

## Vietnam's Situation as of May 1996

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### Summary

Vietnam is a land of opportunity. It belongs to the world's poorest countries, but has experienced rapid economic growth for the last eight years. It is thus one of the countries in the world where a poor population stands the greatest chance of rapidly improving its lot. However, there are serious obstacles to continued economic growth, notably lacking infrastructure, unclarified relations between the private and public sectors, lack of experience in management, widespread and growing corruption, regional and social disparities, a conservative political backlash against negative effects of foreign influence, and factional infighting within the leadership of the one-party state.

The country's geographic position and lack of alliance partners makes it vulnerable to Chinese pressures, but its standing vis-a-vis China was improved in July 1995 through membership in ASEAN and normalisation of relations with the USA.

### Geopolitics

The by now 75 million Vietnamese benefit from a fertile soil in two heavily populated delta areas, and a narrow strip of coastal lowlands binding the two together by road, railroad and coastal shipping. Abundant amounts of water flow into the deltas from the sparsely populated highlands above, and from the Mekong river system. This makes for a country divided in three main regions, with the richest and most fastgrowing around HCM-City in the south (35% of the population), and the most densely populated and politically dominant around Hanoi and Haiphong in the north (27% of the population). Central Vietnam is much less developed but is historically significant because the city of Hue was the capital of the Nguyen dynasty (1802-1945) and because many of the country's communist leaders have come from the poor north central provinces Nghe An and Ha Tinh. Current economic developments have a potential for splitting Vietnam into a southern and northern growth zone, with a neglected, crisis-ridden, but symbolically important and ultimately perhaps rebellious Centre between them.

The country's fertile soil, its inexpensive labour, and its mineral and maritime resources, provide great economic opportunities, but rapid social change may well explode into internal conflicts, and the peculiar Vietnamese geography makes the country vulnerable from a strategic point of view. Hanoi has always been exposed to the possibility of invasion from the north, and the long coastline (with one of the world's best natural harbours at Camranh Bay) cannot be effectively defended by a navy as modest as the Vietnamese. To the west of Vietnam, Laos and Cambodia continue to function as buffers against the economically far more developed Thailand. Since the late eighties the two buffer states are no longer under Vietnamese control and are exposed to heavy economic penetration from Thailand.

From a geopolitical point of view, it is imperative for any national

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Vietnamese government to:

- maintain social stability and keep the three regions together,
- build national strength by catching up with other countries in the region in terms of GDP,
- maintain friendly relations with China, but not at the cost of giving up vital national interests,
- attract naval and commercial presence of other powers than China in the South China Sea,
- safeguard against hostility from Laos and Cambodia, and avoid too much Chinese or Thai influence in those two countries.

### Politics

The regime that currently endeavours to achieve these geopolitical goals is a one-party communist state, led by a politburo of 17 members under General Secretary Do Muoi, and with President Le Duc Anh and Prime Minister Vo Van Kiet as nr. 2 and 3. Since the adoption of the *Doi Moi* reform policy at the 6th Party Congress in 1986, the regime has carried out a number of painful, but fairly successful reforms: abandoning collective agriculture, abolishing all price controls, fiscal reform, promotion of a private sector, concentration on fewer and more efficient units in the state sector, adoption of a number of new laws, implementation of a framework for attracting foreign investments. Altogether, the reforms have created a more transparent, less controllable society. New legislation has given the National Assembly a more significant role than in the past, and the increased importance of economic management has promoted the role of the government, to the detriment of the party, at least in day to day matters.

Despite several quite drastic changes in the composition of the politburo it has not been significantly rejuvenated. The fact that two of the *youngest* members have been summarily excluded from the politburo and the party during meetings of the Central Committee, one (Tran Xuan Bach) in 1990 because he advocated democratisation, the other (Nguyen Ha Phan) in early 1996 as a 'hardliner', indicates that the politburo is deeply divided internally, and that it is unable to secure its succession. This does not bode well for the 8th Party Congress which is scheduled to take place at the end of June this year. Rejuvenation of the political leadership is urgently needed, but at the same time it is necessary to maintain a balance between the three main regions, and between three main institutional segments: army, party and economic management.

The political system is under threat from factional disagreements within the party itself, but is not seriously threatened by opposition forces outside the party. Attempts by returning Overseas Vietnamese, former political prisoners and Buddhist monks to organise independently, have been effectively prevented through arrests and long prison terms. Basic human rights are not respected in Vietnam, although they were included in the new constitution of 1992. Then also, most of the little opposition there is, seems to come from people who are already of age. The aspirations of the young generations, who have no memory of the revolutionary and counter-revolutionary struggles 1945-75, and who feel a great urge to get a share in the freedom and prosperity they know to exist in

many places outside Vietnam, have not so far found independent political expression. As long as rapid economic growth and the inflow of imported goods continue, the young generations may choose to work hard and tolerate political status quo, but if there is an economic recession, or if the government goes too far in trying to suppress external commercial and cultural influences, there may well be a social and generational explosion.

### Economy

The first reforms away from a centrally managed economy were implemented as early as 1979, and through the 1980s there were 'fence-breaking' activities in many parts of Vietnam which effectively dismantled ideological barriers to market-oriented activities. But it was only with the adoption of the first version of the Foreign Investment Law in 1987, the dismantling of collective agriculture which went on from 1988 to the adoption of a new land law in 1992, and the establishment of textbook macro-economic management in the late 1980s that Vietnam achieved a really significant economic growth (ten years after China). Since 1990, growth has averaged 8 percent yearly. Thus it has been higher than in any other country of the region, except China. Generally, inflation has been held at an acceptable level, but in 1995 Vietnam suffered a huge trade deficit through excessive both legal and smuggled imports. There is thus clearly a need for more anti-inflationary measures.

Economic reforms have allowed the establishment of a private sector, but the State Owned Enterprises (SOEs) have not been dismantled and indeed enjoy preferential financial treatment from the state banks. Indeed the state sector has *gained in importance*. (Its share of GDP rose from 32.5% in 1988 to 40.2% in 1994.) This is partly due to the fact that foreign joint ventures (where foreign companies are normally in majority) are reckoned within the state sector since their Vietnamese partners almost always belong to the state. At present it is official policy to expand and secure the role of the state sector. This may well benefit such foreign companies who manage to obtain smooth cooperation within a joint venture that has good access to relevant authorities. Hanoi is unlikely to follow advice from the IMF to dismantle the SOEs, and will rather try to render them more effective. There are many private companies, but they are generally small.

The main sources of export earnings are oil, rice (from the Mekong Delta), coffee (from the south central highlands) and light industrial products from factories established through foreign investment.

The leading foreign investors in Vietnam by 1995 were Taiwan, Hong Kong, Japan, Singapore and South Korea (all Asian). Japanese companies have carefully explored investment opportunities and are now climbing the ladder towards becoming the leading investor, but have not yet gone massively into Vietnam (only 2bn\$ had been pledged by December 1995). If Vietnam moves closer to the United States in international politics, and contributes to restituting some of the function the US 7th Fleet used to have as a guarantor of the safety of sealanes in the South China Sea before the closure of the US bases in the Philippines in 1992, Vietnam is likely to be rewarded by large-scale Japanese aid and investment. Japan is already the leading trading partner (together with Singapore), and buys virtually all of Vietnam's crude oil (which is refined in

Singapore).

### Security

Vietnam's accession to the Association of Southeast Asian Nations (ASEAN) in July 1995, and its normalization of relations with the United States later in the same month, were the fruits of ten years of diplomatic effort from the side of Hanoi. With Gorbachev's reforms 1985-90 and, notably, the breakup of the Soviet Union in 1991, Vietnam lost its main supporter in the global state system, and was left in a security vacuum. This was realised early on by the Hanoi leaders who tried to break their diplomatic deadlock by announcing, as early as 1985, that the Vietnamese army would withdraw unilaterally from Cambodia by 1989. This did not break the deadlock, but the army withdrew all the same, thus paving the way for an internationally mediated Cambodian settlement in 1992-93. Vietnam did not at that stage, however, obtain the recognition it sought from the USA. China had exploited Vietnam's weakness in 1988 by attacking and occupying a Vietnamese-held islet in the Spratlys, killing 70 Vietnamese soldiers and destroying two Vietnamese ships in the action. There was virtually no international reaction to this affair.

In 1991 Vietnam obtained normalization of relations with China, but at the cost of replacing its 'pro-American' and 'anti-Chinese' foreign minister (Nguyen Co Thach) with a less forceful and more acceptable diplomat (Nguyen Manh Cam). In the following year Hanoi seems to have sought an outright alliance with Beijing, but this initiative was rejected by China whose National Assembly in 1992 adopted a law claiming full Chinese sovereignty over virtually the whole South China Sea.

Since 1992, Vietnam has striven to maintain friendly relations with China while at the same time seeking an independent international standing through cancellation of the US embargo (obtained February 1994), membership in ASEAN and normalization of relations with the USA. It was this policy that carried fruit in July 1995.

Vietnam remains in a vulnerable security situation. There is no acute danger of a land war like the one of January 1979 (the railway across the Sino-Vietnamese border reopened in early 1996), but Vietnam has no independent capacity to defend its claims in the South China Sea against the Chinese navy, and has no allies to rely upon. The ASEAN countries have no joint military organisation and cannot, even collectively, be seen as constituting a counterweight to China. And Taiwan, which may almost be characterized as Vietnam's leading economic partner, makes the same claim to the whole of the South China Sea as the PRC (on behalf of China). The only naval powers with a capacity to counter China in the South China Sea are the USA and Japan (Russia still maintains a naval force in Camranh Bay, but Russian power has long been on the decline and Moscow would never use naval force to deter China in a place so far away from Russian territory). Since the projection of Indian naval power to the South China Sea is yet only a remote possibility and Japan is prevented from using its forceful navy (at least independently), the only alternative open to Vietnam, if it does not want to fully accommodate China, is to try to engage the USA. A significant move from the Vietnamese side would be to invite units of the US 7th Fleet to come in for fuelling and repair in the

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naval base at Camranh Bay, alongside the remaining Russian vessels. But Hanoi needs to tread carefully in order not to arouse Chinese anger.

## Data

<i>Population:</i>	1994: 72.5 million (2.1% annual growth)
<i>GDP:</i>	1994: 15.6 bn\$ (215\$ per head)
<i>GDP Growth:</i>	1991-95 average: 8.2%, 1995: 9.5%
<i>Inflation:</i>	1993: 5.2%, 1994: 14.4%, 1995: 15.6%
<i>Poverty:</i>	51% below the poverty line. 27% 'food poor'
<i>Party Membership:</i>	2.2 million

### *Main Political Leaders:*

Party Secretary General: Do Muoi (78)  
 President: General Le Duch Anh (75),  
 Prime Minister: Vo Van Kiet (73)  
 Defence Minister: Doan Khue (72)  
 Deputy Premier: Phan Van Khai (62)

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