

Vietnam: politics and puzzles in mid 2007

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With continued high pressures upon commentators within Vietnam to take suitable views, this 'view from afar' gathers together more independent review and analysis.

It is distributed free on application to the Editor

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Editor's Notes, Adam Fforde

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Vietnam's accession to the WTO has been widely greeted as positive. It is interesting to see what the IMF makes of this. In their recent *IMF Survey* for Jan 29 2007 can be found some interesting arguments.

First, the initial required impact upon tariffs is in fact very limited. Recall that WTO negotiations are not about *actual* tariffs but 'bounds' – the *maximum* a country may impose. Vietnam has agreed to a maximum 'bound' average tariff of 17.4%, falling to 13.6% after 12 years. Vietnam can of course set its average *below* this level if she wanted, but she could have done that anyway. Similar trends can be seen in important lines such as agricultural goods (2005 average 29.4%, initial bound tariff of 27.3%, final 21.7%). Textiles lose far more protection (2005 average 36.6%, initial bound 13.6%, final 13.5%). But cars, steel and petroleum actually see initial and final tariff bounds *higher* than in 2005; the initial bound tariff for motorbikes is at 100% the same as the 2005 average.

All this suggests that, with scope for WTO proof support for local businesses (whether domestic or foreign), there is not much action here. Such support, through mechanisms such as siting of infrastructure, softening of tax and credit conditions, support to labour training and so on, can surely deal with loss of a 10% tariff, or so. The main 'kick' is in textiles, where Vietnamese businesses showed themselves rather well able to cope with what happened in 2005 when the world economy went quota-free.

Second, and far more important, is the commitment to a level playing-field in banks, with domestic and foreign banks:

"... allowed to compete on an equal footing with domestic banks from April 2007. In this process, there may well be a compression of profit margins and, possibly, some labor shedding in declining industries. The authorities will need to put in place adequate retraining programs and social safety nets to prevent any severe dislocation. Importantly, they will need to accelerate the reform of the state-dominated banking system to enable it to meet the new competitive challenges and improve efficiency in the allocation of capital." (p.23).

It is not quite so simple. Research on who *really* owns Vietnamese SOEs is very scanty. One study [Fforde 2004; also Fforde 2007] argued two things:

First, that many SOEs are best seen as *virtual share companies*. They are owned in various ways by various groups, including Managers, officials in superior bodies, outside investors (themselves often SOEs). This often leads to competitive performance, but not always. This explains just how Vietnam was able to grow so fast in the 1990s, with macroeconomic stability but a *rising* SOE share of GDP.

Second, that through the 1990s ownership rights that had generally moved *downwards* towards SOEs in the 1980s then moved in the reverse direction, with interests within SOEs losing out to those in structures above them. These included the various state holding-company forms, but also more statist structures such as various offices of the Ministry of Finance, interests attached to state commercial banks, and so on. The influence of the latter depended upon its relative control over cash, both in the form of credits, negotiated taxes, investment approvals and so on. The former had tended to

try to evade the influence of the state structures by establishing direct relations with the international economy, but this had largely been stopped. It follows that bringing foreign banks into play 'lets many SOEs off the leash' by giving them direct access to capital in ways that they did not have before. One can note a strong trend to encourage the state holding companies to mediate between their members and world financial markets.

My own 'take' on the political situation is illustrated by the following, taken from a posting I made on the Vietnam Study Group forum in early April.¹

"I think that it is very unwise to make statements that 'most Vietnamese do not want regime change'. How do we know?

What, though, are the basic macro political issues? Southern money vs. northern and central population. Most of the domestic tax base comes through HCM city and when added to oil revenues drives the basic parameters of the state political economy because it pays for the fiscal deficits of most northern and central provinces. But there is a viable equilibrium there and from the early 1990s until the mid 2000s this held, because the party structures maintained it.

But the regional disequilibrium in peak politics seen after the Xth Congress (the centre lost its past right to one of the three top positions) also meant that the power-sharing at the very peak now sees the two northerners who hold two of the five peak positions both based upon the mass organisation 'bloc' (khai), since I include the National Assembly in the latter. There are clearly at present very strong popular pressures to include lots of non-Party candidates in the forthcoming National Assembly Elections, and so the right of the apparat to impose 'confidence votes' to remove excess numbers of such candidates is having to be used (rather like what happened before the last elections in Iran). This is very bad politics. And I think it is preventing the north and centre from regaining their relative position.

The relative rise of the south is obviously based upon money. Increasingly foreign capital makes deals directly with large Vietnamese capital (mainly SOEs) without having to cope with control or restriction from state or party structures, which is what Kiet was trying to do in the 1990s, but failed. This thus creates added pressures, feeding the disequilibrium, since so many northern and central provinces rely upon these structures to gain access to tax revenues, credits and FDI. Things can easily get out of hand.

In inner-party terms, the north is squeezed because of its relative reliance upon the Leninist structures designed to prevent popular-based regime change: the mass organisations. These are steadily eroded by the rapid growth of civil society, which by-passes them. They also get in the way. One manifestation of this, since the ideological bloc is now impotent, is the spastic and ill-focussed use of the security apparat, which is what this thread has been discussing and which is increasingly having to replace the mass organisations in containing pressures from below. It is likely that the centre holds a number of the security cards. But it has been sidelined. It is not sure what their response will be. Reductions in tax and credit flows from Hanoi would be an issue.

¹ <http://www.lib.washington.edu/Southeastasia/vsg/discussion.html>

This disequilibrium may be resolved through a Yelstin solution, if a Yeltsin were to pop up. None has, so far as I know. Yelstin was expelled from the CPSU politburo in ? 1987 when he was Leningrad Party Boss.² He then beat Rhyzkov when it came to elections for the presidency. If a Vietnamese equivalent were to be found this could be thought as possibly recreating an equilibrium between southern (and foreign) money, offset by the population numbers in the north and centre. But the disequilibrium continues.

In the meantime, then, the security apparat can be expected to continue its drive against manifestations of popular pressure that the mass organisations should be able to cope with, but cannot; furthermore, reliance upon them puts the two peak northerners in a political box. If I were the security people I would be deeply fed up with the situation as it is like using paratroopers for crowd control. But what else is there?

Under such circumstances I think it is very unwise to state that the population does not want regime change. We just do not know. Nor do we know what would happen if their perceived political options were to change, which is what Yeltsin did.

Adam”

The rest of this commentary provides two reviews.

The first, by Gerhard Will of the SWP in Berlin (gerhard.will@swp-berlin.org), looks at the Xth Congress of 2006 and raises some central questions.

The second, by Bill Hayton (bill@billhayton.com), BBC Correspondent in Hanoi until early 2007, looks at events since the Congress.

² It was 1987, but Moscow *not* Leningrad ... AJF.