Vietnam
VIETNAM IN 2018: A Rent-Seeking State on Correction Course

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The Evolution of Vietnamese Politics

The state of Vietnamese politics since the reunification of the country in 1975 has been evolving as the triumph, crisis, and course correction of first a totalitarian state and then a rent-seeking state. During the period from 1975 to 1986, the triumphant Communist Party of Vietnam (CPV) imposed a totalitarian state that planned everything and forced its programmes on the population. The totalitarian state, however, failed miserably to motivate people to work and soon plunged into a severe crisis. The death of party chief Le Duan and the election of Truong Chinh as general secretary of the CPV in 1986 paved the way for a sweeping correction of the totalitarian state. Known as *doi moi*, or “renovation”, this correction course was focused on economic reform while delaying political reform, which was watered down to mere “administrative reform”. *Doi moi* mainly consisted of the gradual introduction of the free market and the selective loosening of totalitarian politics. By the mid-1990s, this hybrid had succeeded in bringing the country out of the grave economic crisis and putting it on a rapid growth path, while maintaining CPV rule and breaking out of international isolation.

As this triple success made *doi moi* a long-term principle of Vietnamese politics, the hybrid also changed the nature of the Vietnamese state. Whereas the mixture of authoritarianism and capitalism in the “Asian tigers” gave rise to developmental states, the marriage of totalitarianism and commercialism in Vietnam resulted in a rent-seeking state. While the developmental state intervenes to enhance the country’s competitiveness in the global market, the rent-seeking

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state focuses on extracting payments from society. After two decades of doi moi, rent-seeking emerged in the mid-2000s as Vietnam’s most powerful policy current, more than regime preservation and national modernization.¹

When Nguyen Tan Dung was elected as Prime Minister in 2006, rent-seekers achieved primacy in the Vietnamese leadership. Dung pursued an economic policy that relied on high investment and state-owned conglomerates. He appointed cronies regardless of their competence in business and management to lead these “dinosaurs”, turning them into money-extracting devices for the rent-seekers. In early 2008, months ahead of the global financial turmoil that started the same year, Vietnam fell into a prolonged period of economic slowdown. During Dung’s first term in power (2006–11), several of the state-owned conglomerates either went bankrupt or technically defaulted, causing an estimated loss of more than US$10 billion, which was about 10 per cent of Vietnam’s GDP in a year.²

Dung’s second term in office (2011–16) was marked by the rent-seekers’ continued campaign to control the business world and the ruling class, the continued crisis of the rent-seeking state, and a growing anti-corruption drive spearheaded by CPV general secretary Nguyen Phu Trong. At the 12th National Congress of the CPV in January 2016, Dung was forced to retired, while Trong was granted an exception to stay in power despite exceeding the age limit.³ As doi moi entered its fourth decade, the rent-seeking state was put on a correction course. Where will this path lead? To assess the country’s trajectory, this chapter will examine the major developments in Vietnam’s domestic politics, economic life and foreign relations that occurred in 2018.

**Attacks on the Political-Business Complex**

The most important political development in 2018 was the attack on the “Big Four” of the rent-seeking networks. Three decades of doi moi has given rise to a political-business complex that commercializes the state’s ownership of land, policy, firms and funds for private interests. As all land in the country belongs to the communist state, leaders of local government and state-owned companies are virtually owners of the best real estate, which they can take from one user and sell to another, while pocketing the large difference in the buying and selling prices of land. Absent any effective mechanism of punishment, many government officials often favour their family members and cronies in their decisions. Also, businesspeople with good connections to policymakers can easily influence policies. Such political-business complexes exist at most local and central government agencies, but four particular rent-seeking networks, often called
“nhóm lợi ích” in Vietnamese (literally: interest groups), have emerged as the country’s biggest.

The largest and most influential of the Big Four was centred on former PM Nguyen Tan Dung. During his premiership, Dung built a private empire with two major wings in the industrial and financial sectors, along with multiple tentacles in the provinces, the police and the military. One of his key allies in the industrial wing was Dinh La Thang, who was chief executive and chairman of PetroVietnam, the national oil and gas company, from 2005 to 2011, and Minister of Transportation from 2011 to 2016. Thang became a Politburo member at the 12th CPV Congress, but was arrested on 8 December 2017 and, after an unusually rapid process, sentenced to thirty years in prison. In late November 2018, Tran Bac Ha, who was dubbed the “second prime minister” under Dung for his power and role in the Dung empire, was arrested in Laos and extradited to Vietnam. Ha had been under investigation for years, but the final decision to prosecute him was not made until the summer of 2018. From 2003 to 2016, Ha was first the chief executive officer and then the chairman of the Bank of Investment and Development of Vietnam (BIDV). As the boss of the country’s largest investment bank, Ha was able to move billions of U.S. dollars and determine winners and losers in the business world. In one instance, with the support of then state bank governor Nguyen Van Binh (currently a Politburo member and head of the Party Central Economics Department), Ha and Nguyen Duc Kien (chairman of the then-largest private bank, Asia Commercial Bank) lent billions of dollars to Tram Be, whose Southern Bank was technically in default, in order to gain a majority of shares and then take over the best-performing Sacombank. Sacombank was then chaired by Dang Van Thanh, a close friend of the then deputy prime minister (and current prime minister) Nguyen Xuan Phuc. While Kien was jailed back in 2012, Be was arrested only in late July 2017.

The same CPV Central Inspection Committee statement that denounced Ha in late May 2018 also declared that “grave violations” were committed in the purchase of the private television firm AVG by the state-owned telecom giant MobiFone. By inflating the value of the television firm and arguing that national security considerations called for a purchase by a state-owned company in order to prevent foreign ownership, the officials involved caused a loss of roughly VND 8 trillion (US$360 million). For their responsibilities in the deal, Minister of Information and Communication Truong Minh Tuan lost his seat in July 2018, while his predecessor, Nguyen Bac Son, a former secretary of former president Le Duc Anh (a Dung ally), was stripped of his former title. The two would be arrested in February 2019. Several other officials were also punished,
including not only the culprits but also those who were actually against the deal but were pressured to sign supporting documents, such as then CEO of MobiFone Cao Duy Hai and then minister of planning and investment Bui Quang Vinh. At the same time, however, more senior officials who had approved the deal, including Dung and President Tran Dai Quang (who was former minister of public security), remained untouched.4

As it gained momentum in 2017, the fight against corruption launched its first major attacks on the rent-seeking groups in the military and the police, which had thus far remained nearly untouchable due to their privilege as “states within a state”. Five days before Dinh La Thang was detained, the military arrested leaders of Thai Son Company, including Dinh Ngoc He, better known by his nickname “Ut troc”, and Phung Danh Tham, a relative of former minister of defense Phung Quang Thanh. Thai Son was in fact He’s private company, but with Tham’s help it was able to use its name as a Ministry of Defense unit and to employ the ministry’s assets for its own business.5 More than two weeks later, an arrest warrant was issued against Phan Van Anh Vu, better known by his nickname “Vu nhom”, who led two front companies of the Ministry of Public Security’s intelligence agency, Bac Nam 79 and Nova Bac Nam 79. Vu fled to Singapore but was extradited to Vietnam in January 2018. These men would be brought to court on 30 July and charged for corruption. In December 2018, two police generals involved in the “Vu nhom” case, Tran Viet Tan and Bui Van Thanh, were also detained. Tan was the intelligence chief from 2009 to 2012 and a deputy minister of public security from 2011 to 2016, while Thanh had served as a deputy minister of public security from 2014 until his dismissal in August 2018.6 In another case, two police generals, the former head of the Hi-Tech Crime Police Department Nguyen Thanh Hoa and former chief police investigator of the Ministry of Public Security Phan Van Vinh, were sentenced to ten and nine years in prison, respectively, for using an online gambling company as a front of the ministry’s cybersecurity watchdog and collecting huge protection fees from it.7

By the autumn the anti-corruption campaign had spread to the fourth of the Big Four, the group around Le Thanh Hai, who governed Ho Chi Minh City from 2001 until 2015, first as mayor and then as party secretary. Hai is estimated to be Vietnam’s second-richest man after former prime minister Dung. Each of the two is said to have amassed a fortune that far exceeds that of Vingroup chairman Pham Nhat Vuong, who, with US$7 billion, is the richest person in Vietnam according to Forbes. Within three months from mid-September, the heat was felt by three of Hai’s acolytes, who were all former vice-mayors of Ho Chi Minh City. Nguyen Huu Tin was prosecuted on 18 September; Tat Thanh Cang was declared a wrongdoer by the Party on 15 November and stripped of membership in the
Central Committee and dismissed as first deputy party secretary of Ho Chi Minh City on 26 December; and Nguyen Thanh Tai was arrested on 8 December. Their major wrongdoings were related to the mismanagement of lands in downtown Saigon, Nha Be and Thu Thiem, where huge differences in land prices can be created with a single administrative decision. Their massive land grab at Thu Thiem, a district selected more than two decades ago for development into an international financial hub, was the cause of one of the largest popular agitations in the year. The front companies of the police were among their clients in the land transfers (one of Hai’s sons is said to be on the police intelligence service’s payroll), but their major partners in the political-business complex include several of Vietnam’s richest tycoons, most notably the ethnic Chinese real estate developer Truong My Lan, who was revealed in a 2014 court hearing to have once given the then chief police investigator US$1 million in bribes. However, Lan has so far avoided investigation.

A Battle on Two Fronts

Although much intensified than before, the anti-graft drive still remains limited in strength. Former prime minister Dung and former Ho Chi Minh City party boss Hai, the “godfathers” of the two biggest rent-seeking empires in Vietnam, along with General Thanh, who built a powerful rent-seeking group during his ten-year tenure as minister of defence, all remain untouched. Moreover, former governor of the state bank Binh and former deputy prime minister Hoang Trung Hai, two of Dung’s close associates who were behind many of the corruption scandals, continue to sit on the Politburo. This indicates the rent-seekers’ continued strength, but it also reflects party chief Trong’s cautious approach, which favours selective attacks over sweeping battles. Trong has famously stressed that the anti-graft drive must “not break the vase when beating the rats”, indicating that the higher goal of the campaign is to maintain political stability.

In fact, Trong has been fighting a battle on two fronts against both corruption and political liberalism. He launched the anti-graft drive under the broader agenda of cleansing the party from both corruption and ideological paganism, which in party parlance is described as “political opportunism” (cơ hội chính trị), “self-evolution” (tự diễn biến) and “self-transformation” (tự chuyển hoá). While lamenting that “corruption is threatening the survival of the regime”, Trong believes that “political decadence is even more dangerous”, as he explained the purge of the retired deputy minister of science and technology Chu Hao.

In late October the party announced its intention to reprimand Hao, who quickly responded by renouncing his party membership, thus prompting the party
to dismiss him altogether. A reform advocate, Hao has pioneered a publishing house promoting liberal thought. In August 2009 his publishing house received the first party inspection, but the second was not made until October 2016, after the 12th CPV Congress. The third and fourth inspections took place in 2018.\textsuperscript{10}

According to the party, Hao’s “violations” of party principles started in 2005, when he established the Knowledge Publishing House, which published books containing “wrongful ideas”, “inflating the limits of socialism and the democratic values of capitalism” and “spreading views contrary to the party line”. One of Hao’s “highly grave violations” was advocating a multiparty system and a military free from ideological and party control.\textsuperscript{11}

**Popular Protests**

Driving the attacks on the Big Four rent-seeking groups and on Chu Hao was the dual motive of deterring corruption and liberalism, while demonstrating the party’s commitment to fight them. Meanwhile, the public remained largely discontented with the quality of governance and the continued strength of the rent-seeking apparatus. Increasingly disgruntled, people have resorted to more vigorous whistle-blowing, petitioning, protests and civil disobedience.

In one innovative form of protest, truckers started to pay for tolls with small change when they felt they were charged unfair tolls, inducing the operators to lift tolls to mitigate traffic jams. The toll gates for these roads, called “BOT” in Vietnamese after the “build-operate-transfer” scheme under which they were built, were so arranged as to force even toll-free road users to pay. This, and the ease of inflating toll prices, made the BOT roads into a goldmine for corrupt businesses and an excellent pool of kickbacks for leaders in the transportation ministry to use as bribes to powerful people. With the help of transportation officers like Thang and Nguyen Van The, who is currently the minister of transportation, family members and close associates of many party, military and police leaders (such as former party chief Nong Duc Manh, former CPV Central Inspection Committee chair Ngo Van Du, former minister of defence Thanh, and President Quang) have gained the best of the toll roads.\textsuperscript{12} Recognizing the injustice and fearing the spillover effect of the protests, the government has refrained from quelling the protests with force, instead choosing to temporarily lift the tolls while trying to find solutions to the problem. Meanwhile, protests continue to persist at several toll gates: there are occasions when drivers and local residents peacefully took over the gates, while in some instances truckers have simply knocked the barriers down.\textsuperscript{13}
While the land grabs, excessive taxes, unfair tolls and pollution were major causes of popular agitation throughout 2018, what triggered the year’s largest protests was the fear of China’s peaceful invasion through special economic zones. From 9 to 11 June, a hundred thousand Vietnamese took to the streets at several locations throughout the country to oppose the two draft laws on special administrative-economic zones and cybersecurity, with the largest gathering comprising factory workers in Ho Chi Minh City. While the demonstrations were generally peaceful in most cities, protesters stormed government buildings, burned vehicles and fought with police in Binh Thuan province. (By November 2018, more than 120 protesters had been imprisoned.) Agitation over the bills had been brewing for more than a week on social media before the protests broke out on the streets, even after the National Assembly postponed the passage of the Special Zone Act. Feeling intense pressure from the population, the Politburo decided, at the very last minute, to postpone the vote in the parliament on the bill, previously scheduled for 9 June. On 9 June, the National Assembly voted to delay the law’s passage to the next session in October, only to have it postponed again to 2019 in August. However, the parliament went ahead to pass the Cybersecurity Law on 12 June, which, according to Reporters Without Borders, is “largely a copy-and-paste version” of China’s. The central cause of anger that sparked the protests was a provision in the Special Zone Act that would allow ninety-nine-year leases of land to foreign investors. Although the law did not specify any particular country, it was widely believed that China, with its deep pockets and close proximity, would dominate investments in these special zones and turn them into de facto Chinese territories. Spearheaded by Pham Minh Chinh, but opposed by most leading experts for various reasons, the Special Zone Act was originally a product of Chinh, who is now personnel czar in the Politburo, and Dung, the then prime minister, who needed the act to facilitate the flow of money, not least from casino visitors, to their favourite islands Van Don and Phu Quoc, respectively. Besides Chinh on the Politburo, National Assembly chairwoman Nguyen Thi Kim Ngan and Deputy Prime Minister Vuong Dinh Hue were reportedly the main supporters of the project, while party chief Trong, CPV executive secretary Tran Quoc Vuong and Prime Minister Phuc were reportedly more hesitant.

Leadership Selection

Although the 12th CPV Congress put an end to the primacy of rent-seekers at the top echelons, it did not terminate the dominance of rent-seekers in the system. The cadre of policymakers that was installed at the Congress has remained unaffected
by Dung’s last-minute defeat in his bid for the top job in the party. This cadre continues to remain largely intact despite the spectacular anti-corruption campaign of the last two years. Only three members have so far been removed from the 200-strong CPV Central Committee (two others died). During 2018, the party introduced new schemes for leadership selection. It established a new cadre strategy at the Seventh Plenum of the Central Committee in May, and, in a new practice, screened new candidates for the next Central Committee at the extraordinary Ninth Plenum in December. In the new schemes of leadership selection, more powers are devolved to the lower levels, with the procedures made more transparent and apparently more democratic, but the controlling role remains in the hands of the incumbent leadership. Of note, most of this leadership in 2018 had been arranged before the 12th Congress and bore the mark of the primacy of rent-seekers. Perhaps to compensate for this deficit, the party created a new body called the Steering Committee on Strategic-level Cadre Planning for the Term 2021–2026, headed by party chief Trong, which would play a key role in the screening and vetting of candidates.

When General Secretary Trong was re-elected with an exemption to the age limit at the 12th CPV Congress, the informal bargain foresaw a leadership transition in the midterm with either CPV executive secretary Dinh The Huynh or President Quang to succeed him as party chief. These two options however fell off the table in 2018, the midterm year. On sick leave since June 2017, Huynh was formally relieved from the second-highest position in the party apparatus in March 2018, and CPV Central Inspection Committee chair Tran Quoc Vuong, who had performed Huynh’s job since August 2017, became officially the party’s new executive secretary. On 21 September, Quang passed away after having fallen sick periodically since July 2017. At its 30 September meeting, the Politburo overwhelmingly nominated Trong to fill Quang’s post; the only dissenting vote was from Trong himself, who had instead nominated National Assembly vice-chairwoman Tong Thi Phong. The traditional separation of the two top positions in the party-state hence ceased to exist on 23 October, when the National Assembly elected Trong as state president.

While unusual, this is not the first time that a CPV leader has worn both hats. From 1951 to 1969 and during the latter half of 1986, Ho Chi Minh and Truong Chinh were respectively party chief–cum–head of state. What is unprecedented, though, is that Trong is the first party chief to sit on both the Central Military Commission and the Central Party Commission for Public Security, the two party bodies that lead the military, police and security forces (Trong joined the Central Party Commission for Public Security on 21 September 2016). With
such a concentration of power, it is tempting to describe Trong as Vietnam’s Xi Jinping, but a comparison to the Chinese strongman would be misleading. While Xi’s dream is to make China great again (and himself greater than Mao), Trong’s ambition is to save the CPV from decay. While Xi is willing to take risks, Trong is extremely risk-averse. And while there is no time limit to Xi’s hold on power, the party constitution rules out Trong’s re-election as party chief in 2021. The nomination of Trong for president was initiated by Pham Minh Chinh, head of the CPV Central Organization Commission. A front-runner for the top job at the next party congress, Chinh has reason to hope for inheriting the dual hat when Trong retires in a little over two years. Still, based on nomenclature, Executive Secretary Vuong is better positioned to succeed Trong, while Trong sees his dual position as a temporary solution borne out of exigencies rather than a permanent unification (nhất thể hóa).

Drivers of Economic Growth

While General Secretary Trong entered his second term with an agenda to consolidate the Communist Party, combat corruption and maintain stability, Prime Minister Nguyen Xuan Phuc took up the helm of government with a vision to build a development-enabling state (nhà nước kiến tạo phát triển), remove the major barriers to development and promote new drivers of economic growth. Based on a consensus formed during the last decades, the government vowed to advance substantial reform in the areas of institutions, infrastructure and human resources, as these were viewed as the key drivers but also the major bottlenecks of the economy. In 2018, backed by a CPV Central Committee resolution on promoting private economy (10-NQ/TW of 3 June 2017) and realizing that the fourth industrial revolution provides a “historic opportunity” for Vietnam to play catch-up with the advanced industrial countries, the government endorsed the private sector and the innovation and application of high-technology as two additional key drivers of growth, vigorously pledging to promote these areas.

Institutional reform was focused on cutting red tape and reforming state-owned enterprises. The year 2018 marked a turning point as the representation of state ownership in nineteen state-owned conglomerates was transferred from the line ministries to a “super commission” (siêu ủy ban) called the Commission for the Management of State Capital at Enterprises (CMSC), which was modelled upon China’s State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and Singapore’s Temasek Holdings. Data from 2017
show that CMSC would manage a total asset of more than VND 2,300 trillion (US$100 billion), or two-thirds of the state sector in the economy by value.\textsuperscript{22} Furthermore, drastically reducing regulations and paperwork and eliminating unreasonable requirements have been identified as a major measure to improve the business environment. While the government’s Central Institute for Economic Management advised to eliminate three quarters of the existing 5,700 requirements, the government set the target of 50 per cent by the end of October. The result, however, was a mere 13 per cent, with only 30 per cent of the eliminated requirements being of real significance.\textsuperscript{23} Vietnam’s “ease of doing business” rank, according to the World Bank, improved from 82 in 2016 to 68 in 2017 but worsened to 69 in 2018.\textsuperscript{24}

Infrastructure development remained a realm of rampant rent-seeking. Expensive but shoddy roads continued to make headlines. The high-profile controversy over Ho Chi Minh City’s Tan Son Nhat Airport is a good example of how the government dealt with infrastructure development. Increased demand for air transportation and chronic traffic jams in the southern vicinity of the airport required an extension of the airport to the north, where land reserved for national defence has been leased by the military to a private company for a golf course. Under pressure from the public, the Ministry of Defence agreed to return the golf course land to the airport whenever the government so demands. In the end, although an expert panel authorized by Ho Chi Minh City party secretary Nguyen Thien Nhan proposed a north extension, Prime Minister Phuc decided to pick the Ministry of Transportation’s preferred option that would keep the airport facing south, thus leaving the golf course in place until 2025.\textsuperscript{25}

Education did not fare better. While Minister of Transportation Nguyen Van The is reportedly an ally of Prime Minister Phuc, Minister of Education Phung Xuan Nha is said to be close to party chief Trong. There was a plan in the summer to promote Nha to deputy prime minister but it never materialized because scandals of fraud, violence and corruption in the education field made public opinion turn against him. In a confidence vote held in the National Assembly in late October, Nha received the most number of “low confidence” votes among all cabinet members. This was perhaps what prompted Trong to say in early November that “our education field has never been as good as today”.\textsuperscript{26}

The silver lining for Vietnam appears to come from the private sector and the digital economy. The year 2018 marked the first time that a domestic private company, Vingroup, appeared among the top ten largest companies in Vietnam. Vingroup ranked sixth, while Samsung Electronics retained the top spot for the second year running. According to a government report, the ratio of domestic
private investment in the country’s total increased steadily to 42.4 per cent in 2018 from 40.5 per cent in 2017, 38.9 per cent in 2016, and an average of 38.3 per cent during 2011–15.27

As for the digital economy, the lawsuit initiated by the traditional taxi company Vinasun against the app-based ride-hailing firm Grab, which lasted throughout the year, and the concurrent drafting of a related regulatory decree, exemplify the dilemma the government faces and the way it has responded to the challenges and opportunities provided by the fourth industrial revolution. The government has been torn between two tendencies: one supports new modes of business created by the digital economy, the other sticks to the old way and prefers control and overregulation. The battle between the two views see-sawed throughout the year, which ended with Grab losing its case, partially due to its evasion of rules and taxes, although the new welcoming attitude to the digital economy appears to prevail, also partially, in the new regulation.28

In July, Truong Minh Tuan’s fall in the AVG scandal led to Nguyen Manh Hung, chairman of the military’s tech giant Viettel, becoming the minister of information and communication. A successful entrepreneur, Hung brought in a new thinking on almost everything. He said that he would let new business models develop freely and apply a regulatory “sandbox” as testing grounds for the emerging models. He viewed the fourth industrial revolution as essentially a revolution of policy rather than one of technology, thus emphasizing the need for flexible and adaptive policies. Eager to reap the first-mover advantage, he vowed to make Vietnam one of the first countries to have a commercial 5G network.

TABLE 1
Vietnam: Macro-economic Trends

<table>
<thead>
<tr>
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<th>2011–15 average</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>GDP growth (%)</td>
<td>5.91</td>
<td>6.21</td>
<td>6.81</td>
<td>7.08</td>
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<tr>
<td>TFP growth’s contribution to GDP growth (%)</td>
<td>33.58</td>
<td>40.68</td>
<td>45.19</td>
<td>43.50</td>
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<tr>
<td>Labour productivity growth (%)</td>
<td>4.6</td>
<td>5.29</td>
<td>6.02</td>
<td>5.93</td>
</tr>
<tr>
<td>ICOR</td>
<td>6.25</td>
<td>6.42</td>
<td>6.11</td>
<td>5.97</td>
</tr>
</tbody>
</table>

Notes: TFP is total factor productivity. ICOR is incremental capital output ratio, which measures the inefficiency of investment. Data are from General Statistics Office, Government of Vietnam. GDP figures are based on the supply side and might be about 3 percentage points less if based on the demand side. TFP figures may be inflated by around 10 percentage points.
which will be indispensable for the next wave of industrialization and likely to boost the country’s nascent but vibrant tech start-up ecosystem.29

Navigating the Geopolitical Torrents

Vietnam’s correction course takes place amidst epochal changes in the international environment. The post–Cold War era began to end when China embarked on its Belt and Road Initiative (BRI), imposed an “air defense identification zone” in the East China Sea, and commenced the building of artificial islands in the South China Sea, all in 2013. In 2018, the Trump administration launched a trade war against China, effectively starting a new period characterized by U.S.-China strategic competition. Vietnam Endeavours to strike a dynamic balance between China and the United States in which its relationship with Washington is overall just a few degrees warmer than with Beijing, because Vietnam’s strategic interests are more in conflict with China’s. At the same time, Vietnam tries to insure this balancing act by strengthening ties with other major powers, primarily India, Russia and Japan, and insisting on ASEAN’s centrality in the regional architecture.

Vietnam responds to China’s epoch-making BRI by paying lip service to it while trying to find ways to placate Beijing without increasing its dependence on China. What makes Vietnamese government officials reluctant to accept the offer of Chinese aid money is the double worry about a debt trap and the ire of the public. Unlike in many other countries that have endorsed BRI, nearly all major infrastructure projects using Chinese money in Vietnam are dated from the pre-2016 period. The Special Zone Act was reportedly meant to be an arrow to kill two birds: to replicate the success of Shenzhen and to accommodate but contain China’s BRI. However, it was opposed by most leading experts and unleashed strong waves of protest. In late August 2018, when the State Bank of Vietnam allowed the use of Chinese renminbi as a medium of exchange in the provinces bordering China, it provoked a large controversy among the public as well as in the parliament.

In late September, party chief Trong was reported by Xinhua — but not by Vietnam’s state-sanctioned press — as telling a senior visiting Chinese Communist Party leader that Vietnam-China relations were at the best time in history.30 Trong’s statement reflects the “warm outside but cool inside” state of the relationship. In March, under Chinese pressure, Vietnam had ordered Spanish energy firm Repsol to halt a major oil drilling project in the South China Sea called Ca Rong Do (Red Emperor) in Block 07/03, which is adjacent to Block 136/03 where another project by Repsol was similarly cancelled after a month of drilling in
July 2017 due to Chinese complaints. But in mid-September, Vietnam decided to resume the Blue Whale project with ExxonMobil in Block 118, which it had previously put on hold in November 2017 due to Chinese objection. It seems apparent that some modus vivendi was reached with China during the annual meeting of the China-Vietnam Steering Committee for Bilateral Relations on 16 September. This might also explain Trong’s odd September statement about the state of Sino-Vietnam relations. However, the “best time of Vietnam-China relations” did not seem to last long. In December, Vietnamese press, citing a reputed Chinese website, reported of a field exercise held by the Chinese military near the Vietnamese border that simulated a military confrontation with a “neighboring country X”.

While China-Vietnam ties remained cool on the inside though they appear to be warm outside, U.S.-Vietnam relations continue to get warmer. In October, Secretary of Defense James Mattis paid a second visit to Vietnam in a year, after the first in January. This visit was unprecedented in that it broke the previous rule of having a U.S. chief of defence visit once every three years. Also unprecedentedly, in March, the USS Carl Vinson visited Da Nang, becoming the first U.S. aircraft carrier ever to make a port call in communist Vietnam. In the summer, Vietnamese military participated for the first time in the U.S.-led RIMPAC exercise, albeit without any vessels and only in humanitarian assistance and disaster relief. The years 2017–18 have also witnessed at least thirteen U.S. Navy ship visits to Vietnam, despite the rule of one visit per year for any foreign country. The Trump administration has also invited CPV chief Trong, well before his assumption of the presidency, to visit the United States. Meanwhile, key agencies in Vietnam deliberated the official upgrading of the “comprehensive partnership” to a “strategic partnership”, which might be announced when Trong meets with Trump in 2019. In April, Minister of Investment and Planning Nguyen Chi Dung travelled to the United States to study how Americans dealt with the fourth industrial revolution. In June, Deputy Prime Minister Vuong Dinh Hue paid an official visit, and over November and December, Truong Thi Mai, a Politburo member and head of the CPV Mass Mobilization Commission, went on a working visit to the United States during which they discussed a wide range of issues from strengthening bilateral relations to trade, aid and the South China Sea dispute. Mai also suggested cooperation on revising the law to comply with international labour standards.

In November, the National Assembly unanimously ratified the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), the new version of the Trans-Pacific Partnership that proceeds without U.S. participation. Vietnam joined the
TPP in 2008 at the invitation of the United States in the hope that it would provide a huge market for Vietnamese goods, external pressure for economic reform and a geopolitical counterweight to China. The asymmetry of trade with China and the American turn towards protectionism has pushed Vietnam farther on the free trade path. In October, Prime Minister Phuc used his trip to attend the Asia-Europe Meeting Summit in Brussels to lobby for the EU-Vietnam Free Trade Agreement (EVFTA), which then was passed from the European Commission to the European Parliament for ratification. One of the major concessions the CPV made in the CPTPP and the EVFTA is the commitment to international labour standards, including the rights of workers to form independent labour unions.

Given the rapidity and unpredictability of changes in the international environment, Vietnam has developed its own concept of “forward defence” (giữ nước từ xa), which gears its defence efforts towards preventing danger to its security ahead of time (giữ nước từ khi nước chưa nguy). A key aspect of Vietnam’s forward defence is, as party chief Trong noted, Vietnam’s defence and security relations with Russia and India. Trong also said that defence and security were the top priority in relations with these two countries. In early September, Trong paid official visits to Russia and Hungary. His trip to Hungary, the first by a CPV General Secretary to Eastern Europe in three decades, witnessed the designation of Hungarian-Vietnamese relations as a “comprehensive partnership”. The EVFTA, the Free Trade Agreement between Vietnam and the Eurasian Union, and joint oil explorations with Russia in the South China Sea were among the major agenda items of Trong’s trip to Hungary and Russia respectively. Defence and trade were also the focus of Trong’s official trip to France in March. With India, the year 2018 saw a state visit by President Quang in March, a state visit by Indian President Ram Nath Kovind in November, a visit by Prime Minister Phuc in January, and the visits by Indian Minister of Defence Nirmala Sitharaman in June and Minister of External Affairs Sushma Swaraj in August. In March, a formal “strategic partnership” with Australia, which Vietnam had for years lobbied for, was finally announced during a trip by Prime Minister Phuc to Canberra. In 2018 alone, Defence Minister Ngo Xuan Lich signed four joint vision statements on defence cooperation with the defence ministries of Japan, South Korea, France and Australia during his visits to these countries.

The Rhyme of History

In 2018, Vietnam’s economy grew at the highest rate in a decade amidst a steady improvement of investment efficiency. Not accidentally, the year was also the best
in more than a decade in terms of combating corruption. Vietnam appears to be on the way out of the period of slowdown that followed the ascent of the rent-seekers. Three years into a full course of correction, the results remain mixed at best. Little has been done structurally to keep rent-seeking in check. The correction course risks fading if a new leader less inclined to fight rent-seeking replaces Nguyen Phu Trong at the 13th CPV Congress in 2021. Yet anti-corruption, as well as doi moi, has become a cultural trait and a systemic tendency that will not go away easily.

Like three decades ago when the first years of doi moi coincided with the last phase of the Cold War, Vietnam entered its second correction course simultaneously with the ending of the post–Cold War era. But whereas doi moi took place when cooperation among the great powers largely prevailed over their rivalry, this second course of correction is accompanied by heightened competition between the United States and China, the region’s two biggest powers. During 1989–90, doi moi reversed course partially but consequentially when party chief Nguyen Van Linh and his conservative colleagues, shocked by the collapse of communism in Eastern Europe and imagining a menace of regime change coming from the West, placed Vietnamese foreign policy on a course that veered more towards China than the West. This China-tilt has indirectly contributed to the rise of rent-seeking in the decades that followed, which rendered them “lost decades” on the path to development and completely shattered Vietnam’s dream, set at the 9th CPV Congress in 2001, of becoming an industrialized country by 2020. Today, unlike then, Vietnam’s preferred position is one step farther from China than from the United States. This and the U.S.-China rivalry may help keep Vietnam’s correction course intact in the years to come.

Notes
4. See Dương Vũ, “Ai đã làm khánh kiệt đất nước (Phần 13): Con cá mập AVG đã
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