
VIETNAM IN 2002

On the Road to Recovery

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Abstract

Vietnam underwent important changes in 2002. Most notably, the state and Party showed signs of increasing awareness of performance legitimacy as a basis for ongoing political legitimacy. Responses included public statements in favor of the private sector, a reshuffling of cabinet positions, as well as stepped-up efforts to end corruption. A series of events this year, ranging from the country's first trade war to tensions with its important trade partner, Japan, also made clear the growing importance of international political economic factors in shaping domestic politics. All in all, the year has been a successful one for Vietnam.

The year 2002 in Vietnam saw dramatic changes on the economic front, most importantly the implementation of the U.S.-Vietnam Bilateral Trade Agreement and the expanded role of the private sector in Vietnam. It was also a year that illustrated the increasing complexity of Vietnam's external economic relations. Problems extended not only to unsettled trade disputes but also to demands for the government to protect the competitiveness of Vietnamese goods.

On the political front, a series of events signaled the central leadership's increasing awareness of performance legitimacy as a basis for ongoing Vietnamese Communist Party power and political stability. Most noteworthy has been a ramped-up, anti-corruption campaign, changes in administrative responsibilities, and a reshuffling of cabinet positions. These changes occurred alongside a revival of old Party slogans deployed to mediate the growing diversity of interests within Vietnamese society and to discipline unorthodox activities. The coherence of reformist and conservative strategies of governing being jointly used to improve transparency within the state and

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Party bureaucracy, and to further economic reforms, indicates the end of “reform immobilism” and the shift (albeit gradual) to a Party-led developmental state.¹

Economy: New Players and Processes against Old Interests

Vietnam’s economy faced a number of domestic and international pressures in 2002, but with expected 6% annual Gross Domestic Product (GDP) growth, Vietnam remains, after China, the second-fastest growing economy in Asia. Industrial growth was particularly impressive, increasing 14% in the first five months of 2002. Much of this increase came out of the non-state sector (19.7%) and the foreign-invested sector (42.8%).² Still, we can expect the state-owned sector to assume the largest share of industrial GDP for some time. Non-foreign invested private firms remain small and undercapitalized, despite increases in their number since the Enterprise Law was introduced in 2000. This law, followed by a series of supporting directives that both asserted the equality of private entrepreneurs and lowered transaction costs, resulted in as many as 70,000 new firms registering over the past two years. Still, private firms comprise less than 10% of industrial output. Indeed, the legacy of Vietnamese socialism and the country’s significant informal economy is an overwhelming concentration of private entrepreneurs in the low-valued-added segments of the commercial and services sectors.

A boost to the private sector is likely to come, however, from the renewed confidence of foreign investors and the government’s recent decision to lower the required capital share of foreign investors in private firms. Earlier, any foreign investor in a private firm was required to take at least a 30% stake.³ Now, any level of investment is possible. The Overseas Vietnamese (*Vietkieu*) community is also an important source of private capital, with \$1.1 billion remitted in the first six months of 2002. Half of these funds were sent through Ho Chi Minh City banks, with only 15% actually being deposited in savings accounts.⁴ These remittances are also an important source of foreign

1. For the concept of “reform immobilism,” see Brantly Womack, “Vietnam in 1996: Reform Immobilism,” *Asian Survey* 37:1 (January 1997), pp. 79–87.

2. “Vietnam’s Jan-Oct Industrial Production Up 14.3%,” *Asia Pulse*, October 29, 2002. <<http://80-global.factiva.com.ezp2.harvard.edu/en/arch/display.asp>>. Accessed November 3, 2002.

3. “Vietnam to Eliminate Minimum Investment Requirement for Foreigners,” *Vietnam Trade Info* by Vietnam Embassy in Republic of Korea Trade Office, May 17, 2002. <<http://www.vietnamtrade.co.kr/english/news/view.php3?&number=604&p>>. Accessed September 1, 2002.

4. “Viet Kieu [Overseas Vietnamese] Remit US \$0.5 billion to Ho Chi Minh City in January-July,” *Saigon Times Daily* (in English), August 21, 2002. <<http://80-global.factiva.com.ezp2.harvard.edu/en/arch/display.asp>>. Accessed September 15, 2002.

currency at a time when export markets have yet to revive fully. Indeed, remittances are the fourth-largest earner of foreign currency for Vietnam, after those derived from crude oil, aquatic products, and garment and textile exports.⁵

Foreign Direct Investment (FDI) figures, while better than in recent years, remain below levels found in the mid-1990s. Vietnam nevertheless still ranks as the second-largest recipient of foreign investment in Asia, coming after China. Interestingly, it does so despite its reputation as one of the most corrupt countries in the world, second only to Indonesia in Asia, and considered worse than its earlier sponsors, Russia and China.⁶ Part of the reason may relate to the signaling effects of Vietnam's improved credit ratings, now higher than those of Russia and on a par with Jordan's.⁷ Another important factor is the composition of its foreign investment community, one that continues to be dominated by Asian investors.⁸

The Vietnamese government seriously tested its relations with one such investor, Japan, when it reduced import quotas on motorcycle assembly parts in September 2002. In so doing, it not only offended one of the oldest segments of the foreign investor community but also one of the country's main sources of Overseas Development Aid (ODA). The dispute between Vietnam and Japan came on the heels of fired-up competition between Vietnam-based Japanese motorcycle producers, particularly Honda and Yamaha, and domestic producers and motorcycle vendors. The latter benefited greatly from cheap Chinese imports, mostly motorcycle parts and imitation Honda motorcycles, which began flooding Vietnam as early as 1998. The initial response by Honda was to ramp up motorcycle production by 40% and produce a cheaper model, the Wave Alpha, to recapture market share.⁹ The Wave Alpha also comprised Chinese motorcycle parts, encouraging the Vietnam Motorbike and Bicycle Manufacturers Association to continue opposing

5. Tan Duc Le and Todd Nelson, "Family Gifts Bring Gains to Vietnam: Local Vietnamese Are Finding It Easier to Send Money to Poor Relatives Thanks to Changing Attitudes in Their Homeland," *Pioneer Press* (St. Paul, Minn., U.S.), August 4, 2002.

6. See the Corruption Perceptions Index (CPI), Transparency International, <<http://www.transparency.org>>.

7. "Standard & Poor's Gives Vietnam Good Rating," *Saigon Times*, June 6, 2002. <<http://80-global.factiva.com.ezp2.harvard.edu/en/arch/display.asp>>. Accessed July 20, 2002.

8. "Russian, Chinese, Taiwanese and South Korean Companies Widely Seen Using Bribes in Developing Countries," Bribe Payers Index (BPI), Transparency International. <http://www.transparency.org/pressreleases_archive/2002/2002.05.14.bpi.en.html>. Accessed July 10, 2002.

9. "Honda to Increase Daily Vietnam Motorcycle Output by 40%," Dow Jones International News, June 30, 2002. <<http://80-global.factiva.com.ezp2.harvard.edu/en/arch/display.asp>>. Accessed July 20, 2002.

government efforts to claim back taxes from enterprises that could not verify the domestic origin of their motorcycle parts.¹⁰

Frustrated by the failure of these regulatory efforts, the government cut off import supply, ostensibly in the name of public despair over Vietnam's motorcycle-saturated, deadly roads. By early October 2002, Yamaha and Honda had to cease production. An emergency visit to Vietnam by an official from Japan's Ministry of Economy, Trade, and Industry, accompanied by executives from Honda, Yamaha, and Suzuki, quickly followed. This, however, yielded no results despite a threat that Japan's support of Vietnam's bid to join the World Trade Organization (WTO) hung in the balance.¹¹ By month's end, Deputy Prime Minister Nguyen Tan Dung announced a decision to allow an additional 185,000 motorbike component sets into Vietnam, with the bulk of the quota allotted to Japanese producers. The move is likely to offend domestic producers, perhaps worsening the country's smuggling problems.

Other aspects of Vietnam's external economic relations were no less colorful. At the forefront is the ongoing catfish trade dispute with the United States, which snagged diplomatic ties almost immediately after the U.S.-Vietnam Bilateral Trade Agreement was signed on July 13, 2000.¹² At issue are charges of unfair trade practices leveled by the Catfish Farmers of America (CFA) against Vietnamese Mekong Delta farmers. The dispute arose in response to Vietnam's quick grab of U.S. market share—now close to 20%. It took an ugly turn in mid-2002, when initial U.S. efforts backfired in an attempt to disallow Vietnamese catfish to be labeled or marketed as such for import to the United States. Renaming the species, it seems, did little to dent Vietnam's market share or boost U.S. domestic catfish prices. American catfish interests, in turn, looked to U.S. anti-dumping laws, arguing that Vietnam not only sold catfish at below production costs but was itself a non-market economy, meaning that any estimate of Vietnamese production costs would be based on those of a third-country proxy. Vietnam would have no power over which country was selected as most representative of its economic conditions. This second leg of American catfish farmers' efforts to save their industry has prompted a fascinating debate over the nature of Vietnam's economy as either market or non-market, an issue long discussed by

10. "Vietnam Motorcycle Assemblers Ordered to Pay Back Taxes," *ibid.*, October 24, 2002. <<http://80-global.factiva.com.ezp2.harvard.edu/en/arch/display.asp>>. Accessed on October 31, 2002.

11. Amy Kazmin, "Vietnam Bank Dispute Worsens," *Financial Times*, October 22, 2002. <<http://80-global.factiva.com.ezp2.harvard.edu/en/arch/display.asp>>. Accessed October 31, 2002.

12. Various items can be found at the U.S.-Vietnam Business Council, <http://www.usvtc.org/General_Info/Catfish/catfish_in_the_news.htm>.

area experts but in the end settled by lawyers and the U.S. Department of Commerce. Vietnam was ruled a “non-market economy” in November, a conclusion that has deeply angered the Vietnamese government.

Vietnam’s first trade war, and the decision of the Vietnamese Association of Seafood Exporters and Processors (VASEP) to call to its defense a premier American law firm, White & Case, both testify to the growing complexity of Vietnam’s international relations. In 2002, the government took other steps as well to shield domestic producers from the full power of global economic integration. These included meetings with Thailand, India, Pakistan, and China regarding the creation of a Council on Rice Trade Cooperation (CRTC) to coordinate international supplies and thus market prices. Vietnam also became a member of the International Pepper Association, which would have been a minor affair had the country not also emerged as the top exporter of the good, holding over 50% of the world market in 2002. Despite once being accused of saturating the international coffee market, Vietnam was made a full member of the International Coffee Agreement in May. Vietnam also agreed to set up a coffee retention scheme with Indonesia to coordinate prices among Asia-Pacific suppliers.

This past year was an extremely difficult one for Vietnam’s coffee farmers. Export volume declined by 18%, with the drop in world prices driving coffee export earnings down 45% as of mid-2002. Rice exports also declined, with Vietnam predicted to fall in position from the second- to third-largest global exporter, after Thailand and India. Finally, as expected, Vietnam’s crude oil exports declined by nearly 13% as of September. Export earnings were also down, nearly 7% by May. The bright spot in Vietnam’s international economic relations was the rapid effects of implementing the U.S.-Vietnam trade agreement. In just the first six months of 2002, U.S.-bound exports increased by an amazing 85%.¹³

These events illustrate why Vietnamese economic policy decisions can no longer be understood as driven exclusively by domestic dynamics. Increased external pressure for Vietnam to speed up its preparations for the Association of Southeast Asian Nations Free Trade Areas (ASEAN-AFTA) integration, which is expected to come online around 2005, and growing awareness of the implications of China’s admission to the WTO, as well as the Hanoi government’s desire to meet its goal of WTO membership by 2004, means that there is little choice but to push ahead with state-owned enterprise (SOE) reform.

In May, the announcement of public guidelines on the types of firms to be “equitized” (Vietnam’s terminology for the process of property transfer from

13. Ambassador Raymond Burghardt, speech delivered to the Vietnam Chamber of Commerce and Industry, Hanoi, September 6, 2002. <<http://usembassy.state.gov/vietnam/wwwhamb020906.html>>. Accessed October 24, 2002.

the state to shareholders) confirmed comments earlier made by Deputy Prime Minister Nguyen Tan Dung. He described SOE reforms as aiming to “level the playing field” for non-state actors by limiting state ownership only to key industries.¹⁴ Truong Tan Sang, the newly appointed head of the Party’s Economic Commission, sent a similar signal in the context of encouraging Party members to see the business potential of privatization. Until the important March announcement permitting Party members to engage in private business, few would have considered such a high-profile activity. By giving encouragement to Party participation in the private sector and linking SOE reform with ideas of equity, the Vietnamese Communist Party has broadened the constituency for reform among its own small membership, while at the same time making it normatively more difficult for firm managers to resist the change.

Politics: State-Building as Party-Building

The year 2002 will be known as one where the lines between reformist and conservative strategies of economic and political management blurred. Nowhere was this more explicit than in the portrayal of private entrepreneurs, favorably described by Prime Minister Phan Van Khai as “creating a glorious victory for the country and the nation.”¹⁵ A number of prominent entrepreneurs also were given Red Star Awards and named as Labor Heroes to signal their growing political legitimacy. No longer, it seems, do entrepreneurs find it necessary to shield their economic activities under terminology such as the “household economy” and “little business” (*buon ban nho*) so popular with an earlier generation. Now, a younger generation that never really knew the planned economy is being acknowledged as workers—but of a certain sort. But the Vietnamese leadership could come to no conclusion over whether to admit these worker-entrepreneurs into the Communist Party, suggesting not only that Vietnam is decidedly not mimicking China but also that tensions remain among the leadership over these issues. Such tensions perhaps stem from the specter of growing income inequality—now surpassing that of China—as well as diminishing Party legitimacy, increased fears of political unrest, and growing private economic power.¹⁶

In the face of these challenges, calls for “great national unity” were revived. The slogan dates from the earliest days of Party formation, having

14. “Government Moves to Hasten Development of Private Sector,” Vietnam News Service, Hanoi, April 13, 2002.

15. “Communist Vietnam’s Prime Minister Says Capitalist Success Is Glorious,” Associated Press Newswires, April 1, 2002.

16. Tran Dinh Thanh Lam, “Gap Grows between Vietnam’s Haves and Have-Nots,” Inter Press Service, April 10, 2002. <<http://perso.wanadoo.fr/patrick.guenin/cantho/vnnews/gap.htm>>.

been deployed after the mistakes of the Land Reform Campaign in the 1950s, during the Vietnam-American War, and also in its wake, to facilitate post-1975 reunification of the north and south. In each case, the idea of national unity allowed the political leadership to reach out to marginal groups, while disciplining others for sowing discord. The year 2002 was no different, with journalists, ethnic minorities, and religious leaders encouraged to build the country and avoid potentially unpatriotic acts that were presented as threatening national security and social unity. In this context, the government came out against cyber-based political forums, criticisms of its border treaty with China, and eventually, the media's enthusiasm for covering Vietnam's largest corruption case in history, the Nam Cam affair, outlined below. Still, labor strikes, land disputes, and sit-down protests saw no decline in 2002, prompting reformist General Secretary Nong Duc Manh to go on record saying that Vietnam's democracy had grown "excessive."¹⁷ He remained committed, however, to earlier goals of legal reform and bureaucratic transparency, and also encouraged newly elected National Assembly members to push ahead with the changes needed to move Vietnam closer to meeting WTO entry requirements.

In what has been a test of his ability as a consensus-builder and leader, Nong Duc Manh appeared to have emerged, at year's end, as a voice of moral authority, calling simultaneously on Party, state, and society to rectify Vietnam's problems. The Nam Cam affair exposed just how deeply these problems ran.¹⁸ More than 180 individuals have been implicated, including a number of high-ranking officials. They include deputy minister of public security and former head of the Ho Chi Minh City Police Department, Lieutenant General Bui Quoc Huy; Tran Mai Hanh, director of Vietnam's official radio station, *Voice of Vietnam*, and secretary-general of the Vietnam Journalist Association. Both Huy and Hanh were removed from their posts on the Central Committee. Hanh was also a National Assembly candidate, pulled from the ballot shortly before the May 19 elections. Two other candidates also were removed from the ballot: Deputy Party Secretary Le Cong Minh of Quang Binh Province and Tran Trung An, Provincial People's Committee chairman in Nam Dinh Province. The former was accused of falsifying his personal history, while the latter engaged in nepotism.

17. "A Trickle of Democracy," *Economist*, May 25, 2002.

18. Margot Cohen, "Vietnam: Murder and Mystery," *Far Eastern Economic Review*, July 11, 2002; "Corruption Abounding," *Economist*, September 14, 2002; "Vietnam Arrests More Officials in Widening Underworld Protection Racket," *Vietnam Trade Info* by Vietnam Embassy in Republic of Korea Trade Office, May 16, 2002. <<http://www.vietnamtrade.co.kr/english/news/view.php3?&number=606&p>>. Accessed July 15, 2002; "Vietnam's Communist Party Disciplines Senior Officials," *ibid.*, May 31, 2002. <<http://www.vietnamtrade.co.kr/english/news/view.php3?&number=626&p>>. Accessed July 15, 2002.

Other officials implicated in the Nam Cam affair include Deputy Director of the People's Supreme Procuracy Pham Chi Chien; Do Nam, head of the Ministry of Public Security's Department of Prison and Rehabilitation Management; and Le Thanh Dao, deputy director of the Party Commission for Mass Mobilization and former director of the Supreme People's Procuracy. Collectively, all of these officials stand accused of assisting Truong Van Cam (alias, Nam Cam; alias "Fifth Child Cam") to secure his release from prison to continue illegal economic activities.

The gangster's hold over Ho Chi Minh City was severe enough to require that outside police forces be brought in to arrest him. Shortly thereafter, the vice director of the Ho Chi Minh City Police Department, Vo Van Mang, and the head of the Criminal Unit, Colonel Duong Minh Ngoc, were arrested, along with several lieutenant colonels. In October, the Ho Chi Minh City Party Committee approved Decision 428, a regulation that holds Party and state officials guilty if they fail to expose corrupt behaviors committed by their staffs.

In September, Nguyen Dinh Huong, vice-chairman of the Party Central Commission for Internal Security, went on record saying that the Party would lose power if corruption was not eliminated, affirming mid-year thoughts expressed by General Secretary Nong Duc Manh.¹⁹ National Assembly Vice-Chairman and Politburo member Truong Quang Duoc also instructed central and local authorities to address the 132,753 complaints that the government had received on matters mostly related to land.²⁰ Other signs that the regime was getting serious include the January 2002 decision to rotate high-ranking state and Party officials through posts every three years. This change is part of a broader administrative reform campaign that has included a revision of the 1992 Election Law to allow one-quarter of National Assembly deputies to serve as full-time lawmakers. There was also a significant cabinet reshuffling this year.²¹ Three new ministries were created, including the Ministry of Natural Resources and Environment, the Ministry of the Interior, and the Ministry of Post and Telecommunications. The Customs Department was moved to the Ministry of Finance. Local governments were also given greater autonomy in economic decision-making to expedite the campaign to attract foreign direct investment throughout the country.

19. "Ruling Party's Safety Threatened by Corruption and Squandering," Vietnam News Brief Service, September 17, 2002.

20. "Politburo Member Urges Localities to Answer Complaints and Denunciations," *ibid.*, October 23, 2002. Most common problems are related to issues of access to land and corrupt practices.

21. "Vietnamese Communist Party Issues Resolution on Major Personnel Rotation Drive," BBC Monitoring Asia-Pacific, January 30, 2002.

In 2002, there were also signals suggesting that consensus was deepening over the need for reform and for political stability. For example, the Central Ideology and Cultural Board as well as the Party Organization Department were given “Golden Medals,” the highest award of the Vietnamese Communist Party, for their service to Vietnam’s development. At the same time, Trade Minister Vu Khoan, who negotiated the historic bilateral agreement with the United States, was elevated to the post of deputy prime minister responsible for trade policy and foreign affairs. Other shifts in ministerial appointments mostly entailed elevation of vice-ministers to the most senior post in their ministry, or the return of individuals with prior experience, as was the case with Vu Khoan’s replacement, Truong Dinh Tuyen. The incumbent leadership also had their terms renewed for another five years, with Phan Van Khai as prime minister, Nong Duc Manh as Communist Party general secretary, and Tran Duc Luong as president. The troika represents the southern, central, and northern regions, respectively, with Luong regarded as the most conservative.

The May 19 elections for the Eleventh National Assembly brought no surprises, despite initial enthusiasm regarding the number of ethnic minority, private sector, and non-Party affiliated individuals competing. It was also the first election where candidates were required to declare their assets as part of their bid for candidacy. Nevertheless, seats won by non-Party members declined from 14.7% to 10.2%. Only two self-nominated candidates out of a total of 161 running won seats. The number of female delegates increased by only 1%, bringing the number of women delegates to 27.3%. Over 90% of the elected Assembly of 498 delegates had earned a university degree, with 14 seats represented by the private sector. Nguyen Van An was reelected National Assembly chairman, although with nearly 100 dissenting delegate votes, partly related to his suspected ties to the Nam Cam affair.

Looking Ahead: From Deadlocked to Developmental State?

The political and economic events of 2002 forced the Vietnamese Communist Party to put into practice earlier declarations made at the Ninth Party Congress held in April 2001. Promises were made to address problems of corruption and to revive Vietnam’s economy. Neither offer was new. Similar items have been on the political menu for over a decade in Vietnam. But what was different about the year 2002 was the understanding that building a “socialist-oriented market economy” meant that all economic actors had to be equal before the law, and that the Communist Party must stand before the law, not just above it. The Nam Cam affair raised the stakes in Vietnam in other ways as well. Popular expectations not only have been raised, but the government will no longer be able to blur over suggestions of *systemic* cor-

ruption. It has, by way of this corruption case, been fully exposed. What the government and Party bureaucracy ultimately do about it will have important effects on the regime's credibility and its ability to push through the kinds of policy changes required for the level of economic management necessary for a country increasingly integrated into global markets. The Nam Cam affair has come at a time when the regime is under pressure to conform with international standards, even as sub-groupings within Vietnam can be expected to oppose them. These events do not mean that change will come easily or necessarily quickly to Vietnam. But, it will come. The lesson of 2002 is that any change must be foundational if it is to be sustainable.