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*Vietnam in 2012: The end of the party*

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## Vietnam in 2012 - The end of the Party

### Introduction

There were no basic changes to the political situation in Vietnam in 2012 and the political crisis identified earlier continued [Fforde 2012]. Vietnam is between a period that has seen the cumulative destruction of the Vietnamese Communist Party (VCP) as a coherent political institution, and so its capacity to command the authority needed to rule the more than 80 million Vietnamese, and the emergence into the resulting vacuum of a new political order. With the formal institutions of Party rule still intact, yet largely empty of political authority, observers are increasingly aware of the peculiar situation facing the country. Foreigners with deep experience and understanding of the people are trenchant in their comments, seeing the country as feeling bruised and cynical. This after all is the Vietnamese Communist Party, which led the country to national reunification in 1975-76.

The crisis is understood by many Vietnamese as negative and chaotic, in the sense that there is no social order and increasing signs of disorder as people 'do not get along with each other' ('không ai chịu ai'). A phrase used, which is pure demotic Vietnamese rather than 'high' Sino-Vietnamese is 'cá mè một lứa – 'all tench (a type of fish) are of the same species' (literally: clutch, litter), more refers to families facing internal tensions. The situation is thus as recognizable to Vietnamese as a typhoon or epidemic – unusual, but not alien.

Events in 2012 reveal the consequences of this stand-off: the inability of the economy to transition to competitive middle-income status, the problems in managing strategic concerns as US-Chinese tensions evolve, and the somewhat tawdry developments in social areas, where pressure from the security apparatus sucks of oxygen out of social development. The key area where the question of Vietnamese domestic sovereignty matters is in the area of bank restructuring, where it appears that the absence of effective political authority means that the task is impossible.

### Background

The recent 6<sup>th</sup> Central Committee Party Plenum showed how the Party can no longer carry out its political function of exerting sovereign power where and when this has to happen: if you like, when somebody has to say 'no', costs imposed, and order preserved [Fforde 2012].

The political crisis has a long history [Fforde 2007, 2004]. After the reconstitution of local and national political power in the early 1990s, there was for a time a certain dynamic balance of political interests in Vietnam, mediated rather effectively through the Party and its constitutional structures. This reconstitution, after the chaos of the 1980s transition, allowed powerful individuals and families to preserve their social, economic and political positions. Crucially, this occurred at all levels: in the provinces and smaller cities, we find families and relationships crucial to local politics and government in Vietnam. Preservation of Party structures facilitated this. Since then rapid economic growth has seen the rise of new groups, initially drawn into the establishment locally and nationally in not too disruptive ways. Accommodation to change worked, politically: an example was the push of resources into

rural development and poverty-reduction after the rural unrest of 1997. The country enjoyed for a time a paradoxical combination of macroeconomic stability, rather fast growth and poverty reduction, and a recorded high and rising share of the state sector in the economy. This paradox can only be explained through a politics that saw the VCP act as a political institution capable of balancing interests, supported by its position as a party in government, capable of holding the ring and preserving political stability in the interests of the political system as a whole. As was put to me 2-3 years ago ‘Yes the Party may lack authority, but if the Politburo is united the Politburo has authority’.

From around 2007 the VCP has increasingly been unable to meet its systemic political responsibilities.

With the rise of powerful national commercial interests, macroeconomic stability was lost in 2007 when large SOEs refused to comply with State Bank technical measures that required them to hand over the Dong liquidity created by foreign exchange purchases by the Bank as large volumes of dollars came into the country [Fforde 2009]. Lacking political support and authority, technical measures to restore macroeconomic stability have been weak, and some politicians have been able to enjoy ability to direct economic rents through the consequential emergence of cheap credit, cheap dollars and so on. In general, some large state commercial interests have benefitted from this politics, at least in a narrow short-term sense, and local provincial and sub-provincial establishment interests have suffered – the SMEs have been starved of bank credit.

It has been increasingly obvious that the VCP has been unable to deal with political questions of wide national importance: corruption, SOE and bank restructuring, reforms to public health and education, and there are, especially after the Bauxite concession in Central Vietnam, nagging fears of Chinese penetration.

The collapse of authority is clear from a wide range of sources. The final straw was the recent 6th Plenum, where, despite extreme political pressure, the Premier was not removed from power. This repeated the core tussle of the 11<sup>th</sup> Party Congress, which also saw him survive despite major pressures against him [Fforde 2012]. At the October 6<sup>th</sup> Plenum according to reports the Politburo was united in delivering a decision that he be removed, but the Central Committee then decided against. In a trial of political strength, large commercial interests (and perhaps Chinese influence) backed the Premier and bought enough support to overcome pressures against him. Adding to the erosion of Party authority is precisely the way in which the situation has forced it to come onto the political stage rather than seeking to rule from ‘behind the curtain’: commentators point, thus, to the re-establishment of the Economic Department of the Party. Yet the cosmetic changes to anti-corruption policy discussed by the National Assembly in October showed that the Central Anti-corruption Commission will be directly managed by the Party, though Party officials will be, according to the law, required to declare their assets [Nguyen Le 2012]. Thus, whilst the constitution asks the Party to bear responsibility for governing the country, in terms of political realities, it cannot.

The effects of this political catastrophe have been felt in a range of areas;

**Commented [JW1]:** Agree, but this happened mainly but not exclusively 2011/12. Readers could be confused because you start this para with 2007 ... Estimation of SMEs which went bankrupt 2011/2012: 100,000. I.e. round about 1 Million people were fired ...

## Economy

The economy continues on a far slower growth path than in the period prior to the political economy breakdown of 2007. The main issue is the failure to transition to competitive middle-income status, caused by the lack of political authority to drive policy development and real change. This is clear across the board, as is the failure of the government to re-establish the confidence of important international opinion-formers.

In its mid-year report, the IMF diplomatically argued that “Growth prospects remain good as Vietnam transitions to middle-income status, if macroeconomic stability is restored and sustained and structural reforms, notably in the financial and SOE sectors, are implemented.” [IMF 2012:2]. The IMF argued that “maintaining and enhancing policy credibility is crucial” [IMF 2012:10]. However, protection for large politically-linked businesses continues, which means certain banks and SOEs continue to drain resources from the economy. Particularly hard-hit are small and medium-sized enterprises (SMEs) and the rural areas, with the former often starved of credits and suffering from high costs. Across the board increases in electricity and fuel prices in the first half of the year saw SOEs protected by the removal of fuel import tariffs. As for the IMF’s position, which is shared by most economists, the issue of sustained and structural reform has been on the table for years and remains unresolved. Business cash flow is under great pressure and further bankruptcies are expected [Mai Huu Tin 2012].

Through 2012 analysis of the banking sector showed that levels of bad debts (many to SOEs) were extremely high, and restructuring was necessary; this has yet to occur. Further, slower growth and the collapse of FDI has meant that the burden of carrying these bad loans has had to fall upon the state budget through reduced tax revenues and increased subsidies.

Generation of economic rents in Vietnam, which ratcheted up in 2007, continues. Policies seeking to impose tighter administrative controls, especially on markets for foreign exchange and credit, are mainly to do with the creation of rents. With government unable to enforce such policies uniformly, such measures instead become opportunities for discretionary decision-making where bribes and political advantage decide whether policies are imposed or not, depending on the interests involved.

### **Economic growth**

As the economy has slowed, inflation has also. The slowing is in part attributed to monetary and fiscal tightening, but is mainly due to negative effects on growth of the burdens imposed as increased incomes and urbanisation, without proper development policies, push up the costs of growth. More real resources are needed to obtain output gains than before, so growth slows.

Output fell sharply in the first quarter of the year and, whilst mid-year reports expected 6% for 2012 by end-year the government was hoping for near 5%. Public debate in Vietnam suggests the data is been massaged and the pressure upon SMEs suggests that growth is far slower. A dispute broke out late in the year over SOE stock-holdings data. Their Ministries reported low levels, but the General Statistical Office (GSO) reported large increases. For

Commented [JW2]: And many of the SOEs are virtually bankrupt.: EVN, Vinalines, Vinashin, Petrolimex (!), to name a few ...

example, had cement stocks risen by nearly 55%, as the GSO reported, or hardly at all, as the Ministry of Construction reported? This is suggestive: first, the Ministry supports its SOEs, since large stock gains would, if made public, push prices down; second, the vast amounts of credit needed to carry such stocks remain an issue; third, perhaps not all Vietnamese public servants are corrupt, since the GSO is clearly willing to push the envelope. Though what they could get paid to be quiet is another matter.

Inflation is down to around 10% after nearer 20% in 2011.

The trade deficit has fallen back, but the government's borrowing has, after falling in 2011, likely increased.

### **Banks**

After the over-expansion of earlier years, 2012 saw heavy pressure on bank profits, with reports of sharp cuts in incomes to preserve profits and make provision for bad debts [Minh Duc 2012].

As already mentioned, the banking sector is carrying high levels of bad debts, often to SOEs. This is by now an old problem. Whilst the Premier has sufficient influence over the Central Committee to ensure that he remains in position, (but) he does not have enough power to impose adjustment burdens: to decide whose assets will be sold off, whose banks will be closed, and so on. Unlike in the US, where executive authority was sufficient, for example to close Lehman brothers and save General Motors, in Vietnam the Party cannot fulfil its constitutional sovereign role, and so the crisis continues. Rather than a policy debate, over how political power will be used to impose restructuring, what we see is a series of battles as different parts of the state apparatus are used against each other by contesting groups: security forces, different parts of the State Bank and the Ministry of Finance, and so on. Thus, if the IMF was asked by Western Embassies to come in, it would appear that they would have great difficulty judging, in the absence of an effective government, whether they have a deal or not. Clearly, a 'sign-off' by the General Secretary or the Politburo would not, given what happened at the Congress and the recent Plenum, mean much, and nor would a 'sign-off' by the Premier. Such is a 'Land without a King'.

### **Public education**

When Vietnam emerged as a market economy in the early 1990s her population, benefitting from investments made in education under Communism, was generally thought of as hard-working and relatively well-educated. This reputation has now gone, replaced by common views that higher education degrees such as PhDs are more often bought than earned, and that many educational policies, such as those aimed at vocational training, have had little effect.

### **Labour**

Tensions in labour markets continue to mount. Surveys reported that a high proportion of workers are in low wage unskilled sectors and dependent upon their own labour organisations rather than the official Party-led trade unions. Local political structures are not supportive and tend to be easily bought off by the powerful. These are the typical characteristics of an

Commented [JW3]: I would add a number

Commented [JW4]: But has become much more serious in 2011/12. From a political point of view important is that the PM has sufficient power ....

Commented [JW5]: Do not forget the SOEs who are the main culprits ... and sucked away the most money ... are those who can not or do not want to repay the loans ...

economy that has problems moving to a higher level of competitiveness and through middle-income status.

#### ***Commercial environment – corruption and legality***

A central issue during 2012, pointing to the general illegality in a crucial area, was to do with land. A valuable commodity, incidents in a number of places led to conflicts without apparent solution because the existing legal system was ineffective. Violence broke out in Tien Lang near the northern city of Hai Phong when local officials used force to deal with local people resisting land re-appropriation. The political issue, though, was what could be done about this, and various statements from very senior Party leaders pointed to the lack of real solutions, as they came down to statements that local officials should obey the law, which they clearly were not doing.

Arrests of some very big fish showed how state power was linked to powerful commercial interests. Nguyen Duc Kien, co-founder of the large private bank Asia Commercial Bank was arrested in August, in the run-up to the October Central Committee Plenum.

The investment environment has deteriorated badly. Competing for foreign investment with other countries with effective governments capable of addressing growth issues in Latin America, SEA and elsewhere, Vietnam has an increasingly bad reputation. Thus a Bloomberg report argued - "Government pledges to restructure banks, curb corruption and reorganize the public sector may take years, prompting investors to turn to faster-growing rivals in Southeast Asia such as the Philippines and Indonesia" - "foreign direct investment to Vietnam fell 28 percent in the first nine months of 2012 from a year earlier, the government says." And so it goes on: "Moody's Investors Service on Sept. 28 cut the rating on Vietnam's debt for the first time since 2010 to B2, leaving it on a par with Cambodia and five levels below Indonesia. Vietnam's banks have the highest level of bad debt in Southeast Asia, according to Moody's. Vietnam dropped 10 places to 75 on the World Economic Forum's Global Competitive Index this year, swapping places with the Philippines, which rose 10 slots to 65" [Bloomberg 2012]

#### ***Conclusions***

The political problems the country faces continue to drive down economic growth and are badly hitting international appraisals of medium and long-term prospects. Opinion has reached very low levels and is part, in the face of continued statements about policies that should rectify the situation, but do not, of the collapse of Party authority.

#### ***Domestic and external sovereignty***

International embassies have a somewhat schizoid view of what is happening. On the one hand, they are focussed upon managing political influence in a country of obvious and increasing strategic importance, and interact much with Vietnamese officials happy to argue that the Party, for all its difficulties, remains a coherent governing force. The Doi Moi ('renovation') narrative supports this. So far, aid budgets tend to be spent in ways that result in certain visible outcomes, though embassy officials are well aware that corruption is rampant. On the other hand, policy usually has little real political power behind it, and as time goes on it is increasingly obvious that government is incoherent, and that the success of

the country since the fall of the Soviet Union is better explained as a series of tactical and strategic retreats by the Party rather than any set of proactive policies. The tensions between these two sets of views are far more powerful domestically than internationally: in international arenas, Vietnamese officials generate policies and positions that are then analysed and interpreted in terms of Vietnamese international sovereignty. It is when such questions are asked about domestic politics and government that they are far harder to answer.

### **China and the US**

Around mid-year the US Congressional Research Service produced a regular report on US-Vietnam relations [Manyin 2012]. This sought a balanced approach, stressing an apparent Vietnam's increasing rapprochement and security alignment with the US with a parallel need to "tiptoe carefully along the tightrope between Washington and Beijing" [2].

Pressure from China continued through the year, with Vietnamese popular demonstrations occurring, such as in August, after reports that China was calling for international bids for oil exploitation in areas deemed by Vietnam to be Vietnamese. Hillary Clinton, US secretary of state, and Leon Panetta, defence secretary, visited Vietnam during 2012.

The question for the US and other countries remains the extent to which such 'tiptoeing' really does reflect coherent Vietnamese policy.

### **Social issues**

In the run-up to the October Plenum a rather large number of legal activists and dissidents were arrested, paralleling the arrest of Nguyen Duc Kien. The UK newspaper, The Guardian, quoted comments from international organisations – "The Committee to Protect Journalists cites Vietnam as the fourth-worst jailer of journalists in the world. "Vietnam really is the new Burma," said Phil Robertson of Human Rights Watch." [Golluoglu 2012].

What is striking, surveying the year, is the way in which far richer sources of information from within Vietnam, as Vietnamese communicate with foreigners, are supporting very negative views of the country's leadership.

### **The rise of local political strategies**

The likely social and political trajectory moving forward is hard to predict. Formal political institutions are failing to confer authority and power upon government, so reformers identified within peak bodies lack power to change the system. Political leadership locally, however, is capable of generating strategies that secure authority, as can be seen in a small number of localities, often leading to striking results in terms of local development and order. It remains unclear, however, how this might translate into change at national level.

Much commentary focusses upon civil society groups, yet these are often linked closely to formal political structures: for example, lawyer Cu Huy Ha Vu had good connections within the elite, but was still sentenced to seven years imprisonment in April 2012 for 'propaganda against the state' etc. So far, there appear to be no leading political figures, comparable to

Yeltsin, with his power base in the Moscow apparatus, (or Tran Xuan Bach, sacked from the Politburo in 1990) who attract support for change. Civil society in Vietnam emerged in the 1990s, and remains buoyant and capable of addressing many issues (informal farmers' groups are a good example), though politically ineffective.

### Conclusions

The political crisis remains unresolved and is having very negative economic and social impacts. There is little sign of any resolution of it.

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