

# BTI 2012 | Vietnam Country Report

<b>Status Index</b>	1-10	<b>4.84</b>	# 85 of 128	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

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Please cite as follows: Bertelsmann Stiftung, BTI 2012 — Vietnam Country Report. Gütersloh: Bertelsmann Stiftung, 2012.

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## Key Indicators

Population	mn.	86.9	HDI	0.593	GDP p.c.	\$	3205
Pop. growth <sup>1</sup>	% p.a.	1.1	HDI rank of 187	128	Gini Index		37.6
Life expectancy	years	75	UN Education Index	0.503	Poverty <sup>3</sup>	%	38.5
Urban population	%	28.8	Gender inequality <sup>2</sup>	0.305	Aid per capita	\$	42.9

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

## Executive Summary

Vietnam is a one-party state, with power vested in the Communist Party (VCP) and some dialogue taking place within 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 VCP's executive body, but the National Assembly has had a growing influence in this process. In June 2010, for the first time in its history, the NA opposed a major government spending initiative, blocking an ambitious high speed rail project. The 11th Party Congress of the VCP, which took place in January 2011, confirmed the existing structures of political rule. The delegates pledged to maintain one-party rule and continue Vietnam's market-led policies. While the congress paved the way for some leadership changes and made several important policy announcements, delegates reaffirmed the uncontested dominance of the VCP. Corruption and abuse of office remain one of the VCP's most serious problems in terms of legitimacy. Between December 2008 and November 2009, 289 corruption cases were prosecuted, an increase of 2.48% year-on-year. However, the problem is pervasive, and in December 2010, Vietnam's foreign donors complained about the country's lack of progress in terms of fighting corruption. The government has continued to clamp down on oppositional civil society actors in an attempt to retain its monopoly on power. At the same time, to respect accorded to religious freedom and practice improved during the assessment period. Human rights, however, remain a thorn in the side of Vietnam's otherwise smooth international relations. In the wake of the global financial crisis, Vietnam's inflation rate steadily increased in 2010, reaching 11.75% year-on-year in December. This exacerbated a crisis of confidence in the dong, which already had been affected by a series of devaluations. The government has come under growing international pressure to move away from its growth-oriented economic model and do more to tackle inflation. By 2010, Vietnam had achieved five out of eight millennium development goals (MDGs) ahead of schedule, and appeared likely to complete all goals by 2015. The most decisive progress has been made in poverty reduction.

## 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 in its campaign to eliminate graft, these efforts are almost exclusively tied to its efforts to attract investment, and do not suggest a desire for grassroots political reform. The VCP has maintained its firm grip on power, rejecting domestic and international calls for political reform and pluralism according to international standards. 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, triple-digit inflation rates. Desired results came only after the role of agricultural cooperatives was reduced, planned-economy structures were entirely abolished, prices for most goods and services were allowed to float, and additional trade liberalization measures were implemented in 1988 and 1989. After this time, Vietnam rose 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 that was introduced in North Vietnam in 1954 and imposed on the former South Vietnam following reunification in 1975. Although state-owned enterprises continue to dominate key economic sectors, these firms operate on capitalist principles and compete with a growing number of private enterprises. However, 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 its primary 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 number of active 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. As part of its accession to ASEAN, Vietnam also became a member of the ASEAN Free Trade Area (AFTA).

Particularly important to the success of economic development was 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 for the government's internationalization strategy.

Since 1990, the Vietnamese economy has shown continual improvement. GDP has more than doubled in the last decade. In 2010 Vietnam reached a GDP per capita of \$1,160 and attained "middle-income" status, according to World Bank criteria. The annual growth rate since 2000 has averaged 7.2%, 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. Vietnam ranked third among Asian nations in terms of attracting investment in the 2007 – 2010 period, after China and India. Foreign direct investment (FDI) increased by an annual average of 16.6% between 2001 and 2008, though contracted by 13% in 2009 due to the effects of global economic crisis. However, investment recovered again in 2010.

In the same year, Vietnam had achieved five out of eight MDGs ahead of schedule, and is likely to complete all goals by 2015.

Despite the VCP's commitment to economic reform and 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) remains a significant constraint on the performance of the country's market economic institutions. Mainly as the result of the 2008 – 2009 global economic crisis, but also due to shortcomings within domestic economic structures, Vietnam has been severely affected by rising inflation rates and downward pressure on the country's currency, the dong. This has raised international concerns about the country's economic stability. Since 2008, double-digit inflation has driven up the prices of food and basic commodities, and the country is suffering deficits in its trade and current accounts and its overall budget.

As Vietnam has opened its economy and integrated globally, the state – the executive and legislative branches – have become more powerful vis-à-vis the party apparatus. Although there are shortfalls in executing the separation of powers, three branches of government do exist today.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

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 the United Front for the Liberation of Oppressed Races (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 are reluctant 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 level.

Monopoly on the  
use of force  
10

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 on 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  
9

The commonly held assumption that there still exist discrete North Vietnamese and South Vietnamese national identities – supposedly strengthened by a concentration of political power in the North and entrepreneurial spirit in the South – is a myth. An overall Vietnamese identity has clearly emerged over the past two decades. The North-South divide has also been narrowed with the current government's proactive policy toward the overseas Vietnamese who fled the country after 1975.

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  
10

The party-state apparatus is present all over the country, in the form of a tripartite government and administrative infrastructure. Despite efforts to decentralize, political decision-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. The administration and delivery of basic infrastructure has improved. For example, more than 90% of the majority Kinh population and 80% of the ethnic minority population resident in rural areas today live within two kilometers of an all-weather road (up from about 50% in 1998). This has considerably reduced the isolation of the rural population during wet seasons. Provision of healthcare in Vietnam has improved in terms of health indicators such as life expectancy and infant mortality, but the poor quality of health services in rural areas is reflected in WHO health equitability indexes, which ranked Vietnam 183rd out of 194 countries in 2009. Vietnam has made education a main priority since the 1970s. However, many districts lack adequate facilities and financial support.

Basic administration  
8

## 2 | Political Participation

Although there are no elections that conform to democratic standards, local and national elections are held every five years. The political awareness of voters has increased. However, Vietnam continues to be a one-party state with power vested in the VCP, and some dialogue taking place within the legislative National Assembly (NA). The primary institutional structures of political power and governance have evolved since 1976. Government policy is set by the politburo, the VCP executive, but the National Assembly has taken an increasingly influential role in this process. The politburo is elected by the VCP Central Committee, which is in turn elected by party congresses that are held at intervals of roughly five years. 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. The 11th Party Congress of the VCP, which took place in January 2011, confirmed the existing structures of political rule. The delegates pledged to maintain one-party rule and continue Vietnam's market-led policies. At the same time, the congress evinced some changes in the direction of more openness within the party. Congress delegates no longer blindly approved everything the Politburo wanted. For example, delegates extended the list of

Free and fair elections  
2

candidates for the Party Standing Committee, with the result that some candidates endorsed by the Politburo failed to win election.

While decisions made by the politburo still have the power of law to a great extent, a more assertive National Assembly has emerged since 1996, particularly since the last elections; the pressure on the party and ministers to be more accountable is growing. The NA is a unicameral body with 493 members who are elected to five-year terms. The VCP maintains control of the electoral process. At the last elections, on 20 May 2007, as in previous ballots, the only party allowed to participate was the Vietnamese Fatherland Front (VFF), an umbrella party comprised of the VCP, mass organizations and affiliated groups, as well as some non-partisan candidates. Forty-two seats were won by non-party candidates within the VFF, and one seat is held by a self-nominated candidate. Women won 127 seats (25.7%), while 87 ethnic minority candidates were elected (17.6%). The assembly meets twice a year and has de jure control over legislation, planning and appointments, but in reality simply confirms the decisions made by party organs. Nevertheless, the NA is the only institution within the political system where political actors are able to voice disagreement directly and in a high-profile manner. The Vietnamese 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

2

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." However, 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 public gatherings in front of places where government, party or international conferences are held, and requires organizers of public gatherings to apply for and obtain advance government permission. During the assessment period, associational rights to policy and public advocacy were narrowed. For example, the most recent Decree 45 (2010) adds the proviso "at the request of state agencies" to the right of associations to "participate in programs, projects, studies and counseling, and critical comment and examination" (Art. 23(7)) in order to limit the scope of advocacy.

Association / assembly rights

3

The constitutionally guaranteed freedom of expression, including the freedoms of press, speech, assembly, movement and association, remained severely restricted during the assessment period. U.S. Secretary of State Hillary Clinton highlighted freedom of expression as one of the issues discussed during the visit of Vietnam's Deputy Prime Minister and Minister of Foreign Affairs Pham Gia Khiem to Washington in October 2009. Press freedom has increased to some extent, as demonstrated by frequent critical reporting on corruption cases.

Freedom of  
expression  
2

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 in policing corruption and thus in minimizing potential sources of popular discontent with party rule. Conservatives perceive even limited press freedom as a serious challenge to the VCP's hegemony.

A decree signed by Prime Minister Nguyen Tan Dung in January 2011 tightened state control of the online media. The new restrictions seem to aim specifically at the country's blogosphere, where many bloggers publish under pseudonyms to avoid possible government reprisals.

Furthermore, according to the Human Rights Watch World Report 2011, Vietnam has extended its extensive regime of media and Internet censorship with the use of an Internet firewall, and by implementing new, onerous and restrictive regulations requiring Internet companies and Internet cafe owners to monitor the online activity of Vietnamese citizens. The government is also said to have pressured Cambodia and Thailand "to crack down on peaceful anti-Vietnam government activities such as distributing leaflets and holding a news conference." Hanoi rejected these allegations.

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, though most are carefully apolitical. The first prominent exception was Bloc 8406, so named because the group was launched on 8 April 2006. Bloc 8406's "Manifesto for Freedom and Democracy" called 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. Bloc 8406 no longer exists, but the movement lives on under a variety of names.



### 3 | Rule of Law

Despite the paramount role of the Communist Party, the National Assembly has gained more prestige and power, as has the executive branch. As the result, the party's interference in the working of the three branches has gradually decreased. 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 to make votes of no confidence on the governmental personnel it elects. However, the threat of this 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 National Assembly responsible for the approval of the budget and for budgetary allocations to the lower government levels (see also Free and fair elections section).

In June 2010, for the first time in its history, the National Assembly opposed a major government spending initiative, blocking an ambitious high speed rail project in order to restrain government spending at a time when the state's finances were coming under close scrutiny in financial markets. However, the legislature's increasingly proactive approach has yet to be translated into support for pro-democracy reforms. Shortly before the closing of the fourth session in November 2008, the National Assembly rejected a trial plan that would have allowed direct local elections in April 2009. According to the proposal, which had been discussed by National Assembly members and outlined in a detailed assembly paper, citizens in 385 communes nationwide would have directly elected their people's committee chairs. Comparisons were drawn with the village-level elections introduced by China. The National Assembly instead voted to extend until 2011 the terms of commune and district leaders who were indirectly elected in a process overseen by the VCP.

In 1982, at its fifth party congress, the VCP announced that it would reduce the overlap between party and state. Since that time, there has been some disentanglement, but the overlap persists. As Vietnam has opened its economy and integrated globally, the state – the cabinet and the Office of the Prime Minister – have become more powerful vis-à-vis the party apparatus, especially with respect to the Politburo.

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 insufficiently transparent, and lacks consistency, stability, and efficient implementation. Since the early 1990s, official development assistance (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

Separation of powers

2

Independent judiciary

2

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, thereby also strengthening criteria of judicial merit and expertise and by creating better material conditions for judges. The government is currently in the process of implementing two resolutions on legal matters – Resolution 48 (a strategy for development and improvement of the Vietnam legal system through 2010, with a vision through 2020) and Resolution 49 (judicial reform strategy) – which, inter alia, aim at the strengthening of judiciary independence. However, an April 2010 document on the formalization of coordination between the judiciary and the executive implicitly rejects the concept of judicial independence, and instead promotes strengthened collaboration between the two branches as imperative “to maintain good social order and law enforcement.”

Corruption and abuse of office remain among the VCP’s most serious problems. In line with frequent similar statements by high-ranking politicians, in his opening speech at the 11th Party Congress in January 2011, outgoing VCP General Secretary Nong Duc Manh addressed corruption and wastefulness as primary challenges to the state. Party leaders regularly acknowledge that corruption and the rampant abuse of power have held Vietnam back. Citizens’ complaints about official corruption, governmental inefficiency and opaque bureaucratic procedures are common. Between December 2008 and November 2009, 289 corruption cases were prosecuted, an increase of 2.48% year-on-year, according to the Central Steering Committee for Anti-Corruption.

Prosecution of  
office abuse  
3

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 December 2010, various foreign donors at the annual Consultative Group (CG) for Vietnam complained about the country’s lack of progress on fighting corruption. Among the most pressing problems is corruption in the area of land management. According to a recent survey conducted in Ho Chi Minh City and four provinces, 92% of respondents agreed that cases involving the illegal sale of land and illegal land allocation happened in every province.

The Vietnamese media has played a prominent role in exposing corruption scandals. Since the country lacks civil society groups able to act as watchdogs, the exposure of corruption and abuse of office has largely been in the hands of a small number of journalists who work for newspapers, such as Thanh Nien and Tuoi Tre, which are seen as progressive.

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 Internet bloggers and human rights activists were accused of engaging in anti-government

Civil rights  
3

activities, such as “propaganda on the Internet,” and sentenced to prison terms. In 2010, at least 24 dissidents received prison sentences and 14 others were convicted. The string of political trials provoked strong international criticism, voiced by U.S. Secretary of State Hillary Clinton during her state visit to Vietnam in July 2010, the European Union, human rights organizations and others. The trials were seen as an attempt by the VCP to narrow the spectrum of anti-regime protest and pro-democracy activism in the run-up to the 11th Party Congress.

At the same time, the respect accorded to religious freedom and practice improved during the assessment period. The mass protests by members of the Catholic Church in 2008 and early 2009, which resulted in charges against several Vietnamese Catholics, eventually faded away. The protests erupted following the government seizure of land which belonged to the church, according to the protesters. Vietnamese President Nguyen Minh Triet met with Pope Benedict XVI at the Vatican. Vietnam and the Holy See agreed to a Vatican appointment of a non-resident representative for Vietnam as a first step toward the establishment of full diplomatic relations. The Catholic Church, Protestant congregations, and other smaller religious groups have reported that their ability to gather and worship has generally improved, and that the government allowed registered religious groups to assign new clergy with only limited restrictions. The government also permitted the Buddhist, Catholic, Cao Dai, Hoa Hao, and Protestant faiths to hold several historic large-scale religious services throughout the country, some with over 100,000 participants.

Human rights remain a thorn in the side of Vietnam’s otherwise relatively smooth international relations. The U.S. State Department removed Vietnam from its “Countries of Particular Concern” list for violations of religious freedom in 2006. Since then, however, the United States and other nations, as well as the European Union, have criticized Vietnam’s human rights record. In late 2010, the U.S. ambassador to Vietnam said publicly that he was “troubled by the overall human rights problems in Vietnam.” In November of the same year, both chambers of the U.S. Congress introduced the Vietnam Human Rights Sanctions Act. The cosponsors pointed out that Vietnam was a source country for commercial sexual exploitation and forced labor, and a destination country for child trafficking. Meanwhile, in October 2010, Vietnam and the European Parliament (EP) held a first direct dialogue on human rights in Brussels.

#### 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 shown little potential for democratization.

Performance of  
democratic  
institutions

Elections of people's congress delegations at the 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. A societal pro-democracy movement has been growing over the past few years but the number of pro-democracy activists remains small. Despite its lack of democratic credentials, the current regime enjoys a high level of legitimacy within the vast majority of the population.

Commitment to  
democratic  
institutions  
2

## 5 | Political and Social Integration

In accordance with the constitution, the VCP maintains a monopoly on the leadership of the state and society. The VCP has approximately 3 million members. All national associations and interest groups are encompassed within the Fatherland Front (VFF). The VFF is an umbrella organization grouping 29 registered mass organizations and special interest groups, of which the Vietnam Women's Union is the largest, with a membership of 12 million and a staff of 300 across the country. Other mass organizations include the Ho Chi Minh Communist Youth Union and the Vietnam Youth Federation, respectively with 3.5 million and 2.5 million members. The leaders of these mass organizations regularly serve on the Party Central Committee.

Party system  
1

Unlike in China, where the head of the party also assumes the position of the head of state, Vietnam has retained its "troika" structure: three different persons occupy the three posts of party chief, state president and head of government. 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. The most prominent example of an organization established outside the confines of the VCP is the semi-governmental Vietnam Chamber of Commerce and Industry (VCCI). The VCCI comprises state-owned enterprises and private companies and trade associations in equal numbers. The VCCI is not directly funded by the state, but is a member of the VFF. Other semi-governmental groups such as the women's union and peasant union have also gained in influence.

Interest groups  
2

Most other interest groups 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. In addition, there are of course the semi-governmental groups such as the women's union and peasant union. Although these are not independent from the state and the party, they to

some extent aggregate and articulate social interests and can influence politics (within the limits set by the political authorities).

Advocates of faster reform for Vietnam essentially view the years between the Ninth Party National Congress in 2001 and the 11th Congress in 2011 as lost time. In spite of impressive economic growth and government successes in reducing poverty, the reformers increasingly perceived the incremental and slow political changes as key impediments holding the country back, forcing it to trail faster-paced developments in China and elsewhere. While Vietnam has not shown any clear sign of political liberalization toward democracy, in 2007 the government for the first time opened the draft Political Report, a key comprehensive 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 possibility of new faces in the Central Committee and the Politburo. In September 2010, key strategy papers being prepared for the party congress in January 2011 were publicized four months before the event (another first), allowing for public debate and increasing the degree of transparency in policy-making.

Approval of  
democracy  
n/a

While a comparatively high 31% of Vietnamese believe they can trust others, the 82% of people who feel they have someone to rely on in times of need is below the global average. Charitable activity is limited: According to the 2009 Gallup World Poll, only 17% of people donate money to charity, and just 6% volunteered their time; both figures are in the world's lowest quartile.

Social capital  
3

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. Since mass organizations are included in the official definition of civil society, Vietnam appears to have solid foundations for social capital formation. Official figures show that among Vietnamese citizens, 74% are members of at least one organization; 62% are members of more than one civil society organization (CSO), and on average, each citizen is a member of 2.3 organizations. However, these figures serve primarily as evidence of state mobilization efforts. Furthermore, these figures as such do not provide any indication as to whether group membership produces the type of positive benefits associated with social capital in democracies or mainly contributes to the socialization of members into a set of values supportive of the existing regime. Recent studies on social capital formation in Vietnam suggest that social modernization in the wake of the economic reform process there has contributed to the gradual development of an independent civil society. Even within the state-mobilized mass organizations, increasing signs of independence and diversity of views have emerged. Furthermore, groups with greater autonomy from the state

have been increasing in size and social impact. However, according to East Asian Barometer Survey data, Vietnam has the lowest level of voluntary social network involvement among the aforementioned Southeast Asian nations.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Vietnam remains a poor country. However, it has achieved many of the United Nations Millennium Development Goals, and is acknowledged by the UNDP as having one of the world's fastest poverty reduction records. Indeed, poverty rates again decreased during the assessment period. The proportion of the population living below the national poverty line decreased from 37% in 2004 to 19.5% in 2007 and 14.8% in 2009. However, in its 2006 – 2010 Socioeconomic Development Plan, the government admits that the “rate of households re-falling under poverty lines remains high.” Furthermore, progress toward poverty alleviation has been uneven. Although economic reform has driven the process of poverty reduction, the scale and depth of ethnic minority poverty in Vietnam presents one of the major challenges to achieving the overall targets for poverty reduction set out in Millennium Development Goals. Over the past 15 years, poverty among the majority groups – the Kinh and Hoa – has declined much faster than among the 52 ethnic minorities.

Vietnam's Human Development Index (HDI) value for 2010 was 0.572, placing it in the medium human development category. It was ranked 113th out of 169 countries and areas. Between 1990 and 2010, the country's HDI value increased by 40%, or an annual average of about 1.7%. The new Gender Inequality Index (GII) ranks Vietnam 58th out of 138 countries, according to the 2010 Human Development Report. The GII value is 0.530.

Question  
Score

Socioeconomic  
barriers

5

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	71015.6	91094.1	97180.3	<b>106426.8</b>
GDP growth	%	8.5	6.3	5.3	<b>6.8</b>
Inflation (CPI)	%	8.3	23.1	7.1	<b>8.9</b>
Unemployment	%	-	2.4	-	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	9.4	10.5	7.8	<b>7.5</b>
Export growth	%	11.3	5.0	11.1	<b>14.7</b>
Import growth	%	27.6	7.6	6.7	<b>14.1</b>
Current account balance	\$ mn.	-6953.1	-10823.0	-6608.0	<b>-4287.0</b>
Public debt	% of GDP	44.6	42.9	51.2	<b>52.8</b>
External debt	\$ mn.	22712.6	24954.2	28717.7	<b>35139.4</b>
Total debt service	\$ mn.	1245.1	1321.1	1216.8	<b>1372.1</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	6.1	6.1	6.3	<b>6.5</b>
Public expnd. on edu.	% of GDP	-	5.3	-	-
Public expnd. on health	% of GDP	7.1	7.2	7.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.5	2.3	2.5	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 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 that lasted until 2000. The introduction of the new deregulatory Enterprise Law in 2000 was an important milestone in Vietnam's development toward 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.

Market-based  
competition

4

The role of the private sector in the Vietnamese economy has steadily grown. 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. A long-standing internal VCP struggle, between reform-averse conservatives and a reformist camp that has pushed for further regulatory reform and the improvement of market transparency, intensified in the run-up to the 11th National Congress in January 2011. This prevailing political factionalism has clouded the future of pro-market reforms.

Even Prime Minister Nguyen Tan Dung, the leading public reformer figure, shifted his policy focus back in favor of large state-owned conglomerates. However, this approach backfired. In December 2010, after several months of uncertainty, Vinashin, a state-owned shipbuilder that had accumulated massive debts after an expansionary period, defaulted on the repayment of a \$600 million foreign loan. This incident has become a symbol for the structural problems of the state-owned sector, and undermined Vietnam's reputation as one of the most vibrant emerging economies. The generous government funding provided to inefficient state-owned enterprises lies at the core of Vietnam's macroeconomic instability.

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) anticompetitive behavior and decisions by state agency officials in misuse of 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; the production and import of tobacco products; the export of crude oil; postal services; the establishment of publishing houses and press agencies; and deposit insurance.

Between 2005 and 2010, the Vietnam Competition Authority (VCA) investigated 40 cases related to the violation of the competition law, all of which resulted in

Anti-monopoly  
policy  
5



sanctions. Three of the 40 companies were involved in the abuse of monopoly, abuse of market dominance and anticompetitive agreements.

Vietnam has made impressive efforts to liberalize its foreign trade. The country 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, 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 about 40% to between 3% and 4%, and Vietnam undertook significant commitments to reduce its own tariff and non-tariff trade barriers.

Liberalization of  
foreign trade

7

Prime Minister Nguyen Tan Dung has established strong pro-globalization credentials since taking office in 2006, masterminding several trade and investment liberalization policies. In 2008, Vietnam concluded a free trade agreement (FTA) with Japan; in March 2010, the European Union and Vietnam announced the start of free-trade negotiations

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 broadening customer base. In 2009, the Vietnamese banking system comprised five state-owned commercial banks, one policy bank, five joint-venture banks, 39 foreign bank branches, 40 joint-stock commercial banks and 1016 local credit funds, supervised by the Central People's Credit Fund. Since 2006, foreign banks have been allowed to offer a full range of banking services. One of the main challenges facing the government in recent years is the consolidation of the banking sector to ensure the presence of fewer and more stable banks. Among other structural weaknesses, Vietnam has one of the most cash-oriented economies in the region. In early 2010, Fitch Ratings expressed concerns about the sustainability of the domestic banking sector, focusing particularly on low-quality assets, limited capital and weak liquidity. In an effort to strengthen banks and encourage consolidation in the sector, the State Bank of Vietnam (SBV) raised the capital-adequacy ratio from 8% to 9% as of October 2010, and expressed an intention to raise the minimum capital requirement gradually between 2010 and 2015. A new June 2010 law strengthened the operational authority of the SBV, and placed greater emphasis on controlling inflation as the primary objective of monetary policy, substituting for the previous policy of promoting growth.

Banking system

5

## 8 | Currency and Price Stability

Shocked by the hyperinflation of the mid-1980s, the government made fighting inflation one of its priorities, and was able to keep inflation at an average annual rate of approximately 3% between 1990 and 2004. However, inflation has reached much higher levels since 2004 due to higher food prices, the impact of rising international commodity prices, buoyant consumer demand, and more recently, the effects of the global economic crisis. In December 2010, the consumer price index rose by 11.8% year on year, the fastest rate of increase since February 2009.

The government has come under increasing international pressure to move away from its growth-oriented economic model and do more to tackle inflation “before rising prices and surging demand for U.S. dollars bring about a disorderly devaluation of the dong,” as the IMF and World Bank put it. Although Prime Minister Dung declared containing inflation to be Vietnam’s main policy goal for 2011, there are no clear signs yet that Hanoi is serious about adopting a rigorous approach. In recent years the government has effectively responded to the problem only when inflation reached a critical level. In mid-2010, more money was pumped into the financial system in order to help speed up lending growth and enable the broader economy to hit the government’s growth target. Furthermore, even the nominal commitment to fighting inflation in 2011 is less strong than it should be in the view of international observers. The inflation target rate for 2011 is 7%, unchanged from the 2010 target, while the government is still trying to achieve fast economic growth of 7% – 7.5% in 2011.

The national currency, the dong, is not convertible. The government adopted a plan to make the dong fully convertible by 2010, but was unable to achieve this goal. Growing concerns over the potential instability of Vietnam’s financial market, the global financial turbulence, and national economic performance have constrained the convertibility of the dong. More specifically, they have led the dong to depreciate and triggered a shortage of foreign exchange, constraining enterprises’ ability to meet payments in foreign currencies.

The central bank cut the dong’s value by 10% against the U.S. dollar between November 2009 and December 2010. The SBV announced it would follow a more flexible exchange-rate regime from 2011 on, while using monetary policy to curb inflation. According to this plan, the exchange rate will be based on market conditions and interest rates, and will be used to help boost exports and reduce imports. In late 2010, Vietnam foreign exchange reserves stood at \$19.3 billion (down from \$22 billion in 2008). More than 80% of these reserves are kept at central banks in the United States, France and Germany, or at the IMF and other international credit institutions, while the remainder is held in foreign commercial banks with ratings of AAA and AA. In March 2009, the SBV tightened control over

Anti-inflation /  
forex policy

6

the foreign exchange trading activities of domestic credit institutions. The State Bank of Vietnam is not independent from the government.

Vietnam's economy grew at 6.8% in 2010 despite difficulties and challenges in the wake of the global economic crisis. All sectors and branches posted a growth rate higher than 2009, with agriculture, forestry and fisheries expanding by 2.8 %, industry and construction by 7.7%, and the service sector by 7.5%. Export earnings totaled \$71.6 billion, representing a 25.5% increase as compared to 2009. Foreign direct investment (FDI) reached \$11 billion in 2010 after a severe plunge the previous year. In line with international observers, the government has identified soaring inflation as the main threat to macroeconomic stability.

Macrostability

8

While Vietnam's financial fundamentals have been relatively strong in comparison to other emerging markets over the past decade, some indicators worsened slightly during the assessment period. For example, total external debt fell from 35.2% to 30.5% of GDP between 2002 and 2008, but increased to 32.8% of GDP in 2009. However, Vietnam's public debt is still at a manageable level, according to World Bank and IMF reports. Vietnam's total public debt is estimated to have risen to 56.6% of GDP at the end of 2010, from 52.6% in late 2009.

The country's debt repayment has been punctual since 1993. However, many state conglomerates are planning to issue bonds, which threatens to exacerbate the debt situation, as the debt of state-owned enterprises is not transparent. The insolvency of the state-run Vinashin company in 2010 – and the subsequent government bailout of the company – has highlighted these concerns. Furthermore, since Japan is one of the biggest creditors, the appreciating yen presents a risk to Vietnam's ability to repay debts. Since the U.S. dollar is also appreciating against the dong, the need to buy dollars to buy yen for debt servicing could cause a double burden.

Until 2009, fiscal accounts were affected by low revenue growth, while expenditure levels remained high. As a result, the budget deficit (excluding on-lending) widened persistently from 1.9% in 2002 to 6.5% in 2009. In 2009, the government made extra funds available to boost economic growth during the global financial crisis, putting significant additional pressure on the budget. However, in 2010, the budget deficit decreased to 5.8% (less than the government's original estimate of 6.2%) mainly due to state revenues that exceeded estimates by 9.3%, according to Ministry of Finance figures.

## 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 rights

5

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 fast pace of change, it is difficult for the law enforcement agencies to keep up.

Private companies in 2010 contributed an estimated 29% of the state budget in the form of taxes, compared to 18% in 2006. The private sector contributes roughly 60% of the country's GDP. Private enterprises created 4.3 million jobs, or 54% of all jobs, during the 2000 – 2008 period, four times more than state-owned businesses. However, the number of large private enterprises is still low due to a lack of capital and skilled workers. Private companies do not operate on a level playing field. Legislation and government policy still favors the state-owned sector. According to Le Dang Doanh, one of the architects of the Enterprise Law (2000), “We have changed our policies, but it is not enough. We need to renovate the institutional framework as well to support a market economy and ensure strong sources of finance. It's a fact that 64% of enterprises can't get loans from a bank. That means they can't grow, and that's no encouragement to families that set up businesses. To develop well, Vietnam needs to emphasize development of the banking sector. It is necessary to mobilize capital from the public and make that capital available to businesses.”

Private enterprise  
5

The pace of privatization (the Vietnamese term is “equitization”) was rapid in 1999 and 2000, but has slowed since then. The government had set a target to privatize 948 state-owned enterprises (SOE) between 2008 and 2010, including 65 large corporations with average capital of more than VND 1 trillion (\$52.49 million). However, only 65 enterprises were privatized in 2009, compared to 349 in 2008. The process was similarly slow in 2010, prompting the Ministry of Finance to ask the government to extend deadlines for further privatization. The slow pace was blamed on the large size of the companies involved and the effects of the global economic crisis.

## 10 | Welfare Regime

Social security was recognized by the government as early as 1946, when the first constitution included the concept. Since 1975, social security policy has been uniformly implemented throughout the country.

Social safety nets  
6

Vietnam has a compulsory social insurance program that covers only labor in the formal sector (including the public administration, private companies, state-owned companies and foreign-owned companies). Consequently only 25% of the labor force of 44 million is covered by the scheme. 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

combating it. A new universal unemployment insurance scheme came into force in January 2009.

A voluntary social insurance program has been part of a pilot program 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. However, program implementation has been very slow and limited. A large part of the labor force in rural areas is not protected, as workers lack contracts. The government has sought to address this problem with its social welfare strategy for 2011 – 2020, which envisages universal social welfare. The strategy includes six targets: increasing equality in the labor market, developing advanced social insurance, improving health care, reducing poverty, ensuring access to social services, and expanding flexible social assistance systems. Funding required for the strategy is estimated at VND 732 trillion (\$38 billion), of which 50% will be state-funded.

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 is one of the Asia-Pacific region's leading countries in terms of gender equality. The country has long-established equal pay provisions, and offers maternity leave from four to six months on full pay. Female enrollment in tertiary education (13%) is not far from the male figure (18%). Vietnam has Asia's highest proportion of women in politics. Women hold 27% of National Assembly seats, 42% of committee presidencies within the NA, and 12% of the country's ministerial portfolios. However, the numbers look different in the party's all-powerful Central Committee, on which only 23 of 186 members are female.

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

In 2008, women's labor force participation rate was 74.2 % compared to 80.6 % for men – a ratio of 0.92, which is significantly higher than that of most countries with a similar income level. In 2008, Vietnam's Gender-related Development Index (GDI) value was 0.530 (ranking the country 58th out of 169 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. 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 the rights accorded them by

Equal opportunity  
6

law or policy. Furthermore, current law and policies do not adequately address some core issues, such as migration and domestic violence. Women within ethnic minority communities are particularly disadvantaged: At least one in four is illiterate; among girls aged 15 to 17, only about 60% are in school, compared with over 72% of boys; some 20% of ethnic minority women have never attended school; and ethnic minority women have much higher infant and maternal mortality rates than do their majority counterparts.

## 11 | Economic Performance

Since the beginning of the Doi Moi reform program in 1986, the country has gone through various growth stages. Since 1990, the Vietnamese economy has shown continual improvement. GDP has more than doubled in the last decade. In 2010, Vietnam reached a GDP per capita of \$1,160, attaining middle-income status according to World Bank criteria. The annual growth rate since 2000 has averaged 7.2%, second only to China in the Asia-Pacific region. International trade and inflows of foreign direct investment – mainly into export-oriented manufacturing sectors – have been the main drivers of growth. Vietnam was ranked third among Asian nations in terms of attracting investment in the 2007 – 2010 period, behind China and India. Foreign direct investment (FDI) increased by an annual average of 16.6% between 2001 and 2008, but contracted by 13% in 2009 due to the global economic crisis. However, FDI recovered again in 2010. Growth has been driven equally by the expansion of the export sector and strong domestic investment, with private consumption playing a somewhat lesser role. Agriculture's share of economic output has continued to shrink, from about 24.5% in 2000 to 20.9% in 2009. However, despite the very good economic performance overall, unemployment increased from 4.3% in 2008 to an estimated 6.5% in 2010.

The integration of Vietnam into the global economy has accelerated sharply in recent years. Exported goods and services represented 68.3% of GDP in 2009, 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. Indeed, the strong import demand, further boosted by lower import barriers, has outpaced exports. This traditional trade pattern is reflected in an increasing deficit with ASEAN countries China and South Korea, only partly balanced by surpluses with the European Union and the United States. The substantial merchandise trade deficit continues to be one of the two main weaknesses in the Vietnamese economy, along with high inflation. The annual trade deficit in 2010 amounted to an estimated \$13.3 billion, slightly higher than the \$12.9 billion deficit recorded in 2009.

Output strength  
9

The government is concerned about its growing reliance on exports. While the export sector, helped drive growth in recent years, especially after the country joined the WTO in 2007, expectations for future export growth in Vietnam have been hampered by the slow recovery of the U.S. and the EU markets from the global financial crisis.

## 12 | Sustainability

Vietnam faces several severe challenges related to the deterioration of the environment. Biodiversity is quickly shrinking. The amount of primeval forest coverage is also falling sharply. Vietnam has 10.3 million hectares of natural forest left, making up just 31% of its total forest area, including just 0.57 million hectares of primeval forest. Illegal exploitation of timber, forest destruction, the introduction of exotic creatures and environmental pollution that destroys habitats and the living environment of many wildlife species are to blame. Vietnam is also listed among the countries hardest hit by global climate change.

However, in recent years Vietnam has made good progress toward the achievement of the seventh Millennium Development Goal (MDG7), environmental sustainability. For example, forest coverage increased from 27.8% in 1990 to around 40% in 2010. About 83% of the rural population today has access to clean water, compared with 30% in 1990.

Vietnam's Socioeconomic Development Plan 2006 – 2010 was designed to pave the way for the country's achievement of middle-income country status by 2010. The plan promoted modern governance, a strengthening of the social sector and social inclusion, and better management of natural resources. Most of the projects related to the environment have been supported and financed by international donors. Funds earmarked for environmental purposes represent 11% of total official development assistance (ODA) to Vietnam, which has been between \$7 and \$8 billion per annum in recent years.

According to the Asian Development Bank, the Vietnamese government has demonstrated a strong 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 and Vision Toward 2020, which acknowledges the links between the environment and poverty, but does not admit to tension between trade expansion and attracting more FDI on the one hand, and the environment on the other. There is a lack of any clear hierarchy and priority among

the various strategies, the issues and objectives contained in documents are numerous, and the targets (where available) seem ambitious. The government currently aims at allocating 1% of the overall state budget to environmental protection activities.

Education is a prioritized sector of government spending. The percentage of state expenditure devoted to education increased from 17% in 2005 to 20% in 2010. Education is also one of the sectors where Vietnam has achieved some of the fastest and most impressive successes in terms of fulfilling the Millennium Development Goals (MDGs). The country's literacy rate of 93% (up from 90% in 2000) is high compared with most other countries of similar income. Vietnam has achieved near universal primary education. In 2009, 97% of children went to primary school, and 88.5% of them finished five years of primary education. In this group, 90% continued to study at higher levels of education, with no major gap between urban and rural areas. The gender ratio is relatively equal, with nearly half of students at primary and secondary levels being female.

With its quantitative expansion of education, and with the goal of 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 seeks to have 60% of students 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 (1:50) ratio by 2010. However, in 2009 Vietnam's 376 universities had places for only 400,000 of the 1.2 million candidates who sat for university entrance exams – a ratio of 1 student per 218 people. While the number of university students is increasing quickly, the national higher education infrastructure is inadequate. Currently there is no oversight system in place monitoring the quality of the rapidly increasing number of educational programs and institutions being set up to accommodate the huge demand for higher education.

R&D expenditures increased from 0.2% of GDP in 2005 to 0.7% in 2009, but remain below the global average.

Education policy /  
R&D  
6



# Transformation Management

## I. Level of Difficulty

Conditions for Vietnam's economic transformation were difficult from the outset. At the start of the Doi Moi reform in 1986, the country was still quite isolated internationally. It was almost completely dependent on the Soviet Union for trade, and on donors for development assistance. After several decades of failed experiments with a planned economy, and having to support 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 the commencement of reform even more difficult. Vietnam had no 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  
5

While Vietnam enjoys a high degree of political stability, endemic corruption and administrative inefficiencies that hinder policy-making could reduce the legitimacy of the VCP over time. Furthermore, the party's attraction to Vietnam's youth is fading. "In the past, nine out of 10 university graduates would go into the bureaucracy and want to join the party. Now, it's the reverse. Nine out of 10 want to go into the private sector," said Le Dang Doanh, a former government official and government advisor, in an interview cited by the Jakarta Post. Rampant corruption was 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.

Vietnam's physical infrastructure has markedly improved over the past decade, but remains a constraint for economic development. As a report by the American Chamber of Commerce in Vietnam explains, "Infrastructure, especially seaports and electric power, is the most important factor now for firms considering investment in Vietnam. Infrastructure constraints threaten foreign direct investment

in manufacturing and exports. Private sector participation in infrastructure development, finance, and management is needed urgently, especially in electric power and deep-water seaports.”

In Vietnam, distinctions between the state, civil society, and political and nonpolitical state-sponsored organizations are blurred. There is no tradition of civil society in the Western sense. The roots of civil society in Vietnam can be found in the basic, traditional social organizational unit of the village. In the official Vietnamese understanding, today’s civil society organizations (CSO) are best described as state co-opted service providers or “an important connection between the center and the communities,” according to a recent Vietnamese study. In this interpretation, CSOs are “directed toward poverty reduction, humanitarian relief, self-organization and professional development” but not toward advocacy (however, see also Civil society participation section).

Civil society  
traditions

9

With ethnic minorities comprising between 13% and 16.5% of the population, 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 aimed at 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 mostly 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 today lack a broader base of support. The government’s willingness to address social conflict has grown. 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

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In 2009, the government was confronted by widespread elite opposition to their plans to develop a bauxite mining industry in collaboration with a Chinese company. While Vietnam had experienced opposition to development projects before, as in the case of the Son La dam, it had never faced widespread national opposition of this scope. According to Carlyle A. Thayer, for the first time the competency of the state authorities to decide on large-scale development projects

was called into question by a broad national coalition of mainstream elites including environmentalists, scientists, economists, social scientists and retired officials.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

The government is following a clear objective of long-term economic restructuring. The 11th Party Congress reaffirmed the country's strategic goal of becoming an industrialized nation. This target has been consistent since 1991. Despite existing constraints in the implementation of its development objectives, the government has shown persistent determination in pursuing this strategic goal.

Prioritization  
5

The Doi Moi program, which has been implemented consistently in many areas since 1986, speaks for the long-term character of reforms. This is evident particularly in the institutional advances made in securing private property and in opening the Vietnamese economy to international markets, which culminated in Vietnam's accession to the WTO in January 2007. The objectives of economic transformation generally meet the country's development needs. According to the Millennium Development Goals (MDGs) 2010 National Report for Vietnam, the country has achieved five out of eight MDGs ahead of schedule, and is likely to complete all goals by 2015. The most decisive progress has been made in poverty reduction, with a decline in the poverty rate from 58.1% in 1990 to 14.5% in 2008. The share of households lacking sufficient sustenance dropped by two-thirds from 24.9% 1993 to 6.9% in 2008. However, more than half of the ethnic minority population stills lives below the poverty line, and new forms of poverty have appeared.

Together with Ghana, Vietnam was identified in a 2010 report by the British think tank Overseas Development Institute (ODI) as a "star performer" in terms of MDG progress, particularly in terms of cutting poverty and boosting health. A study by the U.N. Economic and Social Commission for Asia and the Pacific (ESCAP) of the same year comes to similar conclusions: Vietnam has taken the lead in the Asia-Pacific region in terms of the number of MDGs carried out on schedule.

Reforms are limited to the market economy and do not include any far-reaching political liberalization. However, there has been an ongoing debate on political reform within the VCP for many years. During the assessment period, tolerance for a diversity of political views among the party cadres has grown. Some democratization from within the system is taking place, even if slowly.

Implementation  
5

Overall, the government has achieved its strategic priorities of economic development, as evidenced by the successes in poverty reduction and the achievement of middle-income status. However, not all economic reforms have been implemented effectively in all areas. In particular, long delays in establishing a level playing field for private companies and the slow privatization of state-owned enterprises have shown highlighted implementation flaws.

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 as established stakeholders, including VCP cadres and the military, have defended their interests. It is also questionable whether the government has learned the lessons of the macroeconomic setbacks of 2009 and 2010, and is willing to refocus its policy priorities. The 11th Party Congress of January 2011 signaled that Vietnam was likely to continue on a path that favors rapid short-term growth and support for often uncompetitive state-owned enterprises over substantive economic reform. There has not been any strong indication that the government would be willing to sacrifice short-term growth in order to reduce the large trade and budget deficits, bring inflation under control, and reform SOEs.

Policy learning

5

## 15 | Resource Efficiency

According to a UNDP study, Vietnam's 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 or Indonesia. The government recognized the necessity of administrative reform early on in its reform process, though the structure and organization of the bureaucracy still present problems. 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 the waste of resources. While the 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 the lack of effective public administration reform, or of reorganization of the state bureaucracy. Overlaps and duplications 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.

Efficient use of assets

5

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, European Union and other international donors, the government has been developing 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. This focused on increasing the transparency and efficiency of administrative procedures, increasing the accountability of civil servants and improving government structures. However, by 2010 this administrative reform was far from complete, and key targets had not been reached. The government’s master plan to simplify administrative procedures is also known as “Project 30,” because it aims at “a 30% reduction in compliance costs stemming from administrative procedures.” To date this remains a vision and not a goal that seems achievable in the short run.

Despite its successes, reform policy has not been universally consistent and coherent. This inconsistency has been attributable to structural constraints to policy coordination among implementing government agencies, weak monitoring and evaluation mechanisms, and the absence of incentives for good governance. In recent years, some government ministries and agencies have been merged to reduce the number of decision-making bodies; this was intended to facilitate better policy coordination and to increase the consistency and efficiency of policy-making. However, this process has been largely mechanical and has not resulted in significant coordination improvements, according to the government’s own assessment. Effective coordination mechanisms are still lacking for some cross-sector issues, including human resource development, public expenditure and environmental protection, resulting in gaps and overlaps in policy-making. Last but not least, there are few incentives serving to improve government officials’ performance. Promotions are not merit-based, and salaries continue to be very low compared to many private sector enterprises.

As Shawn W. Crispin notes, “A lack of policy coordination across state agencies and enterprises has further eroded local confidence in the government’s ability to control future inflation, and to a significant degree has undermined central efforts to contain pressures on the currency and an overheating property market” (“Vietnam as Asia’s first domino,” *Asia Times* online, 10 February 2010).

One of the government’s greatest challenges is fighting corruption. The VCP has intensified an anti-corruption campaign, which has included the prosecution of some allegedly corrupt, and in some cases prominent, party functionaries and government officials. However, this has seemed to be motivated in large part by the desire for good publicity, and patronage continues to be a significant problem.

Policy  
coordination  
6

Anti-corruption  
policy  
4

In August 2006, the National Assembly passed a resolution establishing the Central Commission on Anti-Corruption, to be headed by the prime minister. In November 2008, the government unveiled a long-term national strategy for the fight against corruption (lasting until 2020). This very ambitious strategy is intended to eliminate the conditions under which corruption arises, building instead 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 significant related measure aimed at creating international confidence in Vietnam's anti-corruption roadmap, the government decided to sign the U.N. Convention Against Corruption.

The government seems willing to take on new campaigns against corruption on a regular basis. The year 2011 has proved no exception. The anti-corruption campaign featured prominently on the agenda of the 11th Party Congress. A few weeks before the congress was held, the Government Inspectorate and the World Bank launched the Vietnam Anti-Corruption Initiative (VACI) 2011, which "aims to foster innovative ideas to raise public awareness on the enforcement of laws to prevent and combat corruption."

None of the current or previous policy approaches to corruption has included a system to protect people who witness or report on corruption. Dang Ngoc Dinh, a Vietnamese academic who studies corruption, suggests that "despite the 'political will' to reduce corruption, Vietnamese leaders are not interested in looking at the 'roots,' or why corruption continues to flourish. Often overlooked is that the call for a more intensive fight against corruption by both Vietnamese and foreign donors has not fostered potentially powerful corruption-reducing mechanisms, such as an 'independent' press or judiciary" (quotes in "Vietnam's endless corruption campaign," East West Forum, 16 April 2010).

## 16 | Consensus-Building

All relevant actors agree on the general direction that economic reforms should take, although their notions about the appropriate scope and speed of individual reforms vary somewhat. While conservatives are preoccupied with regime security, the reformist group within the VCP is primarily concerned with economic development and national modernization. However, given that the entire political elite has benefited greatly from ongoing economic liberalization and that the economy still grew by more than 6% in 2010, Prime Minister Dung did not face any direct challenges from the conservative quarter despite being weakened by the

Consensus on goals

6

economic crisis. Despite widespread criticism over his economic policies and the near collapse of the state-owned company Vinashin, Dung retained his position – subject to confirmation by the National Assembly in May 2011.

Discussions on political reform within the party have taken place for many years. In recent years, tolerance for a diversity of views among party cadres has emerged. Reformers have been gaining more influence and power. This has not necessarily been visible to the public, but can be seen clearly within the bureaucratic system. Nevertheless, reforms have not aimed at advancing democratic reform in the direction of liberal democracy. Reform is about improving institutional capabilities and strengthening governance, not about democratic governance.

Anti-democratic  
actors  
2

In Vietnamese politics, three groups can be distinguished: regime conservatives, modernizers and rent-seekers. These key blocs exist inside the ruling party and the structures of the party state, as well as within society and the economic system. Far-reaching economic reforms and modest political reforms have been 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 leading conservative during the assessment period was VCP General Secretary Nong Duc Manh (2001 – 2011), who was not eligible for renomination at the end of this period. However, the conservative-reformer cleavage is not identical with the generation divide in the politburo's Central Committee, which is still the center of political power in Vietnam.

Cleavage /  
conflict  
management  
7

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 2009 – 2010, criticism was primarily directed at the prime minister's handling of the Vinashin affair and his inefficient approach to fighting inflation. At the 11th Party Congress, Nguyen Phu Trong, chairman of the National Assembly, was unveiled as the next VCP general secretary. Dung was reappointed, signaling that he is likely to carry on for a second term, though this is subject to confirmation by the National Assembly in May 2011. Both the selection of Trong and the reappointment of Dung were widely expected, and demonstrate the VCP's preference for stability over sudden change. The political system remains opaque; conflict management happens behind closed doors. While dissent within the VCP exists, the party has to date succeeded in presenting itself as a united front vis-à-vis outside audiences.

Until recently, Vietnam's civil society organizations (CSOs) perceived their role solely as to work in partnership with the Vietnamese government, rather than as being outside of, and independent from, the state-party system. CSOs have filled in some gaps opened up by economic reforms. Due to the limitations of state resources, problems related to the environment, education, health care, employment and basic social care can no longer be dealt with and solved by the VCP and its

Civil society  
participation  
4

mass organizations alone. Social engagement helps to close these gaps. The official party line is that civil society itself should take on more responsibility. The government has dubbed this strategy socialization (*xa hoi hoa*). In this process, the government has shown increasing openness and willingness to engage an increasingly competent, broad and experienced spectrum of civil society actors. By and large, Vietnamese civil society acts as a service provider co-opted by the state; advocacy and lobbying roles are only gradually developing. Overall, the existing network of self-organized groups and organizations does not yet fulfill the criteria of civic autonomy, but it is a first step toward the emergence of a civil society.

While post-reunification reconciliation between North and South Vietnam has never been part of the stated domestic agenda, the divide between regions no longer exists beyond the often-mentioned cultural differences. Still, due to the nature of the political system, an open and sincere process of “coming to terms” with the past (including issues of regime repression before and after 1975) has not been possible. With regard to U.S.-Vietnam relations, both governments 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 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 opening of a formal “security dialogue” on political-military issues, a process that the United States has previously pursued in conjunction with four other Southeast Asian countries. Bilateral relations have further improved under President Barack Obama. Bilateral trade between the United States and Vietnam surpassed \$15 billion in 2009, an increase of nearly 60% since 2006. The country is the United States’ second-largest supplier of clothing. In a further demonstration of closer ties between Washington and Hanoi, in August 2010 the United States sent the USS *George Washington* aircraft carrier to Vietnam to mark the 15th anniversary of the normalization of relations between the two countries. On 11 August 2010, Vietnam and the United States held their first joint naval exercises in history in the South China Sea. Issues related to the Vietnam War and human rights, however, continue to affect the relationship.

Reconciliation  
4

## 17 | International Cooperation

Vietnam has been East Asia’s leading recipient of Western and Japanese overseas development assistance (ODA) in absolute terms. The total value of ODA commitments pledged between 1993 and 2009 totaled \$42.5 billion. ODA commitments steadily increased from \$1.8 billion in 1994 to \$8.06 billion in 2010. However, total pledges for 2011 dropped slightly to \$7.9 billion. There has been a disparity of 40% between commitments and actual disbursements, and Vietnam has

Effective use of  
support  
7



received around 3% of its GDP in grants and concessional loans. By 2010 there were 51 donors, including 28 bilateral and 23 multilateral donors, operating regularly in Vietnam. Japan has been the largest bilateral donor (pledging \$1.64 billion in 2010), followed by France, the United Kingdom and Germany. The largest multilateral donors include the World Bank, which committed \$2.5 billion in 2010, followed by the Asian Development Bank (\$1.48 billion). The Vietnamese government effectively utilized international assistance for its domestic policy agenda and to strengthen its reform program, particularly in the areas of poverty reduction and infrastructure improvement.

In January 2007, Vietnam joined the World Trade Organization (WTO). In October of that year, Vietnam was elected to serve as a non-permanent member of the U.N. Security Council (UNSC) for 2008 – 2009. The government encountered little opposition from other countries in the course of its campaign for a seat on the council, with Vietnam receiving 183 of 190 votes. Membership, which was regarded as one of the country's most important diplomatic achievements to date, enabled Vietnam to gain crucial experience on the world stage. Vietnam held the presidency of the Security Council in July 2008 and October 2009, and had to deal with, *inter alia*, developments in several African countries, issues such as sanctions against Iran and North Korea, and the situation in Myanmar.

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 donor community. Vietnamese and international NGOs, as well as 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.

The mainstream view among the country's main bilateral and multilateral partners, as expressed in various documents, is that Vietnam's cooperation with international donor organizations is generally trouble-free, and has resulted in considerable cooperative reform programs on issues such as fighting poverty and environmental protection. The Vietnamese government is perceived as a reliable partner overall by national governments in Europe, North America and Asia, as well as by international organizations such as the ADB and the World Bank.

However, rampant corruption (addressed regularly by Vietnam's donors at the annual Consultative Group (CG) meetings, most recently in December 2010), macroeconomic instability and the serious financial troubles at the large state-

Credibility  
8

owned firm Vinashin undermined Vietnam's reputation as one of the most vibrant emerging economies during the assessment period.

In multilateral settings, Vietnam has been able to make a significant contribution to international organizations and cooperation programs. In January 2010, Vietnam took over the rolling ASEAN presidency for a one-year term, and chaired a number of related meetings such as ASEAN+3, the East Asia Summit and the ASEAN Regional Forum, culminating in the 17th ASEAN Summit in Hanoi at the end of the year. Vietnam's motto for its chairmanship – "Toward the ASEAN Community: from vision to action" – indicated that it was time to implement a range of programs and agreements fully in order to make progress in establishing the ASEAN Community.

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 water management and water security, issues that have recently emerged as a serious problem for Vietnam. Sino-Vietnamese relations have recovered from their 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.

Regional  
cooperation  
8

## Strategic Outlook

The outlook for the new CPV leadership appears relatively stable, with the transfer of political power expected to be smooth. The 11th Party Congress of January 2011 solidified the existing political system, along with its well-established structures and processes of decision-making. The new leadership elite is younger than its predecessor, but represents continuity, not change. As of the time of writing, National Assembly Chair Nguyen Phu Trong was expected to replace VCP General Secretary Nong Duc Manh, and Trong Tan Sang was expected to replace President Nguyen Minh Triet. Both Manh and Triet were over the age of 65, and retired. Prime Minister Nguyen Tan Dung retained his position despite criticism of his handling of Vietnam's economic woes in 2010. Dung, Sang and Trong were all expected to take the triumvirate of power at the top of the 15-member Politburo. The National Assembly had yet to confirm the new appointments after the elections, a vote slated for May 2011.

Given that all these key figures are known as pragmatic leaders, no radical change in the country's course is expected. Both Dung and Sang are market-oriented, and Trong publicly stated that tackling economic problems would be the first order of business. However, the new leaders have to demonstrate that they are serious about fighting inflation and corruption, and about reducing the dominance of the state-owned sector in the economy. While international confidence in the Vietnamese economy is not in serious danger, it has certainly fallen during the assessment period.

The VCP will be determined to maintain its firm grip on power, but domestic protest by pro-democracy actors and possibly even groups is likely to intensify. Vietnam's policy-making has been increasingly influenced by inputs, including demands, from newly emerging social groups and shifting structures of influence within the state-party apparatus. Yet to the extent possible, the VCP has limited the ability of pro-democracy actors to voice alternative visions to one-party rule. In the weeks before the 11th Party Congress, Facebook – which is normally blocked with controls that are easily bypassed – was wholly inaccessible. International human rights groups also complained about crackdowns on pro-democracy dissidents in the run-up to the congress. 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 is widening, despite the effective monopoly over political discussion and policy formulation maintained by the government and the VCP. Mass protests could erupt if the government fails to bring inflation under control.

Regarding international relations, no significant change is expected. While Vietnam has been pushing for a closer relationship with the United States and Russia in order to lessen the risk of China's growing military presence in the South China Sea, China remains a crucial partner for Vietnam in the areas of politics, economics, culture and social affairs. The new VCP General Secretary Trong is said to be close to China. With the stabilization of the country's economy and

ideological strengthening of the VCP high on the ruling elite's agenda, further strengthening of cooperation with Hanoi's ideological ally and economic model is likely. However, Sino-Vietnamese relations are unlikely to be completely trouble-free, and remain troublesome with regard to conflicting sovereignty claims in the South China Sea. China's approach has become increasingly assertive; in three first months of 2010 alone, the Chinese navy captured 30 Vietnamese boats with more than 200 fishermen in disputed areas in the South China Sea.

Vietnam's rapid integration into 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 a dual international image problem, relating to the countries shortcomings in the areas of human rights and corruption.