollment rates. In 2008, the estimated net rate for primary school enrolment was 96% – and it is on track to achieve the Millennium Development Goals on education. While Vietnam’s literacy rate of around 90% is high compared with most other countries of similar income, this figure is based on a proxy of the number of people with three years of primary education. A recent survey of reading achievement at grade 5 (end of primary) found that, in some areas, about 40% of children do not have sufficient skills for further learning. Since the 2006-2007 school year, the number of pupils dropping out from school has increased and the completion rate of all levels of education

decreased. The country still has one of the worst equipped education sectors in the Asia-Pacific region. It is ranked behind China, Indonesia, Thailand and the Philippines, to name a few.

With its quantitative expansion of education, and with universal primary education reaching full attainment, qualitative improvement has become the country's key policy challenge. The central issue for improving the quality of education in Vietnam is the effective implementation of the new curriculum introduced in 2002. Teacher education is the key to accomplishing this task. In December 2008, the government published its ambitious draft national strategy on education (version 14) for 2008-2020. By 2020, Vietnam hopes to provide 80% of Vietnamese youth with academic skills equivalent to a high school education. As for the quality of education, Vietnam strives to have 60% of students who can meet the national requirements on reading comprehension by 2010 and 75% by 2015. Regarding higher education, the strategy envisions a 200 student per 10,000 people ratio by 2010. While the number of university students is increasing fast, the national structure of higher education is inadequate. A 2008 report by the Ministry of Planning and Investment concludes that "the quality of universities and colleges is cause for concern. The upgrading of colleges to universities and secondary technical schools to colleges, and the establishment of new universities and colleges, has been massive, but with a lack of control and supervision. This has resulted in many sub-standard institutions." This also has serious consequences for Vietnam's international competitiveness. According to the same report, "a shortage of trained human resources constrains... the international integration process... In recent years, a lack of skilled workers needed to work in export-oriented industries has been evident."

R&D expenditures are very low, at about 0.2% of GDP.

Transformation Management

I. Level of Difficulty

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

Structural
constraints

Rampant corruption, which has spiraled out of control despite the government's attempts to reduce it, is the main structural obstacle to governance observed during the assessment period. The misallocation of resources resulting from an inefficient and highly corrupt administrative sector constitutes a major obstacle to efficient reform. The lack of an independent anti-corruption agency that can credibly seek out and punish corrupt officials hinders any effective enforcement of the law.

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

In Vietnam, distinctions between the state, civil society, and political and non-political state-sponsored organizations are blurred. There is no tradition of civil society in a Western sense (but see also 16.4).

Civil society
traditions

With a proportion of ethnic minorities between 13% and 16.5%, depending on the source, Vietnam is one of the most ethnically heterogeneous societies in the Asian-Pacific region. Conflicts, as well as ethnic, religious and social differences, were mostly masked by communist ideology until only a few years ago, but have skyrocketed during the assessment period. Social and ethnic conflicts found their expression in several local protests. Since the government has embarked on a seemingly successful strategy for improving the livelihoods of the ethnic minorities, it can be assumed that the concerns of civil society actors, defined in the broadest possible sense, are at least partially being taken into account. Civic protest movements are generally limited to the local level, are spontaneously organized and are directed against ethnic and general socioeconomic discrimination, but they have not yet been able to challenge the political regime. Demands for democracy are increasing, but they are still largely limited to uncoordinated activities on the part of individual dissidents who, for the time being, lack a broader base. The government's willingness to work on social conflict grew during the assessment period. The government does not always react to protests with violent crackdowns, at least with some groups of actors. Instead, it engages in dialogue and demonstrates interest in cooperating.

Conflict intensity

A good indication for growing government tolerance of civic protest was the fact that since January 2008 – with a peak of activity in August and September – hundreds of Catholics have been able to protest the seizure of 14 acres of land by the Vietnamese government which they claim belongs to the church. The protest was tolerated by the state authorities and took the form of mass prayer vigils on the disputed land, which was part of the capital's Thai Ha parish until 1954 when the communist forces took power from the French in North Vietnam and seized most church land.

II. Management Performance

14 | Steering Capability

The government is following a clear goal of long-term economic restructuring. The doi moi program, which has been implemented consistently in many areas since 1986, speaks for the long-term character of reforms. This is manifest particularly in the advances made in securing private property institutionally and opening the Vietnamese economy to international markets, which culminated in Vietnam's accession to the WTO in January 2007. The objectives of economic transformation

Prioritization

generally meet the country's development needs. The greatest success could be achieved in poverty reduction.

Vietnam has adapted the MDGs to the country's specific conditions and integrated these goals into its socioeconomic development strategies and programs. Based on the MDGs, Vietnam has set up its own 12 development goals (referred to as Vietnam's Development Goals, VDGs), which mainly focus on social development and poverty reduction targets until 2010.

Reforms are limited to the market economy and do not include any political liberalization. Even economic reforms have not been implemented effectively in all areas. For example, according to the Asian Development Bank, the private sector currently accounts for over 50% of GDP, 27% of total invested capital and more than 90% of the total workforce. However, its potential for wealth creation is still largely undeveloped, as the country remains one of the lowest per capita income countries in Southeast Asia. Vietnam also maintains a large informal shadow economy, which analysts estimate at between 16-50% of the formal economy. These estimates indicate clear limits to the effectiveness of reform implementation.

Implementation

The leading political actors are capable of learning from mistakes, as the modifications of legal frameworks within relatively short periods of time have proven. A flexible and adaptable political system is simply not possible under the current situation, however, and efforts to bring it about have reached their limits repeatedly in the face of established stakeholders' interests, including VCP cadres and the military. The government's 2008 "mid-term review report" on the implementation of the five-year socioeconomic development plan for 2006-2010 presents a comprehensive critical self-assessment of policy choices and their implementation since 2006 and includes detailed recommendations for all policy areas based on lessons learned.

Policy learning

15 | Resource Efficiency

According to a UNDP study, the administrative sector is neither large nor bloated, which contradicts popular perception. Federal employees make up only 3.5% of employees in the sector and constitute a small part of the total number of public employees when compared with other countries in the region, with smaller numbers than Japan and Indonesia. The government recognized the necessity of administrative reform early on in the reform process, but there are still problems with the structure and organization of the bureaucracy. Superfluous intermediary administrative levels, a lack of transparency in the decision-making process, administrative rules, regulations and procedures that frequently change without notice or reason, insufficient coordination between offices, close formal and informal ties with the VCP, and patronage all result in wasted resources. While the

Efficient use of assets

government has addressed a broad range of pressing policy issues and initiated reforms through legislative means, the implementation of laws, resolutions and decrees has been slow and incomplete in most cases. This is mainly due to a lack of effective public administration reform and reorganization of the state bureaucracy. Existing overlaps and duplication of responsibilities, the lack of clear task assignments, weak prioritization, unclear leadership and decision-making structures, and often insufficient institutional and technical capacities within the administration result in the inefficient use of resources and assets.

Although Vietnam has made considerable gains in improving its macroeconomic framework conditions, it is clear that institutional and administrative structures are lagging behind. In cooperation with the UNDP, EU and other international donors, the government has been working on an administrative reform program (Public Administrative Reform, or PAR) to support and strengthen the economic reform process. While PAR dates back to the mid-1990s, the main statement of government policy is the PAR Master Program 2001-2010, which was adopted in September 2001. It focused on increasing the transparency and efficiency of administrative procedures, increasing the accountability of civil servants and improving government structures. The key national strategy document is the Socioeconomic Development Strategy (SEDS) 2006 – 2010. It is based on four pillars: sustainable economic growth, social development, natural resource and environmental protection, and governance. The VCP's own assessment, given in the resolution of the Fifth Plenum of the 10th National Congress and dated 1 August 2007, is that PAR progress has been slow and must be accelerated.

Despite its successes, reform policy has not been universally consistent and coherent. The main reasons are structural constraints to policy coordination among implementing government agencies, weak monitoring and evaluation mechanisms, and the absence of incentives for good governance. Since 2006, some government ministries and agencies have been merged to reduce the number of decision-making bodies and thus facilitate better policy coordination and increase the consistency and efficiency of policy-making. However, this process has been largely mechanical and has not resulted in significant improvements to coordination, according to the government's own assessment. For some cross-sector issues, such as human resource development, public expenditure and environmental protection, effective coordination mechanisms still do not exist, resulting in gaps and overlaps in policy-making. For example, in the past decade, the government has developed numerous strategies aimed at promoting sustainable development, most importantly the "Strategic Orientation Strategy on Sustainable Development in Vietnam" (Agenda 21). However, the interpretation of sustainable development differs among the implementing agencies. Local Agenda 21 offices are often not aware of their specific duties and tasks and lack the capacity and resources to implement the policies drafted by the central government. Overall, environmental policies have not

Policy
coordination

been sufficiently coordinated among all involved stakeholders and mainstreamed into coherent development plans and strategies. Last but not least, there are few incentives to improve the performance of government officials. Promotions are not merit-based and salaries continue to be very low compared to many private sector enterprises.

The government's greatest challenge is fighting corruption. Despite the VCP's intensified anti-corruption campaign, including the prosecution of some allegedly corrupt, and in some cases prominent, party functionaries and government officials for the sake of good publicity, patronage continues to be a significant problem.

Anti-corruption
policy

In August 2006, the National Assembly passed a resolution establishing the Central Commission on Anti-corruption headed by the prime minister. In November 2008, the government unveiled a long-term national strategy for the fight against corruption (until 2020). This very ambitious strategy is intended to eliminate the conditions from which corruption arises and build a transparent government apparatus with incorruptible civil servants. The corruption prevention plan comprises five measures: improving the transparency of authorities and agencies; completing the economic management regime; building a fair and competitive business environment; improving supervision, surveillance, investigation and prosecutions; and raising society's awareness of its role in the fight against corruption. The government is also considering legislative measures to publicize the income of government officials. In a related significant measure to create international confidence in Vietnam's anti-corruption roadmap, the government decided to sign the U.N. Convention against Corruption.

16 | Consensus-Building

All relevant actors agree about the general direction that economic reforms should take, although their notions about the scope and speed of the individual reforms vary somewhat. While the conservatives are preoccupied with regime security, the reformist group within the VCP is primarily concerned with economic development and national modernization. According to the Far Eastern Economic Review, in a closed meeting in September, experts from semi-independent economic think tanks "raised fundamental questions about the issues underlying the troubled economy, including inadequate measures to ensure quality of economic growth, the lack of good governance, and the shortage of skilled workers."

Consensus on goals

However, given that the entire political elite has benefited greatly from ongoing economic liberalization and that the economy still grew by about 6% in 2008, Prime Minister Dung's position has not faced any direct challenges from the conservative quarter.

There are no relevant political actors within government, state administration or the party who would advance democratic reforms towards liberal democracy.

Anti-democratic
veto actors

Far-reaching economic reforms and modest political reforms are being spearheaded by Prime Minister Nguyen Tan Dung, who relies on a heterogeneous group of progressive members among the political elite, tied together by ideological affinity and interest convergence. The conservative-reformer cleavage is not identical with the generation gap in the politburo's Central Committee, which still the centre of political power in Vietnam. Some prominent reformers are too old for re-election, such as former NA Chairman Nguyen Van An, while some younger members of the Central Committee are ardent conservatives, such as Information Minister Le Doan Hop. The current economic turbulence has strengthened those who are critical of reform and who have tried to exploit Dung's difficulties in stabilizing market forces, in finding effective policy responses to counter increased pollution and congestion, and in the struggle against corruption. Criticism was primarily directed at the prime minister's handling of inflation, which reached a 17-year high of 28.3% in August before slightly easing for three consecutive months.

Cleavage /
conflict
management

Tensions within the VCP are believed to be the most intense in over a decade. Dung's individualistic and non-consensual leadership style has irritated, if not angered, the conservative camp led by VCP Secretary General Nong Duc Manh. The divergence between Dung's focus on economic growth and Manh's emphasis on economic stability is growing. While conflicts are normally managed within the institutional framework of the state-party apparatus, there are extraordinary measures available to reconcile existing differences. In the first half of 2008, speculation was growing about the possibility of a mid-term party conference to address internal party divisions. The conference did take place – the first of its kind since 1994 – and was characterized by discontent with Dung's performance and the VCP's "Southern wing."

Until recently, Vietnam's civil society organizations perceived themselves solely as working in partnership with the Vietnamese government rather than as being outside of, and independent from, the state-party system. Non-governmental organizations (NGOs), which are defined very broadly in Vietnam, have been filling in gaps opened up by economic reforms. Due to limited state resources, problems related to the environment, education, healthcare, employment and basic social care can no longer be dealt with and solved by the VCP and its mass organizations alone. Social engagement helps to close these gaps. The official party line is that the society itself should take on more responsibility. The government coined the term socialization (*xa hoi hoa*) for this strategy. During the assessment period, the government has shown increasing openness and willingness to engage an increasingly competent, broad and experienced spectrum of civil society actors. Vietnamese civil society is gradually taking on a greater role in advocacy and lobbying, and no longer just acts as a service provider co-opted by the state. This

Civil society
participation

developing network of self-organized groups and organizations does not yet fulfill the criteria of civic autonomy, but it is a first step in the emergence of a civil society.

Vietnam and the United States made further progress in improving their relations during the assessment period. Since 2005, the United States and Vietnam have held annual visits between the American president and either the Vietnamese president or the prime minister. In June 2008, Prime Minister Dung became the highest level Vietnamese official since the Vietnam War to visit the Pentagon, where he met with Secretary of Defense Robert Gates. The two states also announced the commencement of a formal “Security Dialogue” on political-military issues, a process that the United States has with four other Southeast Asian countries. The June summit was a clear indication of an ongoing deepening of the relations between the United States and Vietnam. Then-President Bush went so far as to vow to support Vietnam’s security, sovereignty and territorial integrity (an allusion to China’s assertiveness in the South China Sea). As Mark Beeson correctly points out, Washington’s relations “with Vietnam have become increasingly cordial. ... [T]here is no small irony in the way in which history has developed; the USA has ultimately achieved the very result it wanted through the indirect use of ‘soft’ rather than ‘hard power.’” While post-reunification reconciliation between North and South Vietnam has never been an official domestic agenda, a divide no longer exists beyond the often-mentioned cultural differences.

Reconciliation

17 | International Cooperation

Vietnam is the main recipient of development aid in East Asia in absolute terms. Vietnam receives around 3% of its GDP in grants and concessional loans. Vietnam has been a pilot country for the EU in terms of harmonization of donor assistance, aid effectiveness and alignment with government policies and systems. There are currently 51 donors, including 28 bilateral and 23 multilateral donors, operating regularly in Vietnam.

Effective use of support

The total value of ODA commitment pledged between 1993 and 2007 totaled \$42.438 billion. ODA commitments have steadily grown from \$1.8 billion in 1994 to \$5 billion in 2009. In addition to ODA resources, there are approximately 600 international NGOs operating in Vietnam with a combined aid value of up to \$200 million per year for various sectors, with a primary emphasis on the improvement of livelihoods in rural, mountainous, isolated, remote and ethnic minority areas.

However, there is a large gap (40%) between commitments and disbursements. The government has identified shortcomings and obstacles in the management and utilization of ODA which have – at least partly – contributed to the existing gap.

Since the late 1990s, the government has been making efforts to enhance ODA effectiveness. Of particular importance in this regard were Decree 17 of 2001 (on the Issuance of the Regulation on the Management and Utilization of Official Development Assistance) and the Consultative Group (CG) meetings process. The CG meetings for Vietnam bring together participants from the government of Vietnam and representatives of the bilateral and multilateral donors to Vietnam. Vietnamese and international NGOs and representatives of the Vietnam Business Forum participate as observers. CG meetings provide a forum for discussions between the Vietnamese government and its development partners on economic policy issues, strategies for reducing poverty and ODA effectiveness.

In a particularly image-damaging case, which is under investigation, a Ho Chi Minh City official allegedly received more than \$2 million in bribes from executives of the Japanese consulting firm Pacific Consultants International (PCI), in exchange for helping the firm win contracts on the East-West Highway project. In response, Japan froze its official development assistance (ODA) commitments to Vietnam and the World Bank warned it would stop lending money to Vietnam if it discovered any wrongdoings regarding ODA. The issue of corruption ranked high on the agenda of the CG meeting between Vietnam's international donors and the government in early December 2008. At the meeting, Sean Doyle, the head of the EU delegation to Vietnam, commented, "Donors and investors may not help as much as they have in the past if they don't see more transparency, receive more economic information and so on, and also receive strong signals that the government is doing something about corruption."

In the mainstream view among the country's main bilateral and multilateral partners, as expressed in various documents, Vietnam's cooperation with international donor organizations is generally trouble-free and has resulted in considerable cooperative contributions to reform, such as programs to fight poverty and environmental protection programs. Willingness to collaborate on development with Vietnam has grown, especially since the party congress in 2001, which proclaimed a definite commitment to continuing reforms. The Vietnamese government is perceived as a reliable partner overall by national governments in Europe, North America and Asia, as well as international organizations such as the ADB and the World Bank. At the regional group meeting in December 2008, development partners recognized Vietnam's impressive recent success in reducing high domestic inflation and containing credit expansion, as well as in addressing the global food and fuel crisis earlier this year.

However, there are more critical voices as well. The issue of corruption ranked high on the Consultative Group's agenda. In the latest report by Global Integrity, a nonprofit organization that tracks governance and corruption trends worldwide, Vietnam won a perfect 100 grade for its anti-corruption law, the text of which meets the highest global principles. In practice, however, the government has often

Credibility

failed to translate those principles into action. The report rated Vietnam's anti-corruption agency, as well as its standards for rule of law and law enforcement, as weak. Extortion and bribery are illegal but commonplace, according to the report.

In multilateral settings, Vietnam has been able to make a significant contribution to international organizations and cooperation programs. As a non-permanent member of the U.N. Security Council (SC) for the 2008-09 term, Vietnam took over the chairmanship during the month of July 2008. After the devastation caused by cyclone Nargis in Myanmar in early May, Vietnam reportedly joined fellow SC members China, Russia and South Africa in opposing calls for the council to invoke a "responsibility to protect" that would have permitted the international community to bypass Burma's ruling junta in providing humanitarian assistance. As for regional cooperation, Vietnam was among the group of five member states that ratified the ASEAN charter early – Vietnam handed over its ratification document on 4 April 2008 – paving the way for the charter to take effect on 1 January 2009. As the unofficial leader of the "CLMV" group (Cambodia, Laos, Myanmar and Vietnam), which represents the least developed of the ASEAN countries, Vietnam hosted a summit meeting of the four prime ministers in November in Hanoi. The four countries are also members of the Mekong River Commission and the Greater Mekong Subregion (GMS). Both organizations focus, inter alia, on the management of water security, which has recently emerged as a serious problem for Vietnam.

Regional
cooperation

Sino-Vietnamese relations remain the most difficult area of Hanoi's foreign policy. On three consecutive Sundays from the 9th to the 23rd of December 2007, thousands of Vietnamese took to the streets of Hanoi and Ho Chi Minh City to protest against what they viewed as China's incursions into Vietnamese territory in the South China Sea. The 9 December rally was the first of its kind in half a century of communist rule in Vietnam. A sense of resentment towards China, rooted in historical legacies, persists within much of Vietnam's political elite and among part of the wider Vietnamese population. The prevailing distrust between the two nations once again became an issue in August 2008, when four Chinese-language websites carried an alleged Chinese plan to invade Vietnam. In response, the government in Hanoi twice summoned senior Chinese diplomats to its Foreign Ministry to voice concerns about the possible negative impact on bilateral relations and to request the removal of the offending document from Chinese websites. Despite strong diplomatic efforts to strengthen Sino-Vietnamese relations and rhetoric about a strategic partnership, China's assertiveness against Vietnam was such an irritant among the Vietnamese elite and the populace at large that even party chief Manh – who favors close relations with China – had to emphasize the need to defend Vietnam's sovereignty and territorial integrity in his speech before the All-Army Political-Military Convention in December 2008.

Strategic Outlook

The impact of the *doi moi* on Vietnam's international relations is an often-underestimated effect of the reformation process. In 1989 Vietnam had diplomatic relations with just 23 non-communist states and was internationally isolated. Just two decades later Vietnam has established diplomatic relations with 172 nations and signed trade agreements with 76 countries and Most Favored Nation status with 72 countries and territories, according to the Ministry of Foreign Affairs which stresses that "for the first time in history, Vietnam is now entertaining normal relations with all major powers and U.N. Security Council's Permanent Members." As a non-permanent member of the U.N. Security Council (for the 2008-09 period) and one of the most influential members of ASEAN and sub-regional cooperation schemes, Vietnam has further strengthened its influence on the international stage. In 2008 Hanoi's bilateral relations with the United States and the European Union reached new heights with the start of talks on a bilateral investment treaty (BIT) and the commencement of a formal security dialogue in the case of the U.S. and negotiations for a Partnership and Cooperation Agreement as far as the European Union is concerned.

Sino-Vietnamese relations recovered from the diplomatic low point in the wake of the anti-China demonstrations in Hanoi and Ho Chi Minh City in December 2007 but remain troublesome with regard to conflicting sovereignty claims in the South China Sea. Vietnam's rapid integration into the regional and global economic and governance structures is likely to continue but the successes in the conduct of foreign relations, cannot hide the fact that the country is still haunted by an international image problem – a message that the country's donors clearly drove home at the Consultative Group Meeting with the government in December 2008. The underlying causes, such as human rights issues and high levels of corruption, no longer escape the attention of domestic groups either. Although Vietnam was removed from the U.S. State Department's CPC ("country of particular concern") list that names states "engaged in or tolerated particularly severe violations of religious freedom" in November 2006, human rights issues have regularly resurfaced on the bilateral agenda. Washington and Hanoi conduct a twice yearly human rights dialogue, in which the U.S. raises questions on religious freedom and democratic reforms in Vietnam. The Vietnam Human Rights Act of 2008 confirmed the provision by linking the expansion of U.S.-Vietnam relations to "significant improvement in human rights for Vietnamese citizens, particularly those enshrined in the International Covenant on Civil and Political Rights, of which Vietnam is a signatory." The European Union and Vietnam initiated a human rights dialogue mechanism between the EU Heads of Missions in Hanoi and the Government of Vietnam in 2001, and is now held twice a year.

While the CVP will be determined to maintain its firm grip on power, domestic protest by pro-democracy, ethnic and possibly religious groups are likely to intensify. The conviction of two reporters who had covered one of the biggest corruption scandals in recent years was a stark reminder that the pace of political reforms is lagging a long way behind economic liberalization.

Not least did the trial indicate the intensity of the growing conflict between the conservatives and reformist groups in the VCP. The economic turbulences of 2008-09 have played to the advantage of the party's old guards, senior leaders from North and Central Vietnam who are associated with the armed forces and the VCP's security wing and preach the primacy of national stability. Seen through the conservative lens, any far-reaching economic reforms and even modest alterations to political decision-making pose a threat not only to the party's monopoly on power but its very survival. While the position of the Prime Minister appears not to have been openly challenged, Dung faces an uphill battle. At the economic front he must balance the reformists' calls for more growth with the conservatives' focus on economic stability while at the same time demonstrating that the government is capable of implementing effective measures to reduce corruption and increase government transparency, the main challenges to the VCP's legitimacy.