

BTI 2014 | Vietnam Country Report

Status Index	1-10	4.69	# 89 of 129	
Political Transformation	1-10	3.57	# 109 of 129	➔
Economic Transformation	1-10	5.82	# 57 of 129	➔
Management Index	1-10	5.03	# 60 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2014 – Vietnam Country Report. Gütersloh: Bertelsmann Stiftung, 2014.

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Key Indicators

Population	M	88.8	HDI	0.617	GDP p.c.	\$	3635.2
Pop. growth ¹	% p.a.	1.1	HDI rank of 187	127	Gini Index		35.6
Life expectancy	years	75.5	UN Education Index	0.539	Poverty ³	%	43.4
Urban population	%	31.7	Gender inequality ²	0.299	Aid per capita	\$	25.1

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. 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 Vietnamese Communist Party (VCP) and some dialogue taking place within the legislative National Assembly. 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. 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 National Assembly paved the way for some leadership changes and made several important policy announcements, delegates reaffirmed the uncontested dominance of the VCP.

The VCP has continued to follow the objective of building a state ruled by law. It has pledged to streamline government institutions, tackle corruption and make the state more responsive to public demands – a process that started with the Doi Moi (“renovation”) Policy reforms in 1986, which also has had a political and institutional dimension. Increasing the de facto power of the National Assembly has been another key component of the country's political renovation. The National Assembly, no longer a rubberstamp body, displayed several instances of increasing assertiveness in its relations with the government in the period under review.

Corruption remains one of the VCP's most serious problems. Despite aggressive steps – including new anticorruption laws and agencies, and high-profile cases against several party officials, politicians and, above all, senior executives of state conglomerates – abuse of office and patronage are still pervasive. Corruption continues to tarnish Vietnam's international image, as do human rights violations and the restriction of civil rights.

While conflict related to ethnicity markedly decreased, the government intensified repression against activists and dissidents during the assessment period. Bloggers, writers, human rights defenders, land rights activists, religious groups and others were targeted by Vietnamese

authorities and faced harassment, intimidation, arrest, and, in several dozen cases, imprisonment. A new decree went into effect in February 2011 that gives the government greater power to restrict the media, which is already tightly controlled.

The implementation of stabilization measures over the assessment period has helped to avert a macroeconomic crisis. Inflation, which peaked at 23% in August 2011, finally came under control and averaged 9.21% in 2012. Economic growth in 2012 represented the smallest increase (5.03%) since 1999. While the government has frequently reemphasized its determination to rein in inflation, policymakers tend to exhibit a bias in favor of encouraging growth at the expense of price stability. The government's main challenge is to balance the impact of its fiscal and monetary stabilization program with its pro-growth strategy. In particular, drastic reform measures will be necessary to restructure the largely uncompetitive state-owned companies, create a level playing field for the private sector, and significantly reduce the bad debt in the banking sector.

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 that conform 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 world's second-largest exporter of both rice and 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. Since 1990, the Vietnamese economy has shown continual improvement. In 2010, Vietnam reached per capita GDP of \$1,160 and attained "middle-income" status, according

to World Bank criteria. International trade and inflows of foreign direct investment – mainly into export-oriented manufacturing – have been the main drivers of growth. Although macroeconomic instability since 2009, and especially in 2011, has stained the external perception of Vietnam as one of the most successful and promising economies in the world, “fears of an economic meltdown,” as the New York Times put it, are premature.

Today, Vietnam is a market-based economy with fewer product and service monopoly markets than in previous decades. Nonetheless, the government privileges the role of state-owned enterprises through special bank loans and other policies. Privatization, which has come some way but was only half-heartedly advanced during the assessment period, also exposes firms to greater competition. Having to compete with other firms for customers and market share leads to the pressure required to stimulate greater efficiency and profitability.

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 the Association of Southeast Asian Nations (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.

The Vietnam Communist Party (VCP) held its 11th national party congress in January 2011 and national elections were held in May of the same year for the 13th legislature of the National Assembly. Although there was a complete turnover in the top party posts, this did not result in any measurable policy changes associated with the new leaders. Twelve members of the Central Committee who held ministerial posts in the government were not reelected to the Central Committee. Incumbent Prime Minister Nguyen Tan Dung was returned to office for a second term and carried out a reshuffle of his cabinet. There was generally continuity in government policy in the period under review, but the political leadership under Dung made amendments to its economic policy, focusing more on fiscal and monetary stability than economic growth.

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

Transformation Status

I. Political Transformation

1 | Stateness

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. The government sees the strengthening of national and ethnic unity as a main priority. However, while all citizens have the same rights, discrimination against individual ethnic minorities still occurs at times due to an incongruent legal system and faulty implementation of national equality laws at the local level.

The Vietnamese nation-state is the result of a long and painful anticolonial and antiimperialist 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.

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

Question
Score

Monopoly on the
use of force
10

State identity
9

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 somewhat 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. However, Vietnam's society has been increasingly influenced by Western values and culture as the country integrates with the rest of the world. Thus, Chinese culture is losing some ground in Vietnam.

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. The administration comprises the People's Council and the People's Committee at the commune, district and provincial levels. The People's Council approves local key socioeconomic development orientations, while the People's Committee manages and implements these tasks. 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 United Nations Development Programme (UNDP) Viet Nam Provincial Governance and Public Administration Performance Index (PAPI) 2011, which covers all 63 provinces in the country and measures the standards of governance and public administration drawn from citizens' experiences in their interactions with governmental authorities at different levels finds that the best performing provinces on public service delivery (e.g. health care, education, water supply, and crime reduction) are mostly concentrated in the central region, while the poorest performers are scattered in northern mountainous, central highlands, south central, and southern provinces. Big cities tend to perform better in public service delivery, including access to water and sanitation. Overall, however, the national infrastructure remains poor. This has long been an impediment to the country's growth, as its developing industry is highly dependent on sound infrastructure (especially power and road networks) to operate. This infrastructure deficit has worsened further along with the combination of rising urbanization and steady population growth.

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. Voting is compulsory in Vietnam and 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. The National Assembly is a unicameral body,

Free and fair
elections
2

currently with 500 members who are elected to five-year terms. The VCP maintains control of the electoral process. At the last elections – for the 13th National Assembly – on 22 May 2011, 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 nonpartisan candidates. The VFF shapes the electoral outcome by limiting the number of candidates that can stand in multi-member constituencies. In 2011, 827 candidates were approved by the VFF. Of the 500 deputies elected, 333 (two-thirds) were newcomers to the legislature, 122 were female, 78 belonged to an ethnic minority, 62 were under the age of 40, 42 were not members of the VCP, and four had nominated themselves for election. Women’s representation in the National Assembly has decreased over the last four terms and is currently at 24.4%. The government’s target is to have a minimum of 35% women represented in the National Assembly and People’s Councils after the 2016 election.

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 guarantees “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 freedoms 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 to organize 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. To the right of associations to “participate in programs, projects, studies and counseling, and critical comment and examination” (Art. 23(7)), the most recent Decree 45 (2010) adds the proviso “at the request of state agencies” in order to limit the scope of advocacy. Yet, there have also been signs of a more liberal approach towards the right to assemble in some instances. For example, in August 2012, state authorities did not interfere with more than 100 people participating in Vietnam’s first public demonstration for lesbian, gay, bisexual and transgender (LGBT) rights.

Association / assembly rights

3

Private expression, public journalism and even political speech showed some signs of enhanced freedom during the assessment period. According to the Human Rights Watch 2013 report, this trend was especially evident in a surge of criticism of Prime Minister Nguyen Tan Dung during the course of the 6th Plenum of the party Central Committee in October 2012, and a high-profile call for his resignation issued from the floor of the National Assembly in November. Overall, however, the

Freedom of expression

2

constitutionally guaranteed freedoms of expression, including those of press, speech, assembly, movement and association, have remained severely restricted. In January 2012, Vietnamese Justice Minister Ha Hung Cuong indicated “that some restrictions on freedom of expression will remain intact as the country moves forward with democratization.” He also confirmed that “media activities need to be regulated to a certain degree.”

The government controls the entire media, which consists of approximately 600 newspapers and 100 radio and TV stations throughout Vietnam. The media is state-owned and this includes mass organizations which are part of the Vietnam Fatherland Front. For example, the Farmers Association, Women’s Union, Youth Union, the army and the Vietnam Communist Party all own newspapers. A new decree went into effect in February 2011 that gives the government even greater power to restrict the media. The decree establishes fines of up to \$1,000 for writers and editors who do not reveal sources of information and fines of up to \$2,000 for those who publish information that is unauthorized or not in “the interests of the people.” The restrictions also apply to online media. Confronted with an increasingly bold blogosphere, in 2012 the government drafted a Decree on the Management, Provision, Use of Internet Services and Information Content Online to further extend its control of electronically disseminated information. In September 2012, Prime Minister Nguyen Tan Dung ordered the Ministry of Public Security to target blogs and websites not approved by the authorities, and to punish those who create them.

Individual journalists and a growing number of bloggers have tested the limits to the freedom of expression. Some journalists have posted stories on blog sites that they could not publish in the newspapers they work for. This has been successful as far as reporting on issues, especially corruption cases, that closely affect the government’s reform agenda. However, in other cases, journalists and bloggers were charged and sentenced on the basis of the existing legislation. In August 2012, Le Thanh Tung, a writer who was affiliated with Bloc 8406 (the first prominent pro-democracy blog, which is no longer functional under this name) was sentenced to five years in prison. In the following month, a pioneer of citizens’ journalism in Vietnam, Nguyen Van Hai, received a jail term of 12 years for defending Internet freedom and exposing censorship laws. Vietnamese courts have imposed prison sentences on dozens of political activists since the government began a crackdown on freedom of expression in 2009. In January 2013, 14 activists, including Catholics, bloggers and students, were convicted of political crimes and sentenced to up to 13 years in prison. In the same month, a Vietnamese court began the trial of 22 democracy activists in the central province of Phu Yen on charges of “activities aimed at overthrowing people’s administration.”

3 | Rule of Law

There is no separation of powers in Vietnam; the legislature, the executive and the judiciary are combined in a unitary political system. In the country's post-1992 political system, the VCP formulates the strategic policies, while the government, comprising the executive agencies (the state apparatus) and the National Assembly, is tasked with implementing the strategy. 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. National Assembly delegates no longer blindly approved everything the Politburo wanted. For example, delegates extended the list of 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 is growing on the party and ministers to be more accountable. Yet, despite the paramount role of the VCP, the National Assembly has gained more prestige and power, as has the executive branch. As a result, the party's interference in the workings 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 in the governmental personnel it elects. In the fourth session of the 13th National Assembly, held in November 2012, the deputies voted to implement the National Assembly's no-confidence measure. For the first time, officials, including the president and prime minister, may face a possible no-confidence vote and can potentially be removed from office. However, this no-confidence vote appears 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.

Prior to reforms, the National Assembly was little more than a rubberstamp body, obediently endorsing party decisions. This is still largely the case, but developments since 2010 show that the National Assembly has in fact become more assertive. In 2011 – 2012, government plans regarding Vietnam's controversial bauxite mining project in the Central Highlands and the country's plan for new nuclear power stations in Ninh Thuan have also been hotly debated by assembly members. The constitution

Separation of
powers
2

is currently under review and the process is open to the public. However it is unlikely that an amended constitution will establish procedures that would move Vietnam in the direction of an electoral democracy.

The judiciary is clearly subject to the VCP. Judges have limited tenure and are selected through political processes. Politically sensitive judgments are directed by the party. A 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.” There are only a very small number of examples of court decisions overturning the actions or interests of state agencies. In a rare case, in February 2012, Vietnam’s Supreme Court reversed rulings by lower courts that had approved the eviction of a fish farmer whose armed standoff with police galvanized the nation and earned him widespread sympathy. However, the Supreme Court’s move came only after Prime Minister Nguyen Tan Dung said the attempted eviction of Vuon’s family had been illegal.

Independent
judiciary
2

As Vietnam has become increasingly integrated into international politics, its legal system has undergone some reforms. On the basis of the ongoing Legal System Development Strategy and Resolution No. 49, Judicial Reform Strategy to 2020, the government, with the substantial support of international donors, has been trying to implement reforms with the aim of building a uniform, consistent, enforceable, open and transparent legal system. The Socio-Economic Development Plan (SEDP) 2011 – 2015 has indicated the government’s stated commitment to sustain efforts to improve the legal system. In general, while the Vietnamese judicial system does not yet conform to international standards, the independence of the courts has been somewhat 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. Major challenges in the field of legal development concern the need for legislation to correct legal ambiguity, inefficiencies and discrepancies among laws. As for the judiciary, promulgated laws are often inadequately disseminated among judicial officers (judges, prosecutors and attorneys) and there is shortage of judges, particularly at the local courts.

Corruption and abuse of office remain one 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 a main challenge. Party leaders regularly acknowledge that corruption and rampant abuse of power was holding Vietnam back. Citizens’ complaints about official corruption, governmental inefficiency and opaque bureaucratic procedures are common. At the 6th plenum of the VCP’s Central Committee, it was decided to transfer the National Steering Committee on Prevention and Control of Corruption from the executive branch to the party apparatus. The committee will be headed by the party’s secretary-general,

Prosecution of
office abuse
3

which is likely to enhance its power. The newly reestablished Central Commission on Internal Affairs serves as the standing body of the committee. In June 2009, Vietnam ratified the U.N. Convention Against Corruption, which outlawed the taking of bribes from domestic sources and from foreign public officials and has put a legislative framework in place to increase the effectiveness in addressing issues related to the integrity of officeholders. Whereas the government's attempts to punish corrupt officials indicate that the government takes graft seriously, they also underscore the pervasiveness of the problem. The VCP has a Committee on Inspection and Control, as well as a separate internal security affairs unit to investigate and report on corruption by party members. According to a report by the National Steering Committee on Prevention and Control of Corruption (CPCC), between 2007 and 2012 more than 11,500 party members were found to have violated party resolutions relating to corruption. In 2,953 cases, disciplinary action was taken. Four members of the party's Central Committee, 17 local party secretaries and members of the party cells were put under investigation. In 2011, the government's Inspection Office stepped up its efforts to enhance anticorruption measures, boost education in this area and collaborate with other state agencies involved. The Inspection Office also intensified measures to inspect the operations of government agencies and organizations as well as itemize property belonging to state officials and employees. Unspecified special measures were announced to verify undisclosed property and incomes. In 2012, Vietnam revised the anticorruption law, made progress on the analysis, research and publication of reports on corruption prevention, and intensified effort to strengthen the commitment of local leaders to actions against corruption. Yet, in a highly publicized session of the National Assembly in November of the same year, deputies heatedly debated amendments to the 2005 anticorruption law and called for "real commitments from the government, party and the National Assembly" towards an effective legal framework to support the fight against corruption."

Civil rights are only protected to a limited extent. The courts are not independent and do not afford any measure of protection against infringement on a citizen's rights by the state. The 2012 Amnesty International Report on Vietnam speaks of harsh repression of dissidents and severe restrictions on freedom of expression, association and peaceful assembly. Throughout the assessment period, critics of government policies were targeted, including social and political activists, and several dozen were sentenced to prison terms – based usually on vaguely worded provisions of the 1999 Penal Code. In 2011 alone, at least nine dissident trials took place, with 20 defendants.

At the same time, religious freedom has improved. The 2012 Congressional Research Service report on U.S.-Vietnam relations concluded that "most Vietnamese now are able to observe the religion of their choice. However, while the freedom to worship generally exists in Vietnam, the government strictly regulates and monitors the

Civil rights

3

activities of religious organizations.” 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 more than 100,000 participants. In January 2013, Pope Benedict XVI received VCP Secretary General Nguyen Phu Trong. While the Vietnamese government and the Holy See do not have full diplomatic relations, ties between the two have been slowly improving, and, in January 2011, the Vatican appointed an envoy to Vietnam, though from outside the Holy See’s administration.

4 | Stability of Democratic Institutions

There are no democratic elected or legitimate 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

1

Elections of congressional delegations at the county, municipal, provincial and national levels are not freely competitive, even when 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, which increasingly expresses itself in the social media, has been growing during the assessment period, but the number of pro-democracy activists remains small. Vietnam expert Martin Gainsborough sees “heavy doses of elitism and paternalism” at the heart of Vietnamese political culture, contributing to a situation in which “the powers that be treat voting less as a contest of alternatives than as a chance for the citizens to confirm the intrinsic merits of their leaders.” However, Vietnam’s society has been increasingly influenced by Western values and culture as the country integrates in the world. Thus, Chinese culture is losing some ground in Vietnam and it does not heavily influence Vietnamese people as it used to. Chinese ideological tradition is not as strong as it seems in Vietnam anymore because the Vietnamese are trying to promote their own ideology in the age of so-called economic development.

Commitment to
democratic
institutions

2

5 | Political and Social Integration

In accordance with the national constitution, the VCP maintains a monopoly on the leadership of the state and society. The formally highest party institution is the National Congress which is held at roughly five-year intervals. The party congress elects the Central Committee, the supreme organ on party affairs between the congresses. The Central Committee elects the politburo and secretariat, and appoints

Party system

1

the general secretary, the highest party office. The secretariat issues directives to party members and oversees government policy on a day-to-day basis. The 14-member politburo possesses broad decision-making and policymaking powers, including powers over government personnel. Held in 2011, the VCP's 11th party congress confirmed the existing structures of political rule.

The VCP had approximately 3.6 million members in 2011. 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 more than 13 million and 10,472 local branches across the country. Other mass organizations include the Ho Chi Minh Communist Youth Union and the Vietnam Youth Federation, with 3.5 million and 2.5 million members, respectively. The leaders of these mass organizations regularly serve on the party's Central Committee. 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 semigovernmental 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 semigovernmental groups, such as the women's union and peasant union, have also gained in influence.

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 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 semigovernmental 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).

A type of interest articulation that resembles more the situation in pluralistic societies and liberal political systems has emerged with regard to economic planning and policymaking. The government perceives this development as negative and diametrically opposed to its economic reform strategy. In early 2012, Prime Minister

Interest groups

3

Nguyen Tan Dung acknowledged “the surging influence of interest groups...on the policymaking process.”

n/a

Approval of
democracy

n/a

Survey data on social capital in Vietnam is inconclusive owing possibly to differences in the interpretation of survey questions. With a score of 19.6 on the 2012 Gallup Civic Engagement Index, Vietnam ranks 136th of 160 nations in the survey, which assesses individuals’ likelihood to volunteer their time and give assistance to others (the highest score achieved by any country was 60). Only 13% of Vietnamese donate money to charity (a decline of 4% compared to the 2009 poll), and just 8% (increase of 2%) volunteered their time; both figures are in the world’s lowest quartile. At the same time, according to the East Asian Barometer Survey for Vietnam, which uses 2005 data (the most recent available), 59% of respondents “strongly agreed” with the statement: “A citizen who does not actively participate in the affairs of his local and national community is not performing his duties.” Based on the World Values Survey, a comparatively high 52.1% of Vietnamese believe they can trust others (2006 data – most recent).

Social capital
3

While the government bans all independent political parties, unions and human rights organizations, it 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, about two-thirds are members of at least one organization; more than 60% 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. Overall, all relevant sociopolitical and socioeconomic groups are supposed to complement government strategies and policies.

Women’s unions are one of the most prominent of these organizations; they are mandated with addressing a broad range of social issues locally, ranging from the provision of information on family planning and health to the facilitation of savings and credit services.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
5

Vietnam remains a poor country. However, it has achieved many of the United Nations Millennium Development Goals (MDGs). The UNDP acknowledges that the country has made “very impressive progress” towards achieving the MDGs and has been successful in meeting some of them – such as MDG 1 on eradication of extreme hunger and poverty – ahead of the 2015 deadline. The proportion of the population living below the national poverty line (annually adjusted for inflation and currently defined as a monthly average income of VND480,000/\$23 for rural areas and VND600,000/\$29 for urban areas) decreased from 28.9% in 2002 to 14.2% in 2010 and 12.6% in 2012. However, the UNDP cautions that poverty rates are likely to be underestimated due to relatively low poverty thresholds by international standards and the exclusion of key vulnerable groups from national surveys.

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 the MDGs. Over the past two decades, poverty among the majority groups – the Kinh – has declined much faster than among the 53 ethnic minority groups. In 2012, only 1.7% of the population in the urban southeastern region, in and around Ho Chi Minh City, lived below the poverty line, while the value was 26.7% in the northern midlands and mountain areas, which have a high concentration of ethnic minorities. The Gender Inequality Index (GII) ranked Vietnam 48th out of 146 countries in the 2011. The GII value was 0.305 – one of the best values in Southeast Asia.

Vietnam’s Human Development Index (HDI) value for 2011 was 0.593, placing it in the medium human development category. It was ranked 128th out of 187 countries and territories. Between 1990 and 2011, Vietnam’s HDI value grew from 0.435 to 0.593, an increase of 37.0% or average annual increase of about 1.5%. This has to be considered impressive progress and reflects the country’s achievements in generating economic growth and improving living standards. Between 1980 and 2011, Vietnam’s life expectancy at birth increased by 19.5 years, mean years of schooling increased by 1.2 years, and expected years of schooling increased by 1.8 years. The country’s per capita GNI increased by about 228% between 1990 and 2011.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	97180.3	106426.8	123679.3	141669.1
GDP growth	%	5.3	6.8	6.0	5.0
Inflation (CPI)	%	7.1	8.9	18.7	9.1
Unemployment	%	-	-	2.0	-
Foreign direct investment	% of GDP	7.8	7.5	6.0	-
Export growth	%	11.1	14.7	12.2	11.0
Import growth	%	6.7	14.1	3.5	9.7
Current account balance	\$ M	-6608.0	-4276.0	236.0	9062.0
Public debt	% of GDP	51.2	54.0	50.8	52.1
External debt	\$ M	33084.8	49343.1	57840.5	-
Total debt service	\$ M	1490.8	2795.4	3395.7	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	6.3	6.5	6.5	5.4
Public expnd. on edu.	% of GDP	-	6.6	-	-
Public expnd. on health	% of GDP	2.7	2.5	2.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.5	2.5	2.2	2.4

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

According to the International Labour Organization (ILO), the informal sector in Vietnam accounts for about 20% of GDP. There are 8.4 million informal household businesses in the country and, overall, approximately 24% of all working Vietnamese are employed in the informal sector. At the national level, manufacturing and construction make up the largest informal industry (43% of total employment in the informal sector), followed by trade (31%) and services (26%). State-owned enterprises still control around 40% of the country's economic output, but the role of the private sector in the Vietnamese economy has steadily grown. The number of private firms among the 500 largest enterprises in Vietnam (according to the Vietnam

Market-based
competition
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Report and Vietnamnet, which collaborate on the VNR500 list) has increased from 103 in 2007 to 225 in 2012. However, significant obstacles to private sector development continue to exist. Discrimination in policy implementation with regard to credit, real estate and training results in discrepancies between private and public sector treatment. A longstanding 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 2011. 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 2009, in response to the global economic crisis, the government made cheap credit available to some of the largest state-owned enterprises, which used this credit to diversify into industries in which they had little or no experience. In December 2010, Vinashin, a state-owned shipbuilder that had accumulated massive debts, defaulted on the repayment of a \$600 million foreign loan. The near collapse of the company triggered an outcry in Vietnam over the perceived abuses of its state-run firms. This incident – which, in April 2012, found its conclusion with the sentencing of several top managers to long prison terms – 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 the country's macroeconomic instability. Prime Minister Nguyen Tan Dung had to apologize to the National Assembly for his role in the scandal and only just fought off a leadership challenge in early 2011. Since then, the government has refocused its efforts to decrease preferential treatment for state-owned companies and increase market competition. In mid-2012, the Ministry of Planning and Investment announced plans to allow private enterprises to access loans from official development assistance (ODA) sources, which has so far only been possible for state-owned companies. The government has announced a comprehensive plan to restructure Vietnam's economy, which gives priority to reforming state-owned enterprises, particularly big corporations and banks.

The national currency, the dong (VND), is not fully convertible. The State Bank of Vietnam (SBV) maintains strict currency controls and manages the VND tightly using a daily fixing and trading band. In 2012, the average interbank exchange rate was kept stable at VND20,828 against the U.S. dollar, and was increased by only 1% within the official margin limit set by the SBV, which currently stands at +/- 3%. The SBV prefers slow adjustments of the VND to minimize disruption to business. The unofficial exchange rate is of significant importance in the Vietnamese economy. Moneychangers and gold shops change dollars at an open market rate, creating a disparity between the official rate, which banks are required to use, and the open market rate. While the price control mechanism has been gradually abolished since 1986, the state still determines the price, or sets a price limit, for several goods and services, including petrol, gas and electricity. In June 2012, the National Assembly

passed the Law on Prices, which specifies in detail how the methods of pricing control work.

The main deterrents to trade and investment are the opaque legal system, complex foreign investment laws, persistent high levels of corruption in infrastructure projects, the underdeveloped financial system, and unclear rights relating to land ownership and usage.

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 Vietnam Competition Administration Department (VCAD) and the Vietnam Competition Council (VCC) are in charge of regulating the competition law. The groundwork is done by the subordinated Vietnam Competition Authority (VCA), which conducts investigations before transferring the dossiers to the VCC for a final decision.

Despite a rising number of VCA investigations into anticompetitive practices, the agencies' influence is limited due to, among other things, the placement of VCAD within the Ministry of Industry and Trade and the fact that VCC consists of representatives from ministries, constantly leading to conflicts of interest. 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. Sectors in which state firms continue to enjoy a monopoly are mainly telecommunications, aviation, electricity, energy and petroleum.

Since the 1980s, Vietnam has made impressive efforts to liberalize its foreign trade. This process has been marked by Vietnam's ASEAN membership (1995), APEC membership (1998), the lifting of the U.S. trade embargo (1994), and the signing 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.

In 2008, Vietnam signed a free trade agreement (FTA) with Japan. In January 2010, both the ASEAN-Australia-New Zealand FTA and the ASEAN-China FTA

Anti-monopoly
policy
6

Liberalization of
foreign trade
7

(ACFTA), of which Vietnam is a member, came into effect. In July 2012, the European Union and Vietnam launched negotiations for a comprehensive FTA covering tariffs, non-tariff barriers, and commitments on other trade-related matters, notably procurement, regulatory issues, competition, services and sustainable development. In the same month, free trade negotiations also started between Vietnam and the European Free Trade Association (EFTA). Vietnam has also been negotiating with the United States on the Trans-Pacific Partnership agreement (TPP) which aims mainly to boost free trade.

The Vietnamese banking industry is strictly regulated. The primary legislation governing the banking industry is the Law on Credit Institutions, which took effect on 1 January 2011. It specifies permitted activities for commercial banks and non-bank credit institutions (i.e., financial companies, financial leasing companies, and others).

One of the main challenges facing the government is the consolidation of the banking sector to ensure the presence of fewer and more stable banks. During the assessment period, the government's main focus was to restructure nonprofitable banks and control bad debt by assisting credit agencies and enterprises in identifying and reclassifying such debt. The banking sector is the main source of Vietnam's bad debt structure. However, the pace of planned reforms has remained slow. The government has declared the consolidation and restructuring of the banking system as one of its main priorities.

In 2012, the State Bank of Vietnam (SBV), the main regulator of the banking industry, introduced a regulation requiring banks to lend no more than 80% of their total deposits. According to the SBV, as of September 2012, 8.82% of loans in the banking system were nonperforming, up from 3.07% in 2011 and the highest bad-debt ratio of any Southeast Asian country. Fitch Ratings estimates that the figure is more in the region of 15%. The crisis is exacerbated by major bailouts of state banks. In November 2012, SBV announced its plan to inject VND28 trillion (\$1.4 billion) into the crisis-ridden state-owned Sacombank. A few months earlier, in August, the SBV had to come to the rescue of Asia Commercial Joint Stock Bank, Vietnam's fourth-most valuable bank. It also took the unprecedented step of publicly assuring depositors their money would be safe following the arrest of the tycoon Nguyen Duc Kien, the bank's cofounder, for allegedly improperly lending money to real estate projects. Vietnam Bank for Agriculture and Rural Development (Agribank), one of the country's largest lenders and the only remaining bank that is fully state-owned, also entered troubled waters. In January 2013, former Agribank general director Pham Thanh Tan was arrested for "irresponsibility causing serious consequences." In the preceding months, three of the bank's senior executives had been arrested for an alleged series of massive embezzlements, mostly to finance gambling habits.

8 | Currency and Price Stability

Shocked by the hyperinflation of the mid-1980s, the government made fighting inflation one of its priorities. However, in August 2011, inflation peaked at 23% year-over-year, putting the government under increasing international pressure to move away from its growth-oriented economic model and do more to tackle inflation. The subsequent tightening of monetary policy was largely successful, resulting in an average inflation rate of 9.21% in 2012, but also contributing to the smallest economic growth (5%) since 1999. While the government has frequently reemphasized its determination to rein in inflation, it should be noted that policymakers tend to exhibit a bias in favor of encouraging growth at the expense of price stability.

The national currency, the dong, is not convertible. The SBV operates a managed floating policy, the so called crawling peg. While the VND is pegged to the dollar at a certain rate (VND20,832 as of January 2013), the peg is then allowed to crawl within a 1% band on either side of the pegged rate reflecting the SBV's judgment of market developments. The effect is that the inflation differential between the United States and Vietnam cannot freely impact the relative values of the two currencies.

In March 2011, as part of efforts to control inflation, the SVB tightened regulations on foreign currency borrowings by residents. Residents may borrow foreign currency from credit institutions to pay for imports and production of goods for export at Vietnam's "border gates" (economic zones near Vietnam's borders with China, Laos and Cambodia). However, borrowers must show proof that they can earn the same amount of foreign exchange from their businesses to repay the loans.

The SBV also followed a strategy of buying foreign currencies to increase the foreign exchange reserves of Vietnam. As the result, in April 2012, the forex reserve was equivalent to the payments for nine weeks of imports as compared to about seven and a half weeks in mid-2011. While the government did not reveal the actual figure, it is estimated to have reached \$24 billion as of the end of 2012, providing Vietnam with a larger buffer against any further capital flight. However, the forex reserve is still short of the International Monetary Fund (IMF) norm, which recommends that the scale of foreign exchange reserves should reach between 12 – 14 weeks of imports.

The implementation of stabilization measures over the assessment period has helped to avert a macroeconomic crisis. The current account deficit declined to 0.5% of GDP in 2011, from 4.1% in 2010, and a peak of 11.9% of GDP in 2008. According to World Bank figures, in 2012, Vietnam achieved a current account surplus (2.7% of GDP or \$3.7 billion) for the first time in eight years. While Vietnam's total external debt has continued to grow, from \$35.1 billion in 2010 to \$39.73 in 2011, it is considered manageable, as is its total public debt, which had increased to 57.3% of

Anti-inflation /
forex policy

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Macrostability

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GDP by the end of 2011, from 56.6% in 2010 and 52.6% in 2009. Vietnam's debt payments have been punctual since 1993. The trade balance is in surplus owing to weaker import growth and strong exports. The total export volume rose 18% from 2011 to 2012, to \$114.6 billion, while imports grew by only 7%. Foreign currency reserves have risen significantly, and foreign direct investment inflows surged from Japan, which is considered positive for Vietnam's industrialization process. Fitch Ratings have praised Vietnam's "favorable environment for foreign direct investment that has rendered the economy less vulnerable to external shocks." However, while attractive for its burgeoning market and cheap wages, Vietnam is either stagnating or worsening in major competitiveness rankings.

Vietnam achieved a value of 4.5 in The World Bank's CPIA fiscal policy rating for the 2007 – 2012 period, which is above average for the surveyed countries (mainly low and middle-income nations). The CPIA assesses the short- and medium-term sustainability of fiscal policy, taking into account monetary and exchange rate policy and the sustainability of the public debt – and its impact on growth. The scale reaches from 1 (low sustainability) to 6 (high sustainability).

9 | Private Property

Property rights and the regulation of property acquisition are formally defined by law, but are not yet sufficiently protected from intervention by the state. As part of its bid to enter the WTO, Vietnam consolidated its confusing maze of intellectual property rules and regulations into a streamlined law that came into force in July 2006. The law covers copyright, industrial property and plant varieties. However, given the fast pace of change, it is difficult for the law enforcement agencies to keep up and the implementation level is low. According to the 2013 Heritage Index of Economic Freedom, private property rights are not strongly respected, and resolution of disputes can take years. Infringement of intellectual property rights is common. With a score of just 15 (of a maximum of 100), Vietnam ranks (with Uzbekistan) third from the bottom in Asia, only above Turkmenistan and North Korea.

Property rights
4

Despite strong statements in favor of state-owned enterprise (SOE) reform, ideology and vested interests make the process slow. Many SOEs enjoy near-monopoly status in critical sectors such as fertilizer (99%), coal (97%), electricity and gas (94%), telecommunications (91%), water supply (90%) and insurance (88%). Private companies in 2010 (most recent available data) 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 3.2 million jobs during the 2006 – 2010 period, four times more than state-owned businesses. The investment capital ratio of the private sector stood at 36.1% in 2010 and 35.2% in 2011.

Private enterprise
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Today Vietnam is a market-based economy with fewer product and service monopoly markets than in previous decades. Nonetheless, the government privileges the role of SOE through special bank loans and other policies. Privatization (the Vietnamese term is “equitization” meaning essentially part-privatization), continued to be slow during the assessment period. Before joining the WTO in 2007, the government pledged to accelerate the restructuring and privatization of unprofitable SOEs, but not much progress has been achieved. On the contrary, recent government interventions have disadvantaged the private sector.

In mid-2012, the Ministry of Finance announced plans to privatize 367 firms by 2015, but details on how this will be achieved are unclear. The equitization process is slower than expected because of the government’s rule that SOEs cannot sell stakes to investors at prices below the respective SOE’s book value, which, however, is often artificially inflated. The government’s target is to have an additional 350,000 private companies in business by the end of 2015. Currently, approximately 70,000 new private firms register their businesses every year. However, official statistics indicate that only about 70% of the total number of registered firms have a chance of survival. As of April 2012, about 464,000 enterprises out of the registered 648,000 firms were still in operation, accounting for 71.6%.

10 | Welfare Regime

Vietnam invests less in social protection than other countries in the region – 4.1% of GDP as opposed to the regional average for Asia of 4.8%. Yet Vietnam is above average in the number of people receiving social protection. Vietnam achieves an estimated rate of 71% of the poor receiving some form of social protection, well above the 56% average for Asia.

Vietnam has a compulsory social insurance program for private- and public-sector employees with contracts of at least three months. Voluntary coverage exists for self-employed persons and others. However, since the social insurance program covers exclusively labor in the formal sector, only about 25% of the workforce is covered by the scheme. For millions of households living under or just above the poverty line, the lack of social security coverage is a major challenge. It leaves the informal network of family and social groups as the ultimate safety net.

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 resolving it. As of December 2012, employer payments of VND8.7 trillion (\$418 million) for workers’ health insurance and accident insurance, or 7% of the premiums collected in the first 11 months of the year, were outstanding.

Social safety nets
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Companies also often deliberately delay paying the insurance premium, since the penal interest rate for this, 14.2%, is lower than bank lending rates.

Overall, the Vietnamese social welfare system is still inefficient, and faces multiple challenges. Apart from limited coverage, 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. 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 VND732 trillion (\$38 billion), of which 50% will be state-funded.

Vietnam has made good progress towards gender equality – gender gaps have been particularly reduced in education at primary and lower secondary level. Women are well protected within the family context (although some traditional practices sustain male domination), but important challenges remain both socially and economically. Vietnam ranks 48th out of 128 countries on the 2011 Gender Inequality Index (GII), indicating lower inequality than some countries in the category of “very high human development,” such as Chile and Argentina. However, over the last 13 years, the index value decreased markedly, showing a decline in gender inequality.

Women play an important role in the Vietnamese economy, accounting for 46.6% of the active workforce. However, women are concentrated in informal, vulnerable types of employment. According to the most recent government data, 24.2% of women are in non-farm wage employment, compared to 35.5% of men. Of all employed women, 53% work as family laborers, compared with 32% of all employed men. Women’s dual responsibilities for caregiving and domestic work, as well as for income generation, constrain their ability to participate in paid employment, in particular in the formal sector.

As family structures change and people live longer, Vietnam can expect to see more and more elderly people living alone, and a majority of them will be women. In April 2012, the United Nations urged Vietnam to equalize the retirement age for men and women and to elevate women to decision-making positions. The Vietnam Women’s Union, a key member of the Vietnam Fatherland Front, plays a major role in the promotion of gender equality and family support policies.

However, family violence, abuse of women for prostitution, and trafficking of women are still pressing issues in the country. 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.

Inequality related to geographic location and ethnicity, which materializes in lower living standards and poorer health and education status, has declined but remains a challenge. The poverty incidence among ethnic minority groups remains very high at more than 50%. Poverty is highest in the northern midlands and mountainous areas and lowest in the southeast. One in two ethnic minority people lives in poverty compared to one in eleven Kinh majority people.

The inequality of income distribution has increased slightly in the past three to four years. Vietnam's Gini Coefficient stood at 37.80 in 2011, while it had been 34.40 in 2008. However, the development of the Gini index value has not been linear. It was 35.68 in 1992, reached 37.55 in 2001 (similar to the current level) and peaked at 39.16 in 2004 before decreasing again. Based on this data, Vietnam has one of the lowest levels of income inequality in Southeast Asia; only Laos achieved a slightly lower coefficient than Vietnam.

11 | Economic Performance

Per capita GDP at current U.S. prices reached \$1,523 in 2012, up from \$1,224 in 2010, the year Vietnam achieved middle-income status according to World Bank criteria. The economy expanded by just 5.03% in 2012, the fifth consecutive year growth had been below the 7% average of the 1990s and early 2000s. The slowdown over the past half-decade has prompted the government to address key structural issues, especially in the banking sector and state-owned enterprises (SOEs), which have worried investors and led to strong domestic criticism of the administration's handling of the economy. The government's main challenge is to balance the impact of its structural reform program with its pro-growth strategy. The government has declared that GDP growth of less than 5% would be "dangerous" for the country.

While recent fiscal and monetary stabilization efforts may have contributed to slower economic growth, other major factors are inefficiencies in SOEs and the high level of public investment in unprofitable sectors, as well as the banking crisis. The government seems committed to SOE reform and the reorganization of the more inefficient conglomerates. A draft decree to be implemented in 2013 proposes to ensure that SOEs are fully transparent and regularly release relevant information, including total debts, bank loans and details of ongoing and upcoming projects. However, given the prominent role that political factors and patronage networks play in the government's approach to SOEs, substantial reforms are not easily achievable. Key issues on the agenda are generally improvements to the business environment,

Output strength

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most notably reducing red tape and creating clearer laws on how to resolve insolvency.

Reports by the Vietnam Chamber of Commerce and Industry and the World Bank estimate that more than 79,000 domestic businesses dissolved in Vietnam in 2011. The inability to make tax payments has been cited as one of the main reasons for bankruptcies, together with a lack of capital, falling purchasing power and difficulties in accessing bank loans to implement new projects. In early 2012, the General Department of Taxation (GDT) estimated that only some 400,000 out of the 600,000 businesses licensed for operation could still afford to pay taxes.

The country's Consumer Price Index (CPI) increased 6.81% in December 2012, compared with the same time last year, meeting the government's target of keeping the inflation rate at single-digits in 2012. The average inflation rate for the year was 9.21%, significantly lower than the 2011 figure of 18.13%.

Foreign direct investment (FDI) totaled approximately \$13 billion in 2012, a decrease of 15.3% compared to 2011, despite several new large Japanese investment projects. With \$9.1 billion, manufacturing and processing attracted the lion's share of FDI, accounting for 69.9% of the country's total registered capital. FDI has developed unevenly. While FDI increased by an annual average of 16.6% between 2001 and 2008, the period since then has been characterized by both upward and downward fluctuations.

For the first time in 20 years, Vietnam recorded a trade surplus (\$284 million) in 2012. Export turnover for the year totaled \$114.6 billion, an increase of 18.3% over 2011, while import revenue reached \$114.3 billion, representing a rise of 7.1%.

Vietnam has a relatively high employment-to-population ratio, with 77.3% of those aged 15 and above employed in 2011, an increase of about 1% as compared with 2010. The official rate of unemployment in urban area was 4.43% and 2.27% in rural areas in 2011. Compared with the previous year, the country's unemployment rate decreased by 0.02%, with the urban area down 0.17%, while the rural area was up 0.02%. The workforce has grown at a higher rate than employment. In 2011, Vietnam had 46.21 million people of working age (15 or older), an increase of 2.12% year-over-year.

Vietnam has an extremely inefficient system for collecting income taxes and detecting tax evasion. According to the 2012 Heritage Foundation's Index of Economic Freedom, Vietnam's tax revenue accounts for 13.8% of GDP, which puts the country roughly on par with most other ASEAN countries. However, the World Economic Forum Financial Development Report puts Vietnam at the bottom of its "tax evasion and avoidance" index in Asia. Vietnam achieved the lowest possible score of 1, meaning that tax evasion is common. In 2012, revenue collection from corporate income tax amounted to only 16%, down from 24.5% in 2011, and VAT

tax collection slowed to 10.4% from 26.1% in 2011. Total revenue collection stood at just 10.8%, compared with 24.3% in 2011.

12 | Sustainability

Vietnam faces several severe challenges related to the deterioration of the environment. Biodiversity is quickly shrinking. Illegal exploitation of timber, forest destruction, the introduction of exotic species and environmental pollution that destroys habitats of many wildlife species are to blame. Vietnam is among the countries hardest hit by global climate change. However, in recent years Vietnam has made good progress toward achievement of the seventh Millennium Development Goal (MDG7), environmental sustainability, but is unlikely to achieve the targets by 2015. According to the latest UNDP MDG progress report (2012), on the positive side, forest coverage has increased from 28.8% in 1990 to 39.5% of total land in 2010. On the other hand, Vietnam has experienced one of the largest rises in CO₂ emissions in the world – an increase of 563.2% from 17.2 million tons of CO₂ in 1990 to 114.1 million tons in 2009. This is more than twice China’s increase and about four times the increase for Asia as a whole (114.1%).

According to the Asian Development Bank (ADB), 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 mention any potential 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 or priority among the various strategies, and the issues and objectives contained in documents are numerous and the targets (where available) are ambitious. The government currently aims at allocating 1% of the overall state budget to environmental protection activities. To date, most of the national and local projects related to the environment are supported and financed by international donors.

Vietnam has a comprehensive national policy to address the effects of climate change and regularly consults with the donor community and international nongovernmental organizations on the methods to mitigate the impact of climate change, including rising sea levels. Vietnam has been accessing support through the Clean Development Mechanism provided by the Kyoto Protocol. In December 2011, the government announced the establishment of a legal environment for “green economy development,” for which funding will be provided by the UNDP. Meanwhile, Japan

Environmental
policy

6

plans to support Vietnam in the development of a system for monitoring the environment and warning of natural disasters.

Vietnamese environmentalists are particularly concerned about bauxite mining in the central highlands by Chinese companies with a poor environmental protection record. The toxic slurry produced by bauxite mining, if not managed properly, has the potential to impact downstream waterways.

Education is a prioritized sector of government spending. Education is also one of the sectors where Vietnam has achieved some of the fastest and most impressive successes in its efforts to reach the Millennium Development Goals (MDG). The country's literacy rate of 94% (up from 90% in 2000) is high compared with most other countries of similar income. Vietnam has achieved near universal primary education. According to the 2009 national census (latest available data), 97% of children went to primary schools and 88.5% of them finished five years of primary education. In this group, 90% continued to study at higher levels of education and there is no major gap between urban and rural areas. The gender ratio is relatively equal, with nearly a half being female at primary and secondary levels.

With its quantitative expansion of education, and with universal primary education reaching full attainment, qualitative improvement has become the country's key policy challenge. Teacher education is the key to accomplishing this task. The goal set by a government strategy on higher education, which envisioned a 200 student per 10,000 people (1:50) ratio by 2010 has not been achieved. Currently Vietnam's 376 universities have 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. In 2010, only 0.05% of the population attained tertiary education. While the number of university students is expected to increase quickly, the national structure of higher education is inadequate. The Vietnamese media regularly report examples of exam cheating, falsification of degrees and other forms of corruption affecting student evaluation.

R&D expenditures have increased from 0.2% of GDP in 2005 to 0.7% in 2009, but they are still below the global average. Vietnam has made an impact on developing computer software. In 2010, Vietnam earned approximately \$1 billion from software development, and the figure is expected to increase to \$2 billion in the next few years. However, very few products of Vietnamese enterprises have been registered for protection under intellectual property laws. To date, Vietnamese enterprises have mainly been performing outsourcing for foreign enterprises. In 2010, there were 3,200 patent filings in Vietnam, but only 10% were submitted by Vietnamese applicants, mainly researchers at universities and other institutes. However, the most of these patents only exist on paper and have not seen practical application. In November 2011, the Ministry of Science and Technology announced a \$50 million fund for the purpose of helping Vietnamese patent-holders apply their patents.

Education policy /
R&D
6

Transformation Management

I. Level of Difficulty

Vietnam is a disaster-prone country, particularly vulnerable to the effects of climate change. Over the past two decades, climate-related disasters in Vietnam have caused an average annual loss of \$1.8 billion, or 1.2% of GDP (on a purchasing power parity, or PPP, basis), according to UNDP estimates. While Vietnam enjoys a high degree of political stability, endemic corruption and administrative inefficiencies hinder policymaking and are major structural constraints.

Structural
constraints

5

One of the main reasons for Vietnam's relatively low international competitiveness as measured, for example, by the Global Competitive Index (GCI) is the country's insufficient infrastructure, which has been incapable of meeting economic demands. The infrastructure needs are immense, ranging from shortages of electricity to public transportation systems. FDI in infrastructure is miniscule. The vast majority of firms are entering Vietnam to take advantage of low wages, but the opaque business environment and high level of red tape discourage foreign companies from investing in infrastructure projects.

Furthermore, the national structure of higher education is inadequate. Currently, there is no system in place to monitor the quality of the rapidly increasing number of educational programs and institutions being set up to accommodate the huge demand for higher education. The overall level of qualifications is seen as insufficient and inadequate to meet the growing demands of the country's industrial sector, particularly at the high-value end.

Poverty reduction, while successful overall, is uneven across regions and among different population groups. The poverty incidence among ethnic minority groups remains very high at currently more than 50%. Foreign donor praise for the government's commitment to the strengthening of the strategic, legislative, and institutional context for environmental protection and management overshadows the fact that Vietnam has experienced one of the largest increase in CO₂ emissions in the world over the past two decades.

Traditions of civil society in the Western sense are weak in Vietnam. The roots of civil society can be found in the basic, traditional social organizational unit of the village. In the official Vietnamese understanding, today's civil society organizations are best described as state co-opted service providers but not as advocacy organization or civic associations.

Civil society
traditions
9

Conflicts, as well as ethnic, religious and social differences intensified in the early 2000s, but decreased since 2010. Ethnic minorities comprise between 13% and 16.5% of the population, depending on the source. Ethnic groups in the central highlands, particularly the Montagnards, have faced discrimination and abuse for many years. In 2010, Human Rights Watch reported intensified repression by state authorities of indigenous minority Christians from the country's central highland provinces who are pressing for religious freedom and land rights. However, no such incidents were reported during the assessment period. The United Nations High Commissioner for Refugees, which conducted several government-sanctioned monitoring trips during 2011, reported that there was "no perceptible evidence of mistreatment" of any of the ethnic minority individuals it monitored in the central highlands. Clashes between the police and Catholic demonstrators over church land that frequently made the headlines between 2008 and 2010 also ebbed. However, religious activity remains under state control, and some groups have complained of ill-treatment. Dozens of Catholic bloggers and activists have been sentenced to prison terms or are in detention pending investigation or awaiting trial.

Conflict intensity
3

Labor-related conflicts have increased. The government-controlled Vietnam General Confederation of Labour is the only legal trade union, and workers who try to organize strikes independently face arrest or other sanctions. The high number of wildcat strikes showed the shortcomings of the government's labor market policies. Before 2006, strikes in Vietnam were moderate and amounted to around 140 per year. However, their number increased in subsequent years against the backdrop of the economic crisis and low wages.

There were approximately 900 strikes in 2011, more than double the number of strikes in 2010, according to official government statistics. The government responded with revisions of the Labor Code and Trade Union Law, which will come into effect in 2013. Among other changes, the amended laws require the government to develop a more active role in facilitating and supporting collective bargaining between employers and trade unions.

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

While the government has successfully managed the most pressing challenges of macroeconomic instability since 2007 – 2008, such as high inflation, the government's commitment to reform has openly been questioned and the legitimacy of the VCP-state apparatus has suffered to some extent. This became particularly apparent in second half of 2012 when Prime Minister Nguyen Tan Dung, who is also a member of the powerful Politburo, was rumored to be at the brink of being ousted for what members of the VCP elite perceived as a mismanagement of the economy and failure to reduce the influence of a growing network of corrupt interest groups and cronies. While Dung survived the highly anticipated sixth plenary session of the Central Committee of the VCP in October 2012 relatively unscathed, the meeting was said to have been dominated by intense debate over who bore responsibility for the widespread corruption in SMEs and the banking sector and for the country's less than impressive economic performance. The Central Committee – which traditionally meets behind closed doors – is the highest decision-making body of the VCP between party congresses.

Dung promoted high economic growth and foreign investment, the creation of massive state conglomerates based on the model of South Korea's Chaebols, and Vietnam's integration into the global economy. This strategy resulted in high inflation, which, as Carlyle Thayer explains, "quickly impacted on the hip pocket nerve of mid-level party officials who had benefitted (sic) from Vietnam's 'socialist-orientated market economy.'" Dung's controversial support for Chinese foreign investment in bauxite mining in the central highlands also led to a level of public criticism that was previously unheard of in Vietnam. The government's main problem has been that, while raising Vietnam's international profile through large-scale projects, it failed to exercise proper supervision over the country's conglomerates, resulting in the near breakdown of Vinashin (see above) and large-scale corruption scandals in other big companies such as the Vietnam National Shipping Lines (Vinalines).

Overall, while there can be little doubt about the government's general strategic priority of transforming Vietnam into a full market economy, the political leadership has struggled to get the fundamentals right. During the assessment period, the much needed structural reforms of the SME sector and the debt-ridden banking sector, along with attempts to curb high-level corruption, were only executed halfheartedly and have largely been ineffective.

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 further and increasingly expresses itself in the online media. Some democratization from within the system is taking place, even if slowly.

Overall, the government has achieved its strategic priorities of economic development, as evidenced by its 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, the slow privatization of state-owned enterprises, and lukewarm approaches to addressing the banking crisis have highlighted implementation flaws.

One of the main challenges is the government's rigid and inflexible approach to planning and implementation, which is still mainly following a vertical and top-down approach. The planning process starts with instructions and frameworks moving from central government down to lower levels of government. Not much effort has been made to strengthen capacities and responsibilities of ministries and subordinated agencies to increase efficiency and effectiveness of policy implementation. Equally important is the empowerment of the National Assembly to strengthen its control and review functions.

The leading political actors are capable of learning from mistakes, as the modifications of legal frameworks within relatively short periods have proven, for example modifications of the new Labor Code and Trade Union Law (see Q13.3). In particular, the government learned the lessons of the macroeconomic setbacks of 2009 – 2011 and was willing to refocus its policy priorities towards fiscal and monetary stabilization at the expense of economic growth. 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, the military and powerful economic stakeholders, have defended their interests. In December 2012, Prime Minister Dung unveiled a comprehensive multilevel program in response to the mounting socioeconomic challenges, including fresh approaches to the restructuring of SOEs, addressing the debt crisis in the banking sector, and supporting SME development as

Implementation

5

Policy learning

5

well as a review of large-scale housing projects. Yet, as in previous instances, it remains questionable to what extent this agenda, which is clearly based on policy learning – can be efficiently implemented.

15 | Resource Efficiency

By law, Vietnam is a politically centralized government organized in four levels. The country is made up of 64 provinces, 690 districts and 11,055 communes. Decentralization has been increasingly taking place in the areas of fiscal and public administration and regulatory policymaking. In the course of this process, the central government has assigned a certain degree of decision-making authority to sub-central governments, with the provinces serving as the most important level in terms of devolved powers and responsibilities. Sub-central government expenditures are estimated to be around 50% of government expenditure as a whole. This figure suggests that Vietnam is a relatively highly decentralized country in terms of public spending.

Vietnam's administrative organization is a state of flux. Although local government autonomy is not acknowledged in the constitution, it is substantial in practice. Local governments' autonomous policy experimentation or innovation in the absence of regulations has been described as "fence-breaking" or informal decentralization. From the perspective of the central government, all of these initiatives are illegal, which is why a low rating is assigned to this indicator. In the past, fence-breaking provinces and the officials responsible have been named, shamed and in several cases punished by the central government, despite the fact that many policy experiments and innovations at the provincial level have later been legalized, and have even become very successful.

The relatively high degree of actual autonomy at the sub-central levels has intensified conflicts between the central and sub-central governments. Moreover, it has created new competition for resources, especially for private and foreign investment capital, as a means to support greater autonomy for the sub-central levels.

At the same time, a World Bank study recently found that the government is slowly departing from its rigid centralized and often inefficient, top-down approach to planning and implementation and makes more efficient use of available human and organizational resources. New planning strategies rely increasingly on consultation to identify policies that are matched to the achievement of goals. For example, while policy strategies are initially devised at the central level, they are filtered to the provinces, cities, and regions for input. Furthermore, planning and implementation processes are beginning to use performance indicators linked to policy actions.

Efficient use of
assets

5

Monitoring involves assessing whether these actions were taken, rather than trying to quantify complex sets of outcomes.

There is a formal and informal side to policy coordination. 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. 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 policymaking. 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 policymaking. 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 with many private sector enterprises.

At the time, strong informal coordination mechanisms exist between the agencies of the state apparatus and the VCP committees. These mechanisms are also used to prepare cabinet meetings. Every government body, including ministries, has a party committee embedded within it. These party committees meet on a regular basis. As a one-party state, Vietnam assigns key decision-makers dual roles, making them elites who occupy both party and state positions. Actual day-to-day informal coordination takes place among individuals in their state/government role.

One of the government's greatest challenges is fighting corruption. The VCP has a Committee on Inspection and Control as well as a separate internal security affairs unit tasked with investigating and reporting corruption by party members. The government has intensified an anticorruption campaign, which has included the prosecution of some allegedly corrupt, and in some cases prominent, party functionaries, government officials and, more recently, top executives of state conglomerates. However, this has seemed to be motivated in large part by the desire for good publicity, and patronage continues to be a significant problem. Anticorruption efforts have yet to demonstrate their effectiveness beyond the few high-profile cases.

Generally, the government seems willing to take on new campaigns against corruption on a regular basis, and the anticorruption 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." The

Policy
coordination
6

Anti-corruption
policy
4

amended Law on Anti-Corruption of 2012 states that the VCP will regulate the operations of the central steering committee on anticorruption and improve the transparency of listing assets. The National Assembly also passed a new law that requires top officials to face a parliamentary confidence vote every year.

Vietnam does not have an independent mechanism for auditing state spending. The State Audit Office (SAO) is a governmental audit organization. The auditor general is elected and dismissed by the National Assembly. The SAO is independent of other legislative, judicial or investigation agencies. During the assessment period, there were no instances in which the head of the SAO appeared before the National Assembly to answer questions from deputies.

Vietnam agreed to implement the Transparency Standards on Government Procurement adopted by APEC in 2004. However, the sheer number of relevant documents makes implementing a standardized procurement process problematic and adversely affects the transparency of the system. Overall, the transparency and integrity of the public procurement system is still low. Within the business sector, there is a reluctance to exercise the rights provided by the procurement rules, and few companies have codes of conduct or programs to encourage integrity in the procurement process. Compounding transparency problems is the absence of civil society organizations with the mandate and expertise to monitor procurements.

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, Prime Minister Dung has been able to face off any direct internal leadership challenges – most recently in October 2012 – despite being weakened by the economic crisis. Despite widespread criticism over his economic policies, Dung managed to retain his position due to his strong personal support network within the state-party apparatus.

Consensus on goals

6

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, and it increased during the assessment period. Reformers have been gaining more influence and power. This has also been increasingly apparent to the public via online blogs. Nevertheless, reformers have not aimed at advancing in the direction of liberal democracy. Reform is about improving institutional capabilities and strengthening governance, not about instituting democratic governance. Political liberties are not tolerated by the state-party apparatus, and constitutional guarantees are routinely

Anti-democratic actors

2

ignored. The state uses vaguely worded clauses in the penal code (conducting propaganda against the socialist state, for example) as justification to repress citizens who attempt to exercise their political liberties.

The political system remains opaque; conflict management happens behind closed doors. While dissent within the VCP exists, the party to date has succeeded in presenting itself as a united front vis-à-vis outside audiences. Cleavages, that is, significant and protracted divisions of society, do not exist in Vietnam. Divides along ethnic lines still exist to some extent. But the government has successfully worked towards equality, and conflicts related to ethnicity decreased during the assessment period.

Cleavage /
conflict
management
7

Until recently, Vietnam's civil society organizations (CSOs) perceived their role as solely 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 welfare can no longer be dealt with and solved by the VCP and its mass organizations alone. Social engagement helps to close these gaps. The official party line is that 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. There is some evidence for a growing role of academic institutions as advisors in the policymaking process, but Western-style independent think tanks do not yet exist in Vietnam.

Civil society
participation
3

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 oft-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.

Reconciliation
4

17 | International Cooperation

Vietnam has been Southeast Asia's leading recipient of Western and Japanese overseas development assistance (ODA) in absolute terms. Over the past two decades, the amount of ODA funding has increased almost annually despite the country's upward trajectory in terms of per capita GDP and human development. By 2011, there were 51 donors (28 bilateral and 23 multilateral) operating regularly in

Effective use of
support
7

Vietnam, with the World Bank, Japan and the U.S. as the largest providers of ODA. Since 1993, total disbursed ODA has equaled 13.9% of Vietnam's total investment in socioeconomic areas. However, with 50.2%, the disbursement rate of ODA commitments has been comparatively low due to unclear or delayed procurement procedures and frequent lack of, or delays in, the provision of agreed government contributions to projects.

In recent years, donor-government relations were occasionally overshadowed by corruption scandals. In June 2012, Denmark's Ministry of Foreign Affairs suspended the ODA it was providing to three of four climate-change projects after finding that Vietnamese partners had misused over half a million dollars. Generally, however, the Vietnamese government has effectively utilized international assistance for its domestic policy agenda, primarily to strengthen its reform program, particularly in the areas of poverty reduction and infrastructure improvement. ODA, to certain extent, has also helped increase Vietnam's foreign currency reserves and improved its overall trade balance.

Vietnam's credibility and role within the international community has increased rapidly and dramatically since it emerged from semi-isolation in the early 1990s. By 2012, Vietnam had established diplomatic relations with 172 countries and trade links with 224 out of 255 countries and territories. Vietnam also holds membership in 63 international organizations. In 1989, Vietnam had maintained diplomatic relations with just 23 non-communist states. In January 2007, Vietnam joined the World Trade Organization (WTO). In October of that year, Vietnam was elected to serve as a nonpermanent member of the U.N. Security Council for 2008 – 2009. 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.

Credibility
8

Vietnam, which joined ASEAN in 1995, has established itself as one of the most influential and proactive members of the group. Vietnam's role is prominently associated with the initiative for the narrowing of the development gap between the old and new members (the latter being Cambodia, Laos, Myanmar and Vietnam), with the ultimate goal of committing the wealthier ASEAN members to substantive action. This concept is enshrined in the Hanoi Declaration on Narrowing Development Gap for Closer ASEAN Integration. Vietnam also plays the role of the unofficial leader of the CLMV group (Cambodia, Laos, Myanmar and Vietnam) representing the least developed of the ASEAN countries. In January 2010, Vietnam assumed the annually rotating chair of ASEAN and hosted a number of related meetings, including the 17th ASEAN summit. In 2012, Vietnam actively contributed to the drafting of the ASEAN Human Rights Declaration, which was unveiled in November of that year. A year earlier, the 11th party congress had explicitly

formulated the VCP's interest and willingness to contribute to dialogues on democracy and human rights worldwide.

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. Recent improvements to human and civil rights have further contributed to an overall positive image, although human rights remain a thorn in the side of relations between the United States and Vietnam.

In economic terms, rampant corruption (addressed regularly and openly by Vietnam's donors at the annual Consultative Group meetings) and the recent period of macroeconomic instability have somewhat tarnished the international perception of Vietnam as a regional powerhouse.

In multilateral settings, Vietnam has been able to make a significant contribution to international organizations and cooperation programs. Together with the other nine member states, Vietnam is working toward implementing the roadmap for an ASEAN Community 2015, which is based on three pillars: the political-security community, economic community (with the aim of establishing a fully integrated regional market) and socio-cultural community.

Regional
cooperation
8

In January 2013, Le Luong Minh, formerly Vietnam's ambassador to the U.N., succeeded Surin Pitsuwan as secretary-general of ASEAN for a five-year term. Recent VCP documents have put strong emphasis on the promotion of ASEAN unity. Vietnam has expressed a particular interest in the strengthening of two regional multilateral forums, the ASEAN Defense Ministers Meeting Plus and the East Asia Summit as a platform to deal with the major powers, especially China. Problems remain, however, particularly with regard to tension in the South China Sea.

The dispute with China involves conflicting claims to sovereignty and sovereign jurisdiction. China claims indisputable sovereignty on the basis of historic discovery and a map containing nine dash lines around the South China Sea. Vietnam bases its claims to sovereign jurisdiction on the United Nations Convention on Law of the Sea and its provision for an Exclusive Economic Zone (EEZ). In June 2011, protests against China in Hanoi and Ho Chi Minh City took place as the maritime dispute between the two countries escalated. In June 2012, the National Assembly passed a law that effectively declared sovereignty over areas of the Spratly and Paracel Islands, including territories claimed by China. The law will come into force at the beginning of 2013, but it remains unclear how Vietnam plans to fortify its claim. On 24 July 2012, in what seemed to be a counter-move, Beijing raised the status of the contested islands to a Chinese prefecture under Hainan province and created an administrative center named Sansha City.

Strategic Outlook

The 11th party congress of January 2011 solidified the existing political system, along with its well established structures and processes of decision-making. The VCP will remain determined to maintain its firm grip on power, but domestic opposition and protest by pro-democracy actors is likely to intensify. It is increasingly difficult for the authorities to control the online media and the strategy of detaining and sentencing pro-democracy activists who have expressed their views in the blogosphere or elsewhere is likely to backfire, as it has already started to negatively impact Vietnam's image in the world.

Vietnam is still a unitary state in which a bureaucratic elite shapes policymaking. 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. The large number of wildcat strikes in 2011 showed that protest can easily erupt if socioeconomic conditions worsen. So far, Vietnam has not seen mass demonstration because the government eventually managed to stabilize the economy and particularly succeeded in bringing inflation under control. However, macroeconomic stability cannot be taken for granted. Furthermore, the heated internal debates within the VCP before and during the 6th plenum of the party's Central Committee, in October 2012, demonstrated internal party differences regarding the most effective policy approach to future economic development. They also highlighted the facts that the actions of political leaders are under growing scrutiny, and demands for higher levels of accountability are likely to gain in support.

Developments during the assessment period show that Vietnam is reaching the limits of economic performance within the existing governance structures, and the prevailing weaknesses, such as bureaucratic obstacles, if unattended, will begin to seriously compromise future growth. For example, regulatory procedures in Vietnam are often lengthy and complicated. Investment registration and certification procedures are equally difficult. Regulation in Vietnam has suffered from being neither easily accessible nor fully transparent.

Stabilizing the economy through a sustained approach to sound fiscal and monetary policy, the strengthening of market principles and the reform of the SOE sector will have to enjoy priority in policymaking. Many SOEs are poorly managed, corrupt and wasteful. Economic and enterprise policies have so far failed to move up the value chain into more productive activities and higher-tech goods. So far, however, the government lacks a detailed plan for implementing reforms such as restructuring the state-owned sector, streamlining public investment and improving transparency of administrative processes.

Regarding international relations, no significant change is expected. While Vietnam has been pushing for a closer relationship particularly with the United States in order to counter the threat 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. However, further escalations in the South China Sea are likely to occur and a final and sustainable solution to the existing disputes is currently not within reach. Vietnam's rapid integration into regional and global economic and governance structures is likely to continue, but 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 country's shortcomings in the areas of human rights and corruption.