

Current Dynamics of Vietnamese Society and External Challenges

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Abstract

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This paper offers an analysis of the current dynamics of Vietnamese society and external challenges to Vietnam's strategy of sustainable development. The paper is divided into four parts. Part one considers socio-economic development strategy at the national level. Part two assesses the impact of domestic factors on sustainable development. Part three assesses the impact of external factors on sustainable development. Part four assesses the future prospects for sustainable development in Vietnam.

Part one sets out the main outlines of Vietnam's official program of socio-economic development as adopted by the 9th national party congress in 2001. It then reviews how these priorities were converted into policy by briefly reviewing the key decisions adopted at executive sessions of the Vietnam Communist Party's (VCP) Central Committee and legislative sessions of the National Assembly.

Part two presents an analysis of the key domestic drivers of Vietnam's development process. Three main variables are examined: demographic change, economic growth and governance. An assessment is offered as to how these variables impact on poverty reduction, regional disparities, ethnic minority relations, corruption, the growth of civil society and adherence to law and legal norms.

Part three presents an analysis of the key external drivers of Vietnam's development process. Five variables are considered: the impact of globalization, trade, foreign direct investment, development assistance and emerging transnational challenges. An assessment is offered as to how these variables impact on implementation of the ASEAN Free Trade Agreement (AFTA), the Vietnam-United States Bilateral Trade Agreement, and membership in the World Trade Organization (WTO).

Part four considers the prospects for sustainable development by examining four possible future scenarios:

- Weak resolution of domestic tensions set in the context of continued strong external support for Vietnam's development strategy.
- Successful resolution of domestic tensions set in the context of weak and/or declining external support for Vietnam's development strategy.

- Weak resolution of domestic tensions set in the context of continued weak external support for Vietnam's development strategy.
- Successful resolution of domestic tensions set in the context of continued strong external support for Vietnam's development strategy.

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Introduction

According to Jordan Ryan, the United Nations Development Program resident representative in Hanoi:

Sustainable development is a process by which a society's well being is maximized and poverty eradicated through the optimal and efficient management of natural resources.

I like to think that sustainable development lies at the intersection of three circles: the economic, the social and the environmental sustainability.

Economic sustainability, requires attention be paid to financial, trade and macroeconomic stability. The social aspects of sustainable development refer to a focus on equality, democracy and wide public participation. The environmental dimension is concerned with the conservation and enhancement of the physical and biological resource base and ecosystems. The more you can get these three circles of sustainability to overlap, the more you will ensure sustainable development.¹

In the past ten years Vietnam's economy has doubled in size. Today Vietnam is one of the fastest growing economies in Asia with a growth rate of 7.04 percent in 2002.² The Asian Development Bank (ADB) predicts Vietnam will be Southeast Asia's strongest performer for 2003,³ while the International Monetary Fund (IMF) predicts that Vietnam will achieve the highest average economic growth in Asia in 2003.⁴ According to Vietnam's Minister of Planning and Investment,

¹Speech by Jordan Ryan, UNDP Resident Representative at the Conference of the National Assembly on Sustainable Development," October 2-3, 2003.

²Reuters, "Vietnam sees '03 inflation at 4 pct, below target," June 23, 2003.

³*The Saigon Times Daily*, May 1, 2003.

⁴"Vietnam, China to Achieve Highest Growth in Asia: IMF Forecast," *Tuoi Tre Ho Chi Minh*, September 22, 2003.

Vietnam's GDP growth rate for 2004 will fall in the range of 7.5 percent to 8 percent given the upturn in the world economy.⁵

According to Jordan Ryan, Vietnam stood out as one of the most successful countries in eradicating poverty. According to Ryan, "Vietnam leads the developing world in reducing poverty rate, from 70% in the mid-1980s to 29.1% in 2002 ranking Vietnam 39th out of 94 countries. Moreover, Vietnam aims to eradicate hunger by 2005 and to reduce further the poor population by 60% by 2010."⁶

In June 2003, the United Nations Conference on Trade and Development (UNCTAD) removed Vietnam from its list of least developed countries. Ordinarily, to get off the list, a country needs to attain an average annual per capita Gross Domestic Product (GDP) of more than \$1,035. Vietnam's average was \$440 (in purchasing power parity the average income was \$1,996). Vietnam was removed from the list because its indices on quality of life and economic sustainability were quite positive.⁷ Vietnam's Human Development Indicator stands at 0.688 ranking 109th out of 175 countries. Vietnam's Gender Development Indicator was 0.687 ranking 89th out of 144 countries globally but the best in Southeast Asia.⁸

Despite these impressive gains, it is also apparent that Vietnam's current rates of economic growth and poverty reduction cannot be sustained without marked attention to the environment and social stability. Vietnam's impressive growth has been accompanied by rapid deterioration in the quality of the environment and natural resources.

As noted by Ryan, "the biggest challenge ahead is the issue of sustainability."⁹ Vietnam is currently preparing a *National Sustainable Development Strategy*. A

⁵Anh Minh, "Minister Upbeat About '04 GDP, Says 7.5-8% Obtainable," *The Saigon Times Daily*, October 30, 2003. Vietnam's GDP growth rate was 6.9 percent in 2001, and 7.1 percent in 2002 .

⁶Anh Minh, "Vietnam Success in Poverty Reduction: UNDP Chief," *The Saigon Times Daily*, October 21, 2003.

⁷"U.N. recognizes focus on human development," *The Washington Times*, June 29, 2003; and "Vietnam removed from U.N. list of least-developed countries," Japan Economic Newswire, May 16, 2003.

⁸"Value survey shows high assessment of democracy and human rights," *Nhan Dan*, August 2, 2003.

⁹"Speech by Jordan Ryan, UNDP Resident Representative at the Conference of the National Assembly on Sustainable Development," October 2-3, 2003.

draft of this document was presented to the World Summit for Sustainable Development in Johannesburg in 2002. Vietnam has committed itself to putting its strategy for sustainable development into place by 2005.

This paper offers an analysis of the current dynamics of Vietnamese society and external challenges to Vietnam's strategy of sustainable development. The paper is divided into four parts. Part one considers socio-economic development strategy at the national level. Part two assesses the impact of domestic factors on sustainable development. Part three assesses the impact of external factors on sustainable development. Part four assesses the future prospects for sustainable development in Vietnam.

Part 1 Socio-economic Development Strategy at the National Level

Part one sets out the main outlines of Vietnam's official program of socio-economic development as adopted by the ninth national party congress in April 2001. It then reviews how these priorities were converted into policy by briefly reviewing the key decisions adopted at executive sessions of the Vietnam Communist Party's (VCP) Central Committee.

The Ninth Congress reaffirmed Vietnam's goal of accelerating industrialization and modernization in order for Vietnam to become a modern industrialized state by 2020. The congress adopted a five-year socio-economic plan (2001–05) and a ten-year socio-economic plan (2001–10). These documents stressed self-reliance, mobilization of domestic capital, the development of Vietnam's comparative advantage, and attracting external resources in the form of foreign investment capital, new technology and managerial expertise.

A key plank in Vietnam's development strategy is to alleviate poverty and overcome the wealth gap in society over the next two decades. To accomplish this objective Vietnam set itself the goal of achieving growth rates averaging 7 percent or more throughout this period.

The *Strategy for Socio-Economic Development, 2001-2010* set the following strategic goals for the 2001-2010 period:

To bring our country out of underdevelopment; improve noticeably the people's material, cultural and spiritual life; and lay the foundations for making ours basically a modern-oriented industrialized country by 2020. To ensure that the human resources, scientific and technological capacities, infrastructures, and economic, defence and security potentials be enhanced; the institutions of a socialist-oriented market economy be basically established; and the status of our country on the international arena be heightened.

The strategy document then listed the following specific goals:

-To ensure that by 2010, GDP will have at least doubled the 2000 level. To increase visibly the efficiency and competitiveness of products, enterprises and the economy; to better meet essential consumption demands, and a considerable part of production and export demands. To ensure macro-economic stability; a sound international payment balance and growing foreign exchange reserves; to keep budget deficits, inflation and foreign debts within safe limits to effect positively economic growth. Domestic savings are to amount to over 30% of GDP. Exports are to increase at a rate more than double that of GDP growth. Agriculture is to account for 16-17% of GDP, industry 40-41%, and services 42-43%. Agricultural labor is to drop to around 50% of the workforce.

-To raise substantially our country's Human Development Index (HDI). The population growth rate is to have dropped to 1.1 - 1.2% by 2010. To eliminate the category of hungry households, and reduce quickly the number of poor households. To solve the employment issue in both urban and rural areas (to reduce urban unemployment rate to below five percent; and increase utilized work-time in rural areas to about 80-85%); to raise the trained labor ratio to around 40%. To ensure schooling to all school-age children; to accomplish junior secondary education universalization nationwide. To provide medical treatment to patients; to reduce (under-five) child malnutrition to around 20%; to increase the average life expectancy to 71 years. To raise noticeably the quality of life, in material, cultural and spiritual terms alike, in a safe and healthy social environment; to protect and enrich the natural environment.

-The endogenous scientific and technological capacities are to ensure applicability of modern technologies, approach to world standards, and develop on our own in a number of fields, particularly information, biological, new materials and automation technologies.

-The infrastructures are to meet demands of socio-economic development as well as of national defence and security, and to make a step in advance. The communications system is to be smooth and safe all the year round, and partially modernized. The rural communications network is to be expanded and upgraded. The crucial dyke systems are to be fortified; the water conservancy systems developed and most of them solidified. Electricity, telephone, other basic postal and telecommunication services, dispensaries, solidly built schools, cultural and sports facilities are to be available to most communes. To ensure basically the physical conditions for primary and secondary schoolchildren to learn all-day at school. To provide enough hospital beds to patients.

-The leading role of the State economic sector is to be enhanced, governing key domains of the economy; State enterprises are to be renewed and developed, ensuring production and business efficiency. The collective economic sector, the individual and small-owner economic sector, the private capitalist economic sector, the State capitalist economic sector, and the foreign invested economic sector are all to develop vigorously and durably. The institutions of a socialist-oriented market economy are to be basically established and to operate smoothly and efficiently.

The socio-economic strategy then outlined the “development orientations” for the following sectors and regions:

1. Agriculture, forestry, fishery and rural economy
2. Industry and construction

3. Infrastructure
4. Services
5. Regional development
 - a. Red river delta and northern key economic region
 - b. Southeastern and southern key economic region
 - c. Northern central area, central coastal area and central key economic region
 - d. Northern midlands and mountain areas (northwest and northeast)
 - e. Central Highlands
 - f. Mekong River delta

The Socio-Economic Strategy contained sections on “synchronized formation of institutions of the socialist-orientated market economy,” development of education & training and science & technology, cultural and social development, and “acceleration of administrative reform and building of a clean and strong state apparatus.”

Figure 1**Chronology of Major Party and National Assembly****Decision-Making Meetings****(April 2001-November 2003)****2001**

VCP Ninth National Party Congress (April 19-22)

National Assembly tenth legislature 9th session, (May 22-June 29)

VCP Central Committee second plenum (June 9-10)

VCP Central Committee third plenum (August 13-22)

VCP Central Committee fourth plenum (November 5-13)

National Assembly tenth legislature 10th session, (December)**2002**

VCP Central Committee fifth plenum (February 18-March 2)

National Assembly tenth legislature 11th session, (March 15-April 3)

VCP Central Committee sixth plenum (July 4-15)

National Assembly eleventh legislature 1st session, (July 19-12 August)

VCP Central Committee seventh plenum 1st session (November 7-9)

National Assembly eleventh legislature 2nd session (November 12-December 16)

2003

VCP Central Committee seventh plenum 2nd session (January 13-31)

National Assembly eleventh legislature 3rd session (May 3-July 17).

VCP Central Committee eighth plenum (July 3-,2003)

National Assembly eleventh legislature 4th session (October 21-November 29).

VCP Central Committee ninth plenum (December?)

According to Margot Cohen, the Hanoi-based correspondent of the *Far Eastern Economic Review*, “a raw nerve throbbed at the ninth congress of Vietnam’s communist party... the pain stemmed from evidence of unresolved land disputes, obvious corruption and opaque government.”¹⁰ Cohen offered this assessment of Vietnam’s socio-economic strategy: “The congress itself failed to send any clear signals on economic policy. The party stuck to a broad platform that assigned a vague ‘leading role’ to the state sector, but also encouraged the growth of the private sector and foreign investment.”¹¹

Party Plenums

Two months after the ninth congress, the just-elected VCP Central Committee met for its first working session at its second plenum. The new Secretary General Nong Duc Manh emphasized in his closing speech the need for “the whole country to strive for fast and sustainable economic development.”¹² The second plenum considered a report by the Politburo-appointed party committee within the government that dealt with socio-economic development in first six months of 2001, orientation tasks for the remaining six months of 2001, progress in constructing the Son La hydroelectricity project, and nomination of candidates to serve as chairman of the National Assembly. The Politburo approved the Son La project and stipulated the “absolute safety of the project” and “for a well-organized resettlement of the locals and sound policy towards people of minority groups...”¹³ This project is designed to provide future energy for industry and water for irrigation as well as control flooding. Plans to construct the Son La plant are controversial.¹⁴ The project is expensive. Construction will displace 100,000 persons, mostly ethnic minorities, who will need to be resettled.

The contentious issue of the reorganization and modernization of state enterprise was discussed at length at the third plenum held in August. Manh acknowledged that reform of State Owned Enterprises (SOEs) was a “sensitive political issue that is closely related to social and economic stability.” He also argued that SOEs “should serve as a tool in the hands of the state to regulate the

¹⁰Margot Cohen, “Safety Valve Of the People,” *Far Eastern Economic Review*, May 3, 2001, p. 19.

¹¹Cohen, “Safety Valve Of the People,” p. 19.

¹²“Turning Party Resolution into Reality – A Great Challenge,” *Voice of Vietnam News*, June 12, 2001.

¹³*Voice of Vietnam News*, June 10, 2001.

¹⁴“Vietnamese Party Leader’s Closing Address at Second Plenum,” *Nhan Dan*, English-language web site, June 11, 2001.

economy, ensure adherence to the socialist path, and maintain political, economic and social stability.”¹⁵ The third plenum adopted a resolution on “Continuation of the Reorganization, Renovation, and Improvement of the Efficiency of State-owned Enterprises” designed to improve the efficiency of SOEs through restructuring. Due to “still differing perceptions and ideas,”¹⁶ it was left to the Politburo to refine the resolution before making it public.¹⁷

The third plenum also discussed operational statutes governing the work of the Central Committee, Politburo, Secretariat, Central Committee Control Department and the Central Committee’s five-year work plan. These regulations and documents specify leadership principles, responsibilities, authority, and working procedures for each organ and each official title and position in high-level party organs.

According to Nong Duc Manh. “[Central Committee members] should not let their husbands and wives or children use their names in activities that are against party regulations or state laws, or cause harm to the party’s prestige. They should be held responsible for corruption, wasteful spending, and bureaucratism in agencies that are directly under their authority, or within their locality of responsibility.”¹⁸ Manh suggested a number of procedural and organizational changes to party working practices giving the Central Committee more control over other party organs.¹⁹ A Politburo working group was set up to study past working regulations and to solicit the views from Central Committee members and those holding posts in central organs.

In his closing speech Secretary General Manh noted that the “first and foremost tasks will be to immediately carry out the Politburo’s instructions on party-building and rectification together with the fight against corruption... Trials of current corruption cases must be dealt with and the guilty punished.”²⁰

¹⁵“Party Chief Nong Duc Manh Delivers Closing Speech at Party Plenum,” *Nhan Dan*, English-language web site, August 25, 2001.

¹⁶“General Secretary Addresses Third Plenum of Communist Party,” *Voice of Vietnam*, August 13, 2001.

¹⁷*Voice of Vietnam*, August 13, 2001.

¹⁸“Party Chief Nong Duc Manh Delivers Closing Speech at Party Plenum,” *Nhan Dan*, August 23, 2001.

¹⁹“Party plenum ends, issues communiqué on tasks to continue renovation,” *Voice of Vietnam*, November 13, 2001.

²⁰*Voice of Vietnam*, August 22, 2001.

The fourth plenum, which met in November 2001, focused on five major agenda items: amendments to the 1992 state constitution, the conduct of elections for the eleventh legislature of the National Assembly, socio-economic plans for 2001, 2002 and 2001-05, party-building and rectification campaign, and measures to prevent wasteful spending and corruption. Proposed changes to the state constitution were designed to facilitate administrative reform among government departments and agencies. The plenum adopted a resolution on “Strengthening the Campaign for Party-Building and Rectification, Preventing and Curbing Corruption and Wastefulness.”

In his review of the socio-economic plan for 2001, Manh noted that the “global economy continues to experience unfavorable and complicated changes, affecting the implementation of the socio-economic targets of some sectors in Vietnam.” Although there were some encouraging economic trends, inefficient and poor quality production needed to be addressed in order for Vietnam to double its GDP by 2010. Manh concluded, “Together with sustainable development, [a higher growth rate] will bring the country out of poverty. Economic growth should go hand in hand with social equality and environmental protection.”²¹

The Central Committee held its fifth plenum, from February 18-March 2, 2002.²² The agenda for this meeting included such issues as: cooperative economic development, cooperatives, private economy, agricultural and rural industrialization and modernization, improving the capacity of the grassroots political system, and a review of ideological and theoretical work in the new situation.²³

This meeting adopted five resolutions:

- Continuing Renovation, Development and Enhancement of the Economic Efficiency of the Collective Economic Sector;
- Continuing Renovation of the Mechanisms and Policies to Create Conditions for the Development of the Private Economic Sector;

²¹“Party plenum ends, issues communiqué on tasks to continue renovation,” Voice of Vietnam, November 13, 2001.

²²This section is based on the opening and closing speeches of party Secretary General, and the plenum’s final communiqué. See: Vietnam News Agency, February 18, 2002; Voice of Vietnam, March 2, 2002; and “Communist Party of Vietnam Fifth Plenum communiqué,” <http://www.cpv.org.vn>.

²³*Vietnam News*, February 19, 2003.

- Acceleration of Industrialization and Modernization of Agriculture and Rural Areas during 2001-2010;
- Renovation and Improvement of the Quality of the Political System at the Grassroots Level; and
- The Main Ideological and Theoretical Duties in the New Era

Two previous Central Committee resolutions were reviewed, the third plenum's resolution on "Continuation of the Reorganization, Renovation, and Improvement of the Efficiency of State-owned Enterprises," and the fourth plenum's resolution on "Strengthening the Campaign for Party-building and Rectification, Preventing and Curbing Corruption and Wastefulness."

The plenum had to grapple with the difficult question about the roles of the state-owned, collective (cooperative) and private sectors in Vietnam's "socialist orientated market economy." The plenum noted that the "state-managed economic sector held the leading role in the economy, and together with the collective economic sector, it will be the firm foundation of the national economy."²⁴ The plenum accorded priority to the development and consolidation of the cooperative economy over the next five years, while declaring that the development of the private sector was "a long term strategy." The plenum called for taking the collective economy out of the doldrums by encouraging higher growth rates so as to constitute a larger proportion of GDP in the near term. The role of the Vietnam Union of Cooperatives was highlighted along with the Vietnam Fatherland Front (VFF) and other mass organizations.

For the first time in its history, the VCP adopted a resolution on the grassroots political system. According to Nong Duc Manh, they had been "somehow overlooked."²⁵ The grassroots political system was defined as including party, state (administrative) and mass organizations at commune, ward and district town levels. Priority was given to carrying out reforms at commune level. The plenum resolved:

From now [un]til 2005, efforts should be focused on solving the three crucial issues: identifying the responsibilities and tasks of each organization in the political system, while establishing relations of co-ordination among those organizations under the leadership of the local Party Committees and cells; exercising real democracy among the grassroots political organizations and in the relationship with local population, to promote the

²⁴"Plenum Closing Speech by Party Chief," Voice of Vietnam, March 2, 2003.

²⁵"Plenum Closing Speech by Party Chief," Voice of Vietnam, March 2, 2003.

people's right to mastery; and building a contingent of grassroots cadres who should be devoted to work, skilful in their jobs and abstain from corruption.²⁶

The plenum considered how to improve ideological and theoretical work in the current situation in order “to promote democracy, dynamism, creativeness and combativeness in the party.” The plenum discussed a proposal made in January by Secretary General Manh to revise party rules that prevent private entrepreneurs from joining the party and prevent existing party members from setting up private businesses. The party statutes prohibit any member from engaging in exploitation. The fifth plenum referred this matter to its Theoretical Council to study and make recommendations.²⁷ In the meantime it would appear that some party members will be permitted to engage in private business. According to Nguyen Duc Trieu a general policy had been decided pending detailed guidelines. “They [party members] can have their own private businesses as long [as] they are good businesspeople, know how to become rich legally, and also draw other people along to become rich,” Trieu said.

Statements by other officials clearly indicated there were restrictions on this policy. For example, Pham Chi Lan, deputy head of the Vietnam Chamber of Commerce and Industry, stated: “While the definition of what is a capitalist economy is still being discussed, the fifth plenum decided that those party members who already run private companies can still be members of the Communist party.”²⁸ Politburo member Nguyen Tan Dung was even more specific: “It is our policy than now once a party member is working in the private sector, he continues to do so. Party members who are working in the private economic sector will continue their jobs, in line with the law, but on the other hand, we have yet to have policy to admit leaders of private enterprises who are not party members into the party.”²⁹

The sixth plenum convened in July 2002 to discuss wide-ranging policy reforms in education and training, science and technology, organization and personnel work, party inspection and discipline, and international affairs. The plenum also

²⁶“Realizing Party Congress Resolutions Through Plenum Tasks,” *Nhan Dan*, March 16, 2003.

²⁷Interview with Central Committee member Nguyen Duc Trieu, *Nong Thon Ngay Nay* cited by Agence France Presse, March 5, 2002.

²⁸David Brunnstrom, “Vietnam party to let members do private business,” Reuters, March 4, 2002.

²⁹David Brunnstrom, “Vietnam’s communists take own road on capitalism,” Reuters, March 15, 2002.

considered nominations for cabinet and other high-level state posts following general elections on May 19th.³⁰

The plenum adopted policy resolutions in a number of areas.³¹ First, priority was given to developing education-training and science-technology (up to the year 2010).³² In order to improve the quality and efficiency of education the plenum set forth three main tasks to be carried out by 2010: “broaden the scale of education on the basis of ensuring its quality and training restructuring [sic], streamline training to meet the requirement of socio-economic development as well as that of employment, and implement social equity in education.”³³ The plenum identified initiatives designed to spur the information technology sector. Priority key technologies were targeted for development and foreign direct investment.

Second, the plenum endorsed Prime Minister Phan Van Khai’s list of proposed new cabinet members and a reorganization of government ministries. Khai won endorsement for his plans to create three new ministries³⁴ and to appoint fifteen new persons to ministerial rank in a major Cabinet reshuffle. Third, the plenum approved a recommendation adopted by the Politburo in May to dismiss two of

³⁰“Party Central Committee Begins Session,” Vietnam News Agency, July 4, 2002.

³¹This discussion is based on: “Party Central Committee Begins Session,” Vietnam News Agency, July 4, 2002; “Party Leader Stresses the Prime Importance of Education-Training, Science-Technology,” Vietnam News Agency, July 4, 2002; Voice of Vietnam, July 15, 2002; “Party Central Committee Closes Sixth Plenum,” Vietnam News Agency, July 15, 2002; “Party Leader Stresses Role of Organisational and Personnel Work,” Vietnam News Agency, July 15, 2002; “Party Central Committee Closes Sixth Plenum,” Vietnam News Agency, July 15, 2002; “New Educational and Technological Development Strategy,” Vietnam News Agency, August 22, 2002; “Party Plenum Calls for Continuing to Implement Resolution on Personnel Work,” Vietnam News Agency, August 22, 2002; and “‘Conclusions’” of Vietnam’s Sixth Party Plenum on Organization, Personnel,” *Nhan Dan*, August 23, 2002, <http://www.nhandan.org.vn>. All references to Vietnam News Agency sources have been taken from the internet unless otherwise noted; see: <http://www.vnagency.com.vn>.

³²“New Educational and Technological Development Strategy,” Vietnam News Agency, August 22, 2002.

³³“Party Central Committee Closes Sixth Plenum,” Vietnam News Agency, July 15, 2002.

³⁴The Ministry of Natural Resources and Environment, Ministry of Post and Telecommunications and a ministerial-level Committee for Population, Family and Child Affairs.

its members, Tran Mai Hanh and Bui Quoc Huy, from the Central Committee for their involvement in the Nam Cam corruption scandal.³⁵

And finally, the plenum adopted a resolution on organization and personnel work that identified “shortcomings and weaknesses” in the party apparatus, state organizations, and the VFF and other mass organizations.³⁶ In general, the resolution noted, “the division of management fields for party cadres and local officials is not very clear. Our administration procedures are cumbersome and showing many signs of negativism. The management efficiency of local authorities at all levels is very low.”³⁷

With respect to the party, the resolution called for a streamlining of the party’s organization; revision of the regulations on tasks and duties of all party organizations in state offices, government agencies, mass organizations and state enterprises; and reform of the party’s school system. As for the state apparatus, the resolution called for a redefinition of the functions and tasks of the National Assembly’s organs and people’s councils at all levels and for a reduction in the number of agencies under the government and prime minister. The resolution called for a clear demarcation between the state and its management function and enterprises with their production and business management functions. And the resolution called for organization reforms in the judiciary, VFF and mass organizations.

The resolution also addressed the question of personnel work. It noted the principle that the “party exercises a unified leadership over personnel work as well as the management of the contingent of cadres” on the basis of democratic centralism and collective responsibility. It then called for the rotation of cadres³⁸ and salary reform “to prevent negative phenomena, including corruption.” The resolution called for major attention to be given to “renovating the party’s leadership over organization and personnel work in our political system.” This

³⁵Clare Arthurs, “Corruption scandal fells Vietnam officials,” BBC News World Service, May 31, 2002.

³⁶Voice of Vietnam, August 22, 2002; and “Party Plenum Calls for Continuing to Implement Resolution on Personnel Work,” Vietnam News Agency, August 22, 2002.

³⁷“Conclusion of Vietnam’s Sixth Party Plenum on Organization, Personnel,” *Nhan Dan*, August 23, 2002.

³⁸The VCP issued resolution 11-NQ/TW on rotating posts of management officials on January 25, 2002. In September officials in three provinces, Hai Duong, Quang Ngai and Gia Lai, were rotated. See: *Nhan Dan*, September 13, 2002; *Nhan Dan*, April 10, 2003; and *Phap Luat*, April 10, 2003.

included revising regulations governing how the Politburo and Secretariat managed party organizations in the National Assembly and the State Personnel Committee. Finally, the resolution called for the adoption of regulations that spelled out clearly the division of labor between party committees and local authorities and mass organizations at all levels.

The seventh plenum (first session) met in November and discussed reports on the “Socio-Economic Development Plan in 2003,” and two major projects, the Son La hydro-electric power plant and the Ca Mau nitrogenous fertilizer complex.³⁹ According to Secretary General Manh, 2003 would be a pivotal year in the execution of the 2001-05 five-year plan. It would be necessary to concentrate on maintaining political, economic and social stability and achieving a high GDP growth rate.

The socio-economic report noted that the economy had recorded a 7 percent growth rate and that “almost all” targets set by the National Assembly had been met or over fulfilled.⁴⁰ Despite this upbeat assessment, the plenum “frankly and seriously pointed to limitations, weaknesses and unsteadiness in national socio-economic development.” These deficiencies included: economic growth remained unstable and exports did not meet their target; investments were “scattered, inefficient and wasteful” leading to “great losses” especially in construction projects; and high mediation [transaction?] costs. The plenum’s resolution noted with concern: “from 2003, when the ASEAN [Association of South East Asian Nations] Free Trade Area (AFTA) agreement takes effect with the abolition of non-tariff protection and reduction of import tax levied on numerous items, more pressure will be put on the competitiveness of domestic products.” By way of solution, the plenum mapped out plans to concentrate on a few key projects by mobilizing domestic resources and encouraging foreign domestic investment.

The plenum also highlighted a number of “urgent social problems” including:

The living conditions, education, and healthcare for ordinary people – especially those who are in remote areas, areas inhabited by ethnic minorities, and areas prone to natural disasters – are still poor. The gap between the rich and the poor and between regions has

³⁹This discussion is based on: “Party Central Committee Closes Seventh Plenary Session,” Vietnam News Agency, November 9, 2002; “Party General Secretary Delivers Closing Speech at Seventh Plenary Session,” Vietnam News Agency, November 9, 2002; and “Text” of Communiqué Issued by Seventh Plenum of Vietnam Communist Party,” Voice of Vietnam, November 9, 2002.

⁴⁰“Party Central Committee Closes Seventh Plenary Session,” Vietnam News Agency, November 9, 2002.

been widening. Unemployment remains high. Corruption and other social evils such as drug addiction, prostitution, and crime have not yet been effectively controlled. Traffic accidents have been serious. Big blazes causing heavy losses of properties and human lives have occurred in many places. Social order and security, to some extent, remain complicated.⁴¹

The plenum set forth a number of specific objectives and policies to address these weaknesses, shortcomings and deficiencies in the Socio-Economic Development Plan for 2003. The plenum gave its approval to the Cau Mau project and directed the government board to prepare a further report on the Son La hydro-electric plant for submission to the National Assembly.

The seventh plenum (second session) met in January 2003. It addressed and adopted resolutions on the following issues: developing national unity, ethnic minority affairs, religious affairs, and review of land policies and laws. Nong Duc Manh termed these “sensitive issues that require precise and accurate settlement... These are the factors that ensure the maintenance of political and social stability and the country’s sustainable development.”⁴² The plenum endorsed reports on reviewing the leadership of the Politburo and Secretariat in 2002. The Central Committee relieved Le Hong Anh from his post as Director of the VCP Central Committee’s Inspection Commission (*Chu nhiem Uy ban Kiem tra Trung uong*).⁴³ It reprimanded Politburo member Truong Tan Sang, the former secretary of the Ho Chi Minh City party committee, for failing to take effective measures against the Nam Cam criminal syndicate.

The resolution on national unity called for the adoption of common policies towards all classes and social strata, stepping up democracy, increasing the roles of the VFF and mass organizations, enhancing political and ideological work, and greater transparency in the party’s organization. The plenum identified five urgent tasks to be carried towards ethnic minorities. These included: raising living standards and poverty alleviation, further cultural and information work via radio and television, reform of the political system in mountainous areas, consolidation of the people’s defense and security system, and improving the manner in which ethnic minority work was carried out.

The plenum adopted seven measures in its resolution on religious affairs:

⁴¹“Text of Communiqué Issued by Seventh Plenum of the Vietnam Communist Party,” Voice of Vietnam, November 9, 2001.

⁴²Associated Press, January 13, 2003.

⁴³Nguyen Van Chi, director of the VCP Commission for Home Security, replaced Anh as head of the Inspection Commission. Six new members of the Inspection Commission were also added.

- First, effectively implementing policies and programmes on socio-economic development, and providing the people's material and cultural life.
- Second enhancing patriotic emulation movements...
- Third, increasing the State management of religious affairs.
- Fourth, promoting religious people's patriotic spirit, thus helping them take part voluntarily in the struggle to foil all attempts of hostile forces, who abuse religious and ethnic minority issues for sabotaging the national unity bloc and acting against our political regime.
- Fifth, guiding all religions in carrying out external relations in line with the Party and government's foreign policy...
- Sixth, building and reinforcing the staff of Party members and public employees, who are religious followers, dignitaries and laymen for each religion.
- Seventh, reviewing the implementation of the Party's instructions and resolutions on religious affairs...⁴⁴

Responding to a number of land disputes, the plenum “agreed on the following viewpoints concerning the continued renewal of land laws and policies”:

- First, land is placed under the ownership of the entire people whose representative is the State, which exercises its unified management; the State allocates and leases land to organizations households and individuals to use on a long-term stable or periodic basis in accordance with laws. The State does not recognize any claims to the re-use of land areas which were already transferred to others for utilization in the course of carrying out the land policy.
- Second, land is a special commodity, an internal strength and a huge capital resource of great value and profound political, economic and social significance to the country.
- Third, land must be tapped and used for proper purposes and in an effective and economical manger...
- Fourth renewing land policies and law must conform to the Party's policy of developing our socialist-orientated market economy under the State management.
- Fifth, resolutely restoring order in land use in line with the Party's political line. Increasing the Party's leadership, enhancing the role of the Fatherland Front, the Farmers' Association and other mass organizations as well as the entire people in implementing our land law and policy.

The eighth plenum met in July 2003 and discussed two major issues: national defense strategy and policy reforms on wages, social insurance, and special

⁴⁴“Party Central Committee Closes Seventh Plenum,” Vietnam News Agency, January 21, 2003.

allowances. According to the party's newspaper, "the issues to be discussed in this plenum are the two remaining items on the working agenda that the ninth Central Committee had expected to complete during its tenure in order to successfully implement the resolution of the ninth national party Congress."⁴⁵ The plenum also discussed a number of "other important decisions" raised by the Politburo that were not disclosed.

The plenum's resolution on national defense strategy made it clear that national defense extended well beyond "firmly defending the country's independence, sovereignty, unification, territorial integrity" to include "security, social order, culture; and the Party, the State, the people, the socialist regime, renovation and the national interest."⁴⁶ In other words, strengthening the party, ensuring internal political security and the party's supreme leadership were vital for the maintenance of domestic security.

According to Politburo member Phan Dien, the VCP Central Committee will hold its ninth plenum at the end of 2003 to review the implementation of the socio-economic targets for the first three years of the five-year plan, 2001-05⁴⁷

Legislative Sessions of the National Assembly

The role of the National Assembly is to convert VCP policy and strategic guidance into concrete legislation. This section reviews the legislative outcomes of the eleventh legislature elected in May 2002 when a new leadership team assumed office.

The first session (eleventh legislature) of the National Assembly convened immediately after the sixth plenum (July 19-12 August 2002). Its first duty was to certify the qualifications of 498 deputies, chose deputies for National Assembly leadership and committee assignments, elect high-level state officials and approve the prime minister's Cabinet nominations.

In his opening speech to the legislature, Nong Duc Manh called for the strengthening of the rule of law and the eradication of rampant corruption. "Our legal system is still incomplete and inconsistent and its quality and effectiveness remains low and has not kept abreast with real life. It has failed to contribute to the speeding up of the industrialization, modernization and development of our

⁴⁵*Nhan Dan*, July 2, 2003.

⁴⁶"Peaceful, stable environment key to development, says General Secretary," *Vietnam News*, July 15, 2003.

⁴⁷*Tien Phong*, March 10, 2003.

socialist market-orientated economy, nor has it managed to fully reflect the will and aspirations of the people,” he said.⁴⁸ With respect to corruption, Manh declared, “It is imperative that those who breach the law, especially those found guilty, be brought to trial no matter who they are and what position they hold.”

Tran Duc Luong and Phan Van Khai were elected for a second five-year term as president and prime minister, respectively. The National Assembly approved a reduction in the number of deputy prime ministers from four to three. Two deputy prime ministers, Nguyen Manh Cam and Nguyen Cong Tan, were retired, while Vu Khoan, minister of trade, was appointed to the third post. Deputies also endorsed Nguyen Van An as chairman of the National Assembly Standing Committee replacing Nong Duc Manh. It was reported that an unusual number of deputies voted against An due to rumors of family links to Nam Cam.⁴⁹ Nguyen Thi Binh retired as state vice president and was replaced by another woman, Truong My Hoa.

Although nearly ninety percent of the deputies were party members. Phan Van Khai experienced some momentary difficulties in obtaining the National Assembly’s endorsement for his nominations for new Cabinet members and a reorganization of ministries. Deputies balked at Khai’s proposal to create three new ministries (Ministry of Natural Resources and Environment, Ministry of Post and Telecommunication and Ministry of Interior. A ministerial-level Committee for Population, Family and Child Affairs was also created).⁵⁰ Deputies argued that there was an overlap between existing bodies and the Government should reduce the size of the bureaucracy not increase it. Khai had his way on this question but not after a delay in proceedings.

The Prime Minister proposed twelve new ministers for existing ministries and three new ministers for the newly created ministries. He suffered embarrassment when his nomination of Le Minh Huong as Minister of Public Security was rejected. The deputies chose instead to bring in an outsider to head this corruption-tainted body. All other cabinet nominations were approved. Five of the departing ministers were replaced by their deputies, three others by officials

⁴⁸Agence France Presse, “Vietnam’s leader vows to get tough on graft,” July 19, 2003.

⁴⁹Agence France Presse, “Vietnam’s parliament wraps up opening session,” August 12, 2003.

⁵⁰“National Assembly Decides New Gov’t Structure,” Vietnam News Agency, August 5, 2002.

in related fields, while one former minister was recalled to his post. In other words, Vietnam replaced career politicians with technocrats.⁵¹

The National Assembly discussed reports on the socio-economic tasks and state budget for 2001 for the first six months of 2002. The National Assembly also adopted a legislative agenda for the next session as well as for its full five-year term in office.

The National Assembly's second session was held from November 12-December 16, 2002. The deputies approved the state budget for 2003. They also considered the government's report on socio-economic tasks for 2003. After extensive discussion on the report deputies set the following targets: a GDP growth rate of 7-7.5 percent, agriculture-forestry-fisheries growth rate of 5 percent, industrial production growth rate of 14-14.5 percent and a service value increase of 7-7.2 percent. Deputies resolved to create 1.5 million jobs, reduce the birth rate by 0.04 percent, cut the poverty rate to 12.5 percent and to bring down the rate of malnourished children to 28 percent.⁵² The deputies also approved revised construction plans for the Son La project and kept under review the Ca Mau gas-electricity-urea complex.

The second session adopted the following:⁵³

- Law on State Budget (revised)
- Law on Amendments and Supplements to Some Articles of the Law on Legal Document Promulgation
- Law Building Program
- Regulation on National Assembly Sessions (revised). This includes a provision for a deputy to bring a motion of no confidence against any official elected by the National Assembly.
- Ordinance on the Term of the 11th National Assembly and the Year 2003

⁵¹Catherine McKinley, "New Vietnam Cabinet Signals Commitment to Reform Process," Dow Jones Newswires, August 8, 2002.

⁵²"Resolution on Socioeconomic Development," Voice of Vietnam, December 21, 2002.

⁵³"National Assembly Closes Second Session," Vietnam News Agency, December 16, 2002.

The third session of the National Assembly was held from May 3-June 17, 2003. Deputies reviewed and debated the implementation of socio-economic tasks and the state budget in 2002 and in the first six months of 2003. The third session passed seven laws and debated another nine bills. The National Assembly also passed two resolutions on exemption and reduction of land use right tax, and on experimental implementation of organizing, managing, and creating jobs for detoxified persons in Hi Chi Minh City and other provincial cities and towns.

New legislation included:⁵⁴

- National Border Law
- Statistics and Accountancy Law
- Law on the National Assembly's Supervisory Operations
- Corporate Income Tax Law (revised)
- Law on Amendments and Supplements for Some Articles of the Value Added Tax Law
- Law on Amendments and Supplements to Some Articles of the Special Consumption Tax Law
- Law on Amendments and Supplements to Some Articles of the Law on the State Bank of Viet Nam

The National Assembly's fourth session was convened on October 21st and is scheduled to end on November 29th. The agenda for this legislative session includes: review of the state budget revenue and expenditure; budget preparations for 2004; report on finance for ministries, industries, provinces and cities; report on land use from 2001 to 2005; salary reform and social insurance; and socio-economic development tasks for 2004. This session marked the first time that the National Assembly assumed the powers of directly allocating the central budget and supplementation to local budgets for 2004.⁵⁵

⁵⁴"Newly-adopted Laws made public," Vietnam News Agency, July 15, 2003 and "National Assembly's third session closes," Vietnam News Agency, June 17, 2003 which states that eight laws were passed but only lists seven.

⁵⁵These powers were contained in recently adopted the Law on State Budget (revised); "Budget allocation to be decided by NA, an important change," Voice of Vietnam News, November 4, 2003.

Deputies were also expected to discuss the activities of the National Assembly's Standing Committee, Nationalities Council, Supreme People's Court and Supreme People's Procuracy.

This session passed four draft laws:⁵⁶

- Amendments to the Law on State Owned Enterprises
- Law on the Organization of the People's Councils and People's Committees
- Law on Election to the People's Council
- Land Law (revised)

Five draft laws are expected to be passed before the fourth session closes:

- Law on Emulation and State Awards
- Law on Construction
- Law on Fisheries Products
- Criminal Procedures Code (revised)
- Amendments to Law on Cooperatives.

In addition, the session is expected to give preliminary consideration to five bills: Inspection Law, Civil Procedures Code, revised Bankrupt Enterprises Law, Law to Adjust and Improve the Credit Institutions Law, and the Inland Waterway Law. The Government set four major socio-economic tasks for 2004:

1. Developing the economy in a sustainable way with attention to economic restructuring and technological innovation, and speeding up the process of integration in the global economy;
2. Lowering the trade deficit and absorbing more foreign investment;

⁵⁶“National Assembly passes revised State-owned Enterprises Law,” Vietnam News Agency, November 6, 2003; “NA adopts two more laws,” *Nhan Dan*, November 7, 2003; “NA approved Revised Law on the Organization of the People's Council and People's Committee,” Voice of Vietnam News, November 8, 2003; and “NA passes much-awaited amendments to land law,” Vietnam News, November 7, 2003.

3. Improving the quality of educational, healthcare, cultural and social activities and accelerating poverty reduction and administrative reforms; and
4. Accelerating administrative reforms

Part 2 The Impact of Domestic Factors on Sustainable Development

This section presents an analysis of three key domestic drivers of Vietnam's development process: demographic change, economic growth and governance. These drivers should be viewed as inter-linked rather than separate in their impact on development.⁵⁷

Figure 2 Key Domestic Drivers

Policy Issues/Drivers	Demographics	Economics	Governance
Poverty Reduction	Family planning urban-rural	Variable with deep pockets	Party-state national-local
Regional Disparities	Ethnic minority areas versus <i>kinh</i> populated areas	Mountainous areas and Central Highland and within provinces	Reform party-state national-local
Ethnic minorities	Encroachment via <i>kinh</i> resettlement	Most isolated and disadvantaged	Affirmative action recruitment
Corruption	rampant	Lowers efficiency and capacity	loss of legitimacy
Civil society	High membership in social groups	Rise of affluent middle class	Changing family and youth values
Law and legal norms	Competes with other careers	Competes with other careers	Lack of trained legal cadres

⁵⁷This and the next section draws upon: Simon Davies et al., *Strategic Futures Thinking: Meta-Analysis of Published Material on Drivers and Trends*, London: Department of Defence, Evaluation and Research Agency, 2001 and U.S. Central Intelligence Agency, *Global Trends 2015: A Dialogue About the Future With Nongovernment Experts*, NIC 2000-02, December 2000.

Demographic Change.

Demographics is concerned with changes in population sizes, composition and population patterns (including balance between generations, fertility, life expectancies etc.).

After the end of Vietnam War in 1975 Vietnam experienced a post-war baby boom. In 1976 the government instituted a two child only policy. As population control measures took effect this policy was quietly abandoned in 2000. The population growth rate today is 1.2 percent (1.9 percent in 2002) and the government seems on target to achieve a replacement level of population by 2005. The median age of Vietnam's population is now rising. In 2000 it was 23.2 years, by 2010 it is expected to be 27.1.

It is quite clear that Vietnam has a youthful demographic profile.⁵⁸ According to the U.N. Country Team in Vietnam, "Nearly 16 million of Viet Nam's population of 80 million are young people aged 15-24."⁵⁹ Probably two-thirds of the population is under the age of 26 and 85% of the population is under 40.

Over a decade ago a study of Vietnamese youth noted that "a yawning generational gap" had appeared in Vietnam as a by-product of "a market economy, and the simultaneous opening to diverse foreign influences."⁶⁰ Vietnamese youth have taken to foreign music and movies, clothing fashions and consumer products to the chagrin of their elders who exhort youth to remember their cultural roots and reject "poisonous" foreign culture. Despite the obvious problem of communication between generations, this study found:

Some young people deliberately defy their elders on matters ranging from dress to the choice of occupation. A much smaller group tries to expand the limits of political and cultural discourse, often in quiet alliance with alienated intellectuals from earlier generations. But few are "rebels", and for the most part the younger generation cannot be considered at odds with or a disappointment to, their elders. In... Vietnam... the young people [are not] totally preoccupied with self-aggrandizement or unconcerned with group achievement. Most importantly, they generally continue to accept family discipline on vital

⁵⁸Deutsche Presse-Argentur, February 27, 2003, around 30 million Vietnamese fall in the 10-24 year age bracket or 49 percent of the population.

⁵⁹United Nations Country Team in Viet Nam, "Tap the Energies of Youth," UN Message on International Youth Day, August 12, 2003.

⁶⁰David Marr and Stanley Rosen, "Chinese and Vietnamese Youth in the 1990s," in Anita Chan and Benedict J. Tria Kerkvliet, eds., *Transforming Asian Socialism: China and Vietnam Compared*, Lanham, MD: Rowman & Littlefield, Publishers, 1999, 176. Foreign influences also include Chinese popular music, television, film and novels primarily from Hong Kong and Taiwan.

questions of education, vocation and major financial obligations. They are acutely aware of how much their elders expect from them and, compared to young people in the West, show much less inclination to confront or shock their elders directly.⁶¹

Omar Ertur of the United Nations Population Fund has noted that, “There is a change in reality of the younger generation, particularly for young people in urban areas. This generation cannot be made to behave in certain ways through certain Communist Party mechanisms, the party realizes this too.”⁶² According to one Vietnamese college student, “Most people think there isn’t much reason to join the party. It’s helpful mainly if you want to get a government job, and these days most people are more interested in private business.”⁶³

A seminar held by the National Committee for Population, Families and Children concluded that development in Vietnam had led to challenges to traditional family values such as increasing disharmony among family members, divorce, domestic violence and youth crime. Economic change also brought value changes with increased emphasis on “individual dignity, freedom, the right to self-determination, gender quality, and the liberation of women.”⁶⁴

According to the *Youth Development Strategy to 2010*, the biggest problem facing Vietnamese youth is employment, and for educated youth, suitable employment. Youth unemployment figures are generally higher than the national average. According to U.N. figures, “It is estimated that 5% of young people are out of work and 26% are underemployed. And around 1.4 million young job seekers enter the labor market each year.”⁶⁵ Job opportunities are not increasing at the same rate as the number of job seekers entering the labor market. The government set a target of creating 1.5 million jobs in 2003, particularly in rural areas.

The government also aims to send 60,000 Vietnamese overseas as guest workers. A record 46,000, were sent abroad in 2002. Over the last five years, Vietnam has exported 310,00 guest workers to forty countries, mainly to Malaysia, Taiwan,

⁶¹Marr and Rosen, “Chinese and Vietnamese Youth in the 1990s,” 197.

⁶²“Vietnam’s population growing, but slower than predicted,” Deutsche Presse-Argentur, February 27, 2003.

⁶³Quoted in David Thurber, Associated Press, Hanoi, October 23, 2001.

⁶⁴“Vietnam Perplexed in Dealing with Shifting Family values,” *Phu Nu Viet Nam*, April 28, 2003.

⁶⁵United Nations Country Team in Viet Nam, “Tap the Energies of Youth.”

South Korea and Japan. They generated about \$1.5 billion in income.⁶⁶ The government also announced that it planned to train an additional one million persons in 2003. But evidence suggests job seekers are not being trained in skills required by the labor market.⁶⁷

Current efforts to reform the SOE sector, by streamlining and downsizing, pose a threat to the employment prospects for young people. According to the U.N., youth unemployment could lead to a loss of dignity and self-respect and result in drug abuse, social problems and perpetuate a vicious cycle of exclusion and poverty. Such a combination could pose a threat to social stability.⁶⁸

Vietnam's educated youth are making and will continue to make a major impact in the private sector. For example, as a result of the adoption of the Enterprise Law in 2000 almost 60,000 private companies have been created providing 1.3-1.5 million new jobs mainly in urban areas. The unemployment rate in urban areas has decreased. Nearly 70% of small and medium enterprises are family run affairs.

Economic Growth

This driver embraces all strands of economic change such as GDP and sectoral growth rates, and the changing composition of the economy from state, collective ownership to capitalist and private. Economic growth as a driver is also influenced by the impact of global economic patterns (see discussion of the impact of globalization below)ⁱ.

Economic growth has led to a change in the structure of the economy between 1990 and 2001. Agriculture's share of GDP has declined from 39 percent to 25 percent, while industry has grown from 23 percent to 33 percent and services (a measure of the size of the middle class) has risen from 38 percent to 42 percent. The rise in industrial production is driven in part by growing consumer affluence which has resulted in increased sales of cars, motorbikes and various home and electronic appliances. Industrial output by the private sector grew almost 20 percent in 2002, and now accounts for 40 percent of industrial production.

⁶⁶Deutsche Presse-Argentur, February 27, 2003.

⁶⁷A recent report noted, for example, that "barely 1,500 of the 10,000 or so fresh information technology graduates each year have the software skills needed to find employment in the industry." See: Van Bao, "Plenty of IT Graduates, But Few Can Make the Cut," *The Saigon Times Daily*, August 1, 2003.

⁶⁸United Nations Country Team in Viet Nam, "Tap the Energies of Youth."

Nguyen Van An, chairman of the National Assembly's Standing Committee, noted that Vietnam had achieved an economic growth rate of 7.2-7.3 percent in 2003 – the highest rates in the past consecutive six years. According to the World Economic Forum, Vietnam has moved to 60th place among the world's competitive economies, up from 62nd place in 2002. Vietnam's rating in the business competitiveness index rose from 60th place (2002) to 50th.⁶⁹ However, Vietnam ranked 67th in measures of development strategies and the operation of enterprises.⁷⁰

The Government's 2003 report to the National Assembly called for a target growth rate of 7.5-8 percent for 2004. In order to attain this industry and construction would have to grow by more than 10 percent, services over 7 percent, and agriculture, forestry and fisheries by more than 4 percent. State budget revenue is expected to rise by 10.6 percent (equal to 21 percent of GDP) while expenditures will reach 11.5 percent, leaving a deficit of less than 5 percent of GDP. Exports were expected to reach \$21.7 billion with imports estimated at \$26 billion for a deficit of \$4.3 billion.

Economic growth over the past three years is less than the average set by the five-year plan (7.5 percent).⁷¹ And, according to Vietnamese economists, economic growth has not been sustainable enough due to the lack of product quality and high costs.

Governance

This driver consists of all aspects of governing within and between states such as: control of state borders, interactions between states and interactions between states and non-governmental organizations (NGOs), and internal domestic issues for state governance. Good governance is about improved decision-making processes, including making the right choices on public investments and ensuring the resources are used effectively and properly to ensure pro-poor growth. A key challenge for state governance in a globalized world is how the state manages the flows of information, technology, diseases, illegal migrants, and financial transactions across its borders.

⁶⁹“Viet Nam climbs to 60th place among world competitive economies: report,” Vietnam News Agency, October 2, 2003.

⁷⁰“Poor Competitiveness Concerns Vietnam's Economists as Integration Deadline Looms,” *Vietnam Economic Times*, June 2, 2003.

⁷¹“NA session discusses Govt Report,” Voice of Vietnam News, October 3, 2003.

Singapore's Prime Minister Goh Chock Tong has predicted that Vietnam could lead the Southeast Asian pack to spearhead ASEAN economic growth in the next 15 to 20 years if it stayed firmly on the track of reforms.⁷² The first part of this paper reviewed discussions within the VCP to reform the party apparatus and state administration.

After coming into office the new party Secretary General Nong Duc Minh reviewed the two-year campaign (May 19, 1999 to May 19, 2001) of party-building and rectification that was launched prior to ninth congress. He noted that this campaign "did not bring the expected results."⁷³ Manh also reviewed recruitment patterns.

Membership in the Vietnam Communist Party is 2.4 million or nearly 3 per cent of the total population. The party has experienced difficulties in recruiting young people in recent years. In 2000, for example, 41.5% of the party's grassroots level organizations failed to admit any new members.⁷⁴ According to official figures, only 7,347 students joined the party during the past five years (1996-2000). Although the number of high school, college and university students entering the party has risen each year, they represented only 1.87% of new members in 2000.⁷⁵ At the prestigious Hanoi Economic College only 52 of 1,200 students or 4.3% became party members in 2001.⁷⁶ Figures issued for the period 1993-June 2002 indicate that students accounted for 3.6 per cent of the new membership intake into the party.⁷⁷ Figures for 2001 and 2002, however, indicate a marked rise in educational levels of new party recruits.⁷⁸

⁷²Lee Kim Chew, "Vietnam could be Asean growth leader: PM Goh," *The Straits Times*, March 4, 2003.

⁷³"Text of speech by Secretary General Nong Duc Manh at the closing session of the VCP second plenum," *Nhan Dan*, June 10, 2001.

⁷⁴Vietnam News Agency, October 4, 2001 citing figures released by the party's Organization Commission.

⁷⁵Figures released by the party's Central Commission for Sciences and Education, Vietnam News Agency, August 24, 2001.

⁷⁶David Thurber, Associated Press, Hanoi, October 23, 2001.

⁷⁷Vietnam News Agency, December 2, 2002.

⁷⁸The party claims that nearly 80 per cent of new members admitted in 2001 had completed high school, marking a "qualitative improvement" over previous years; see; Deutsche Presse-Argentur, January 24, 2002 quoting *Vietnam News*. In 2002, the number of new party members aged between 18-30 increased by 9.55 per cent over the previous year. Fifty per cent of the new

Manh then directed the party to revise and update its policy documents on party reform. On June 7, 2001, the Politburo issued directive 03-CT/TW on the continued implementation of the VCP Central Committee's resolutions issued by the sixth plenum second session (eighth congress) on continuing implementation of party-building and rectification, and the Central Committee's seventh plenum (eighth congress) on restructuring of apparatuses and redeployment of cadres. As part of this reform effort "Candidates for any promotion, regardless to posts in party, state, or mass organizations, all had to list their property in their personal dossiers as a condition for consideration of promotion, according to Nong Duc Manh"⁷⁹ As an administrative device to reassert greater party control over the state, Manh revived the device of using party groups in the state administrative apparatus including the centrally-appointed party group in the National Assembly.

Finally, Nong Duc Manh turned his energies to sorting out the ever-present problem of overlap between party committees and state administration at local level. Manh threw his weight behind implementing the statute on "practicing democracy at the grassroots level." The Prime Minister issued an Instruction in July giving citizens the right to be informed, debate, choose and oversee the implementation of decisions by the people's committee and people's councils at commune level.⁸⁰

Budget. According to Nguyen Tan Dung, chairman of the National Assembly's Standing Committee, budget collection and expenditure were up, respectively 11.3 and 14 percent in 2003. This was the sixth year in a row that estimates were surpassed. There was also a 16.4 percent increase in domestic revenue. The Minister of Finance noted that a steady increase in both budget inflow and outflow over the past years was a sign of Vietnam's "sustainable economic growth."⁸¹

SOE Reform. According to a report by Deputy Prime Minister Nguyen Tan Dung on SOE equitization and restructuring, over past year, 907 SOEs were equitized, 76 transferred, 46 sold and six others leased. Of the SOEs currently in business,

members reportedly completed senior secondary high school, of whom 9.28% graduated from college, 17.7% from university and 0.55% were post-graduates; see: *Vietnam News*, March 5, 2003.

⁷⁹Voice of Vietnam News, June 10, 2001.

⁸⁰"PM signs instruction to strengthen openness, democracy at communal level," Vietnam News Agency, July 9, 2003.

⁸¹"Minister stresses financial transparency in budget allocation," Vietnam News Agency, October 27, 2003.

3,979 are operating with a profit margin while 816 (17 percent) are operating at a loss. Despite the dissolution of hundreds of SOEs, SOEs continued to play leading role in the economy. However, due to the lack of legal documentation, the tempo of ownership changes is slow.

Banking Sector Reform. Vietnam is under external pressure to reform its finance and banking sectors. IMF has set conditions on a loan of \$368 million designed to speed up reforms in state banks and state firms.⁸² The IMF has requested further reforms in auditing and borrowing activities of the State Bank of Vietnam. The State Bank must improve transparency with respect to the level of non-performing loans and budget operations.⁸³

Vietnam continues to pump credit into inefficient state enterprises and massive infrastructure projects. At IMF insistence, the State Bank has agreed to a 20 percent credit-growth cap for 2003. Small and medium enterprises, the real engine of job creation, are getting squeezed by high interest rates.⁸⁴ And the private sector does not get equal treatment when borrowing capital. Banks are still hesitant to loan money to private enterprises.⁸⁵

The State Bank of Vietnam has issued an Action Plan to carry out reforms in banking and finance sector necessary to be compatible with World Trade Organization (WTO) entry requirements. Vietnam may liberalize selectively its current foreign exchange system and both current account and capital account transactions. In 2002, the State Bank allowed commercial banks to set their own lending rates. But local banks have not taken advantage of this move by extending more expensive loans to higher risk corporate clients. Lending rates have fallen as banks compete to extend credit.⁸⁶

Poverty Reduction

⁸²Cohen, "Safety Valve Of the People," p. 20.

⁸³"IMF Requests Significant Changes in Vietnam's Central Bank," *Tuoi Tre Ho Chi Minh*, July 17, 2003.

⁸⁴Margot Cohen, "Danger Signals Flashing," *Far Eastern Economic Review*, August 28, 2003.

⁸⁵"Vietnamese deputy PM interviewed on socioeconomic policy," Vietnam News Agency, October 31, 2003.

⁸⁶Nick Freeman, "Vietnam Has Plenty of Reasons to Feel Positive About its Economic Future," *The Banker*, April 1, 2003.

In May 2002, Vietnam adopted the *Comprehensive Poverty Reduction and Growth Strategy*. This strategy document was the end result of a consultative process managed by an inter-ministerial committee. A Government-donor-NGO Poverty Task Force (PTF) acted as an advisory body. The PTF had been established in 1999 to undertake the analysis of the *Vietnam Living Standards Survey*, the implementation of the *Participatory Poverty Assessments*, and the final assessment, *Vietnam: Attacking Poverty*. The PTF has also assisted the Vietnamese government in the development of its *Hunger Eradication and Poverty Reduction Strategy*.

The *Comprehensive Poverty Reduction and Growth Strategy* has seven main objectives:⁸⁷

1. Promoting rapid and sustainable economic growth while ensuring social progress and equity, with attention to: developing agriculture and rural areas, ensuring food security, creating jobs, greater support to disadvantaged areas, and eliminating regional and ethnic inequities.
2. Creating an equal business environment for all types of enterprises from all economic sectors, including enterprises with foreign direct investment (FDI), and encouraging the development of small- and medium-sized enterprises.
3. Continuing with structural reforms, including: SOE reform; state budget; commercial banking; financial and credit organizations; trade liberalization – bilateral, commitments under AFTA, WTO accession; promoting income growth; developing markets to distribute consumer goods, etc.
4. Undertaking public administration reform, including: institutional reform, administrative reform, civil service reform, and public finance reform to increase accountability in civil service and administration, to improve access to public services, and to ensure social equity.
5. Encouraging human development and reducing inequality; priority to quality of and access to health and education services and development; environmental protection, prevention of HIV/AIDS transmission and infection, gender equality and improvement of the life of ethnic groups focus on urban poverty – especially regarding employment, income and housing, and ensuring equal access to services.
6. Reducing vulnerability and improving the capacity of vulnerable groups to manage risk better by developing and expanding social protection and safety nets for the poor and introducing a more comprehensive approach to natural disaster management.
7. Establishing a system of qualitative and quantitative socio-economic development and poverty reduction indicators (with gender and social group elements taken into consideration) to monitor and evaluate the implementation of the *Comprehensive Poverty Reduction and Growth Strategy*.

⁸⁷“The Comprehensive Poverty Reduction and Growth Strategy (The PRSP in Vietnam),” Vietnam Development Information Center, January 28, 2003.

According to Nguyen Tan Dung, Vietnam has been acknowledged as the most successful example in hunger and poverty reduction among developing countries. Recent surveys report that the incidence of poverty was reduced from over 70 percent in the mid-1980s, to 58 percent in 1993, to 37 percent in 1998, and to 29% in 2002 (or 1.9 million persons). Land and price reforms contributed to this decline.

At the halfway mark in the implementation of Vietnam's five-year poverty alleviation plan, Vietnam has made significant achievements in reducing the number of poor households to 14.3 percent (or 2.8 million persons). In 2002, 300,000 households nationwide rose above the poverty line and the figure of poor households stood at 17.2 percent or 2.8 million households. A household is rated poor when it earns no more than VND 150,000 a month in urban areas and VND 120,000 or less in rural areas. Ninety percent of the poor families live in rural areas and work in farming. Of Vietnam's 80 million people, one tenth also suffer from lack of adequate food. The Ministry of Labor, War Invalids and Social Affairs has set target of reducing the poverty rate by 1.8 percent or 300,000 poor households, in 2003.⁸⁸

Under the poverty reduction program, 4.5 million poor people have been given free medical check ups and treatment and well as health insurance cards. An estimate 1.3 million persons have used free health care services. One and a half million students have benefited from reduced school fees or complete exemption.

The World Bank has approved a \$100 million Poverty Reduction Support Credit 2 and will provide Vietnam \$700 million for seven new projects over the next year.⁸⁹ The World Bank is also supporting Vietnam's Primary Education for Disadvantaged Children project to the tune of \$138 million. This project is designed to assist primary school-aged children (street children, disabled children and girls in selected ethnic minority areas) to complete the full cycle of primary schooling.

Regional Disparities

Of Vietnam's 61 provinces and autonomous municipalities, twenty-three have cut their poverty rate to below ten percent. The largest reduction in the poverty rate was made in the northern mountain and midland regions, where the poverty rate fell from 24.8 percent to 16.3 percent during 2002-03. The poorest area of

⁸⁸"Reduction of poverty and unemployment were major tasks in 2003," *Vietnam Economy*, February 4, 2003.

⁸⁹"World Bank VP Jamil Kassum Visits Vietnam," World Bank Press Release, July 14, 2003.

Vietnam lie in the northwestern mountain province of Lai Chau where 30 percent of households can barely make ends meet. Three provinces (Binh Dinh, Dong Thap and Quang Nam) experienced a relapse with significant numbers of households falling back under the poverty line.

Figure 3 Percent of Poor Households

Percent of Poor Households	Number of provinces
20-30%	7
15-20%	13
10-15%	17
5-10%	23

However, according to the UNDP, despite this impressive reduction in rates of poverty, pockets of deep poverty remain in regions of Vietnam.⁹⁰ Recent research reveals a significant number of provinces and rural areas within provinces that are falling behind. The UNDP identified: An Giang, Bac Lieu, Cao Bang, Gia Lai, Ha Giang, Hoa Binh, Kon Tum, Lang Son, Lai Chau, Lao Cai, Son La, Tra Vinh, and Yen Bai, as provinces that were faring worst. These provinces had fallen into the poverty trap due to dependence on one commodity, isolation from mainstream economy, a lack of investment in agriculture, and environmental degradation.

There are other indicators of regional disparities. For example, the rise in per capita income in the mountainous provinces is half that of the national average. Or to take another measure, four provinces (Hanoi, Ho Chi Minh City, Hai Phong and Ba Ria-Vung Tau) contributed a total of 75 percent of the total state budget.⁹¹ And there is evidence of urban-rural disparities as well. The development of the private sector, so important in generating new jobs and reducing both poverty and inequality, has led to some urban centers doing quite well while some rural areas are faring quite badly.

⁹⁰“UNDP Calls for Rapid, Equitable Growth to Attack Serious Pockets of Poverty in Viet Nam,” UNDP Program Vietnam, August 13, 2003.

⁹¹“NA deputies urged to bridge poverty gap,” *Vietnam News*, November 6, 2003.

Impact on Ethnic Minority

The poverty rate among ethnic minorities in mountainous and remote provinces is higher than for provinces in which *kinh* or ethnic Vietnamese predominate. The poverty rate in Gia Lai and Kon Tum provinces, for example, is 77 and 80 percent respectively.

Resettlement programs, designed to shift poor *kinh* farmers from overpopulated provinces to highland regions, have impacted negatively on ethnic minority communities. They have lost access to land they consider traditionally theirs. This has led to increased friction between the two groups. In February 1991, for example, tensions between *kinh* settlers and ethnic minorities in the Central Highlands erupted in a series of public demonstrations and violent riots.

The Vietnamese government has since given priority attention to socio-economic development in the highlands and other areas where ethnic minorities are resident. The authorized government overspending for 2004, for example, will be used to finance infrastructure construction in six northern mountain provinces, four provinces in the Central Highlands and other provinces where ethnic minorities live.⁹²

Corruption

According to a global corruption survey conducted by Transparency International, corruption is a serious problem in Vietnam and has gotten worse since 1999. In 1999 Vietnam was rated 2.6 on a scale of from 0 (a highly corrupt country) to 10 (little or no corruption). This year Vietnam's rating slipped to 2.4. Vietnam ranks 100 out of 133 countries surveyed (above Indonesia at 122 and Myanmar at 129).⁹³

In an effort to weed out corruption among party members, the Politburo issued Instruction No. 3 (June 29, 2001) which requires the declaration by state cadres and civil servants of their real estate assets and extra expenses for children and spouses studying overseas.

Despite a number of high-profile corruption trials, including that of Nam Cam and 150 odd accomplices in 2003, corruption remains a major problem. In August, Politburo member Phan Dien, in addressing a Party Internal Affairs Board workshop admitted that the struggle against corruption has not generated

⁹²"Deputies agree 5% GDP overspend for 2004 budget," *Vietnam News*, November 5, 2003.

⁹³"Corruption in Vietnam still serious: survey," Xinhuanet, October 27, 2003.

fundamental changes and is still very serious.⁹⁴ Two months later, Deputy Prime Minister Nguyen Tan Dung, in a speech to the national legislature, identified corruption as the most important public grievance. He stated that the “cleaning up of the state apparatus must focus on the fight against corruption, harassment of people, deceit, indiscipline and irresponsible behavior at work.”⁹⁵

The Growth of Civil Society

According to the first national survey of public opinion in Vietnam, conducted as part of the World Values Survey 2001, Vietnam has a higher level of citizen participation in social groups than most other East Asian countries. This level may be explained in part as being a result of the regime’s mass mobilization efforts. There is a high level of membership in state mass organizations such as unions, and youth and women’s groups. But Vietnam also has high levels of membership in non-state organizations such as cultural associations and sporting groups. In addition, the survey found that there was a significant membership in groups that are more autonomous from the state or potentially even state-challenging such as religious and environmental associations.

The Vietnam national values survey indicated a “differential relationship between membership in specific groups and social trust and political engagement” leading to the development of an independent civil society. Two researchers associated with the survey concluded:

Discussing civic and political issues within a non-political group, a sports club, or an environmental group, is a prime vehicle for transporting ideas of democracy. Yet restrictions from the government or political mobilization do not help induce efforts beyond mere discussions. Civil society may be formed, but it may not yet become a strong enough force to independently push for political change in Vietnam. In the long term, though, social modernization and development of a true civil society will provide the catalyst for further changes.⁹⁶

Adherence to Law and Legal Norms.

⁹⁴“Politburo Member Calls for Intensifying Struggle Against Corruption, Wrongdoings,” *Lao Dong*, August 21, 2003.

⁹⁵“Efforts to combat graft must be stepped up: Vietnam deputy PM,” Agence France Presse, October 21, 2003.

⁹⁶Russell J. Dalton and Nhu-Ngoc T. Ong, “Civil Society and Social Capital in Vietnam” in *Modernization and Social Change in Vietnam* (Munich: Munich Institute for Social Sciences, forthcoming).

Since the adoption of the revised state constitution in 1992, a major plank in Vietnam's reform program has been to develop a "law governed state." The National Assembly and its Standing Committee have been instrumental in codifying the party's strategic guidance into practical legislation. An indication of the legislative output in 2002-03 was provided in part one. For example, the National Assembly has recently approved ordinances on state officials and employees, on countering corruption, on practicing thrift and fighting wasteful spending and a statute on practicing democracy at the grassroots level.

Vietnam's poor legal sector reflects the deficits of a developing country. For example, Vietnam currently has 2,400 lawyers on its books.⁹⁷ It has been estimated that Vietnam needs to train an additional 18,000 lawyers by 2010 in order to meet the demands of regional and international integration.

It has only been comparatively recently that increased attention has been given to the reform of the legal sector. The UNDP believes that legal reform is the key to achieving Vietnam's ambitious socio-economic development goals. The UNDP and other key legal agencies have joined with the Ministry of Justice to draw up the *Legal System Development Strategy*, Vietnam's first ever strategy in this area. This strategy focuses on the legal framework, process of law-making, institutions for law-making and implementation, legal education and professional training, and legal information dissemination.⁹⁸ The UNDP also supports the Strengthening Legal Capacity in Viet Nam project.

Part 3 The Impact of External actors on Sustainable Development

This section presents an analysis of the five key factors that impinge upon Vietnam's development process: the impact of globalization, trade, foreign investment, overseas development assistance, and emerging transnational challenges.

The Impact of Globalization

Globalization as used in this paper is concerned with the increasing integration of the global market, the dispersal of the production process, the speed with which financial transactions can occur, and the impact of science and technology on production processes. It also includes rapidly and largely unrestricted flows of information, ideas, cultural values, capital, goods, services and people.

⁹⁷ *Tien Phong*, September 9, 2003.

⁹⁸ "Building the Rule of Law in Viet Nam," UNDP Viet Nam Media Release, March 5, 2003.

Ever since Vietnam embarked on the process of opening its economy to the outside world, its political leaders have been concerned at the possible destabilizing impact of the global market. During the Asian Financial Crisis of 1997-98, for example, they “battened down the hatches” in order to ride out the storm. This led to what some academic specialists termed “regime immobilism.”

In June 2001, Nong Duc Manh stated:

economic recessions in the region and the world have caused adverse affects on our economy. The competition in export markets has become ever more challenging. Prices of some agricultural products have dropped to a very low level, and the same occurred to labor-added service on export items, making product sales, especially for agricultural products extremely difficult. Farmers’ livelihoods have been adversely affected. Investment capital in society remained low. It is envisaged that in the next several months, the difficulties and the unfavorable factors may become even more critical.⁹⁹

As the 2005 deadline for compliance with the provisions of the Association of Southeast Asian Nations Free Trade Agreement (AFTA) draws near, Vietnamese leaders have exhibited heightened concerns at the low level of Vietnam’s competitiveness in the world economy. Vietnam’s comparative lack of competitiveness arises from high production costs, poor infrastructure and human resources, inadequate government policies, higher management costs and a higher wastage rate. Vietnam’s input costs are high. For example, production costs in its garment and textile industry are 25 to 30 percent higher than China. Input costs include: electricity, transport and handling, telephone, visa and administrative charges.

ASEAN Free Trade Agreement. Much of Vietnam’s bank credit is going to inefficient state enterprises, especially cement, steel and paper producers, that will soon face tough competition in the region-wide ASEAN market. Vietnam’s state budget revenues are expected to fall when Vietnam cuts its import tariff to 20 percent on six hundred industrial items under its commitment to join AFTA.

Vietnam-United States Bilateral Trade Agreement. The Bilateral Trade Agreement with the U.S. has resulted in the opening of new export market with the garment sector benefiting the most. There was a surge in exports to the U.S. However, Vietnam has suffered from domestic American protective measures in the catfish and shrimp industries.

World Trade Organization. Vietnam has set itself a target date of 2005 for membership in the WTO. But some observers see 2007 as more likely. Deputy

⁹⁹“Text of speech by Secretary General Nong Duc Manh at the closing session of the VCP second plenum,” *Nhan Dan*, June 11, 2001.

Prime Minister Nguyen Tan Dung has noted that by 2005 monopoly industries will be forced to reduce their product prices to levels competitive with the price structure in other regional countries.¹⁰⁰ The government has decreed that telecommunications will cut its prices to regional levels as of April 1, 2003 for example.

The Internet. Vietnam aims to become one of the top three countries in Southeast Asia in terms of information technology and telecommunications infrastructure. At present the IT sector represents 1.5 percent of GDP, but under a draft government blueprint it is projected to grow to 9 percent. Vietnam also plans to quadruple the number of Internet users to four million by 2005. Vietnam also has the fastest growing telecommunications market in Southeast Asia.

In order to achieve its ambitions, Vietnam has set a target of training 25,000 software programmers by 2005. The present reality is that barely 1,500 of the 10,000 annual graduates in information technology have the skills necessary to find employment in the industry.¹⁰¹ Vietnam's universities and colleges cannot meet demand due to poor equipment and outdated teaching methods. But Vietnam must avoid becoming a two-speed country where a handful of provinces surge ahead while others lag behind.¹⁰²

Globalization also poses another problem for Vietnam – how to prevent ideas that the regime considers subversive from entering the country. There are an estimated 5,000 Internet cafes in Vietnam attracting a youth clientele aged between 14-24. But mature aged political dissidents have taken to the Internet to network and to spread democratic ideals. This has given birth to a new phenomenon, the cyber dissident. At least five of eight journalists arrested in recent years has used the Internet to acquire and spread political information. The Ministry of Culture and Information would like to make Internet café owners responsible for monitoring Internet usage. Vietnam thus faces the dilemma about how to create an information superhighway and restrict the flow of democratic political ideas at the same time.

Trade

¹⁰⁰“Vietnamese deputy PM interviewed on socioeconomic policy,” Vietnam News Agency, October 31, 2003.

¹⁰¹Van Bao, “Plenty of IT Graduates, But Few Can Make The Cut,” *The Saigon Times Daily*, August 1, 2003.

¹⁰²Agence France Presse, “Vietnam aiming to become Southeast Asian ICT tiger,” August 19, 2003.

In July 2003, Standard and Poor's stated that "Vietnam has excellent export-led growth prospects" especially in agricultural and marine products. According to Nguyen Tan Dung, the export growth rate was 16.7 percent in 2003 or twice the annual target and represented a high over the past three years. Vietnam earned substantial foreign exchange export earnings from seafood (up 13 percent in 2002), crude oil, garments (up 30 percent), and footwear (up 17 percent).

But other indicators suggest a mixed picture. Vietnam's top export earner is crude oil and higher prices are not on the cards.¹⁰³ Vietnam's initial trade spurt with the United States is expected to grow more slowly if not level off due to new garment quotas and problems with seafood exports. The international competitiveness of Vietnamese goods is very low due to high costs and poor quality, and as noted above, Vietnam faces increased competition when it joins AFTA.

Foreign Direct Investment

Since 1987, Vietnam has received \$38 billion in FDI for more than 3,000 projects. FDI is credited with creating 400,000 full-time jobs and 800,000 part-time jobs. Foreign investment projects contributed 13 percent of GDP, almost 35 percent to industrial production and 23 percent of export value.¹⁰⁴ By the end of 2001, there were more than 3,300 licensed foreign invested projects representing \$41.6 billion in foreign direct investment.¹⁰⁵

While business and foreign investor confidence in Vietnam has apparently bounced back from the low point of the late 1990s, foreign investment inflows remain fairly anemic reflecting lackluster global foreign flows. Since the 1997-98 Asian Financial Crisis, Southeast Asia (and Vietnam) have witnessed a diversion of FDI to China. In an effort to kick start more FDI, the Ministry of Planning and Investment plans to convert between twenty and twenty-five foreign invested firms into joint stock companies in a trial program.¹⁰⁶

Development Assistance

¹⁰³Cohen, "Danger Signals Flashing."

¹⁰⁴"Washington newspaper praises Viet Nam's renewal success," Vietnam News Agency, May 30, 2003; and "Economy needs more outward focus: experts," *Vietnam News*, April 21, 2003.

¹⁰⁵"Economy needs more outward focus: experts," *Vietnam News*, April 21, 2003.

¹⁰⁶*Vietnam Economic Times*, September 12, 2003.

Between 1998-2002, international donors and lenders provided \$20 billion in development assistance to Vietnam. ODA-funded projects have generated more than 30,000 jobs. Since 1993, soft loans from developed countries and international financial institutions have totaled \$15 billion or an average of \$1.5 billion a year. Increasingly international donors and international financial institutions are imposing conditionality on their assistance packages.

Emerging Transnational Challenges

As noted above, governance as a driver of change consists of several components including control of state borders, interactions between states and interactions between states and non-governmental organizations. This section provides a brief overview of several important transnational challenges and how Vietnam has responded.

Infectious disease. Vietnam has an estimated 61,100 persons infected with the HIV/AIDS virus. Forty percent of those infected are in the 15-24 year old group. Many are unemployed and shunned by their families.¹⁰⁷ An estimated 1,300 cases are diagnosed each month.

Vietnam is a signatory to the U.N. Declaration of Commitment on HIV/AIDS. It has also adopted a National Strategy on HIV/AIDS for 2004-2010 with a vision to 2020. In February 2003, the Prime Minister issued a new directive on HIV/AIDS.

In March 2003, Vietnam detected its first case of SARS (severe acute respiratory syndrome). In contrast to China which tried to conceal the outbreak of this disease, Vietnamese health officials immediately met with experts of the World Health Organization (WHO) and formed a task force to deal with the disease openly. Several hospitals were evacuated and disinfected. On April 28th the WHO declared Vietnam to be the first country to contain and eliminate the disease.¹⁰⁸ The U.S., which issued a travel warning on April 24th, let it expire a month later. Vietnam's prompt action limited the negative impact of SARS on its travel and tourism industries. Nevertheless, the IMF estimated that SARS could shave off 0.25 percent of Vietnam's GDP.

Trafficking in People. According the U.S. Department of State, Vietnam is a source, transit and to a lesser extent, destination country for persons trafficked for forced labor and sexual exploitation. Nonetheless, the U.S. acknowledges that the

¹⁰⁷"UN Envoy Suggests Vietnam Take More Action in HIV/AIDS," UNAIDS Press Release, October 17, 2003.

¹⁰⁸"Vietnam draws deep breath as SARS threat ends," *The Washington Times*, June 29, 2003.

government of Vietnam has been making major efforts to eliminate trafficking in persons. In recognition of this, the U.S. State Department, in its third *Trafficking in Persons Report*, designated Vietnam as a Tier 2 government for making “significant” efforts to comply with congressionally mandated standards to combat trafficking in humans.¹⁰⁹

Labor Trafficking. Vietnamese government figures indicate that the number of child workers between the ages of 6 and 17 declined from 8.2 million in 1992 to 6.2 million in 1998. According to the International Labor Organization’s (ILO) Asia-Pacific regional director, “the increasing openness of the country to external economic and social influences has raised the spectre of new forms and patterns of vulnerability for Vietnam’s children.”¹¹⁰

Vietnamese state-owned labor companies reportedly enter into international contracts that result in instances of labor trafficking. According to the ILO, “children in Vietnam are becoming more vulnerable to exploitation, trafficking and the drug trade” as a result of external influences on the country as well as internal migration and the growing number of displaced persons.

Trafficking in drugs. Vietnam estimates that 79 percent of all opium, marijuana and heroin found in Vietnam was trafficked across the China border. In 2001 China and Vietnam signed a memorandum of understanding on drug control.¹¹¹ Later, a Memorandum on Drug Control was signed by China, Vietnam, Thailand, Laos, Cambodia and the U.N. Office for Drugs and Crimes Control. Vietnam also participates in the “Action Program for an ASEAN and China Without drugs by 2005.”

It is clear from the arrest in Japan of an associate of Nam Cam in early June that an international narcotics smuggling ring has links with Vietnam.

Money laundering. The problem of money laundering in Vietnam, while not serious, is thought to be growing. Vietnam’s state owned banks are seldom required to keep records of transactions or to report those that appear suspicious. Vietnam’s huge underground economy is estimated to be half the size of the official economy. It comprises many unregistered small businesses and criminal syndicate groups. Vietnamese workers abroad use an informal remittance system

¹⁰⁹“Vietnam,” in U.S. Department of State, *Trafficking in Persons Report*, June 11, 2003.

¹¹⁰Agence France Presse, “Vietnam’s economic change fuelling child Labour: ILO,” February 18, 2003.

¹¹¹“Vietnamese Agency Reviews Anti-Narcotics Cooperation with China,” Vietnam News Agency, October 24, 2003.

to send funds back home. An official working with the U.N. Office of Drugs and Crime reports that remittances from Australia are “probably being used by heroin smugglers to finance their trade.”¹¹² Other evidence suggests the both state and private banks have permitted their accounts to be used by persons trafficking in consumer goods, drugs and small arms. Vietnam is now taking steps to draft legislation prohibiting money laundering.

Environmental degradation. According to the World Bank’s *Vietnam Environment Monitor*, natural forest cover in Vietnam shrank from 43 to 29 percent of land area in the last five decades. Habitat loss has led to the rise in the number of endangered species.

Vietnam’s freshwater resources are threatened by population growth, urbanization and industrialization, intensive agriculture and water transport. An estimated 80 percent of Vietnam’s diseases can be traced to polluted water sources. Groundwater levels are falling and becoming increasingly polluted by chemicals used in agriculture and industry. The government has made the fight against water shortage its top priority after the fight against hunger.¹¹³

Vietnam also faces an acute shortage of arable land. Further, urbanization is overwhelming municipal infrastructure and services and causing such environmental problems as “unmanaged landfills, transport-related air pollution, untreated hazardous waste, and raw sewage flowing into open channels. Sedimentation is threatening the health of rivers.

Over-fishing and destruction of coral reefs have reduced the fishing yield. According to the Minister of Fisheries, inshore fishing is over-exploited and no longer sustainable.¹¹⁴

Fisheries Poaching. Vietnamese police and marine security forces seized a total of 323 foreign ships for entering and poaching in Vietnam’s waters during the 1998-2002 period.

Piracy of intellectual property. According to an official of Ho Chi Minh City’s Department of Market Control, more than half a million pirated and

¹¹²Quoted in Catherine McKinley, “Vietnam Moving Against Money-Laundering,” Dow Jones Newswires, April 1, 2003.

¹¹³Jordan Ryan, “Looking After Water, a Strategic Resource of the 21st Century,” March 23, 2003.

¹¹⁴Hong Van, “Vietnam’s Fishing Not sustainable, Says Minister,” *The Saigon Times Daily*, October 15, 2003.

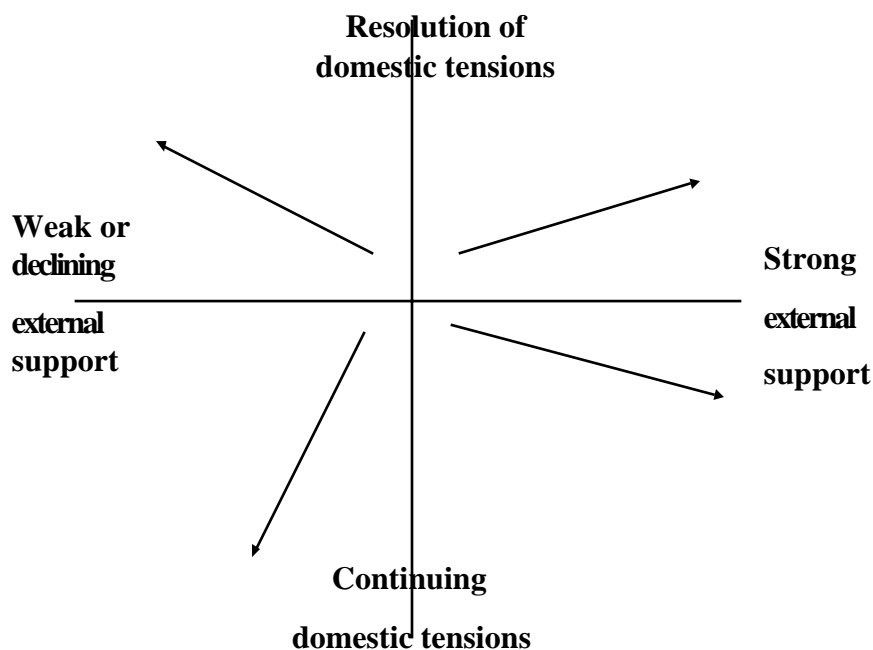
pornographic computer disks have been confiscated since December 2002.¹¹⁵ Most were reportedly smuggled from China or Cambodia.

Wildlife smuggling. Police broke up the biggest case of wild animal trading in Pleiku which involved a species of bear listed in the *Red Book for Endangered Species*.¹¹⁶

Part 4 The Future Prospects for Sustainable Development in Vietnam

This section considers the prospects for sustainable development by outlining four possible future scenarios. Figure four sets out in diagrammatic form a figure composed of two axes. The horizontal axis provides a notional scale of the degree of international support running from weak or declining levels (left) to strong continuing support (right). The vertical axis provides a notional scale of the degree to which Vietnam is successful in resolving domestic tensions resulting from its development strategy. The axis runs from continuing domestic tensions at the bottom to the resolution of domestic tensions at the top.

Figure 4 Future Scenarios



¹¹⁵"Hanoi moves against tech-pirates," Vietnam Forum, March 12, 2003.

¹¹⁶"Largest Wildlife Smuggling racket for 30 Years founding Gia Lai," *Tuoi Tre Ho Chi Minh*, October 27, 2003.

The result of the intersection of the two axes is four distinct quadrants in which four distinct scenarios may be identified. It should be noted that there are numerous possible future paths within each scenario. These scenarios are:

1. Weak resolution of domestic tensions set in the context of continued strong external support for Vietnam's development strategy.
2. Successful resolution of domestic tensions set in the context of weak and/or declining external support for Vietnam's development strategy.
3. Weak resolution of domestic tensions set in the context of continued weak external support for Vietnam's development strategy.
4. Successful resolution of domestic tensions set in the context of continued strong external support for Vietnam's development strategy.

The conclusion of this paper suggests that scenario four is the most likely one for Vietnam's. That is Vietnam will continue to receive strong external support for its development strategy and that it will be more or less successful in resolving domestic tensions. But this view should not be taken as a given. Similar assessments were made of Indonesia's prospects prior to the Asian Financial Crisis of 1997-98. A dramatic change in any one of the number of key drivers identified in this paper, or some other "wild card" event, could well change Vietnam's future trajectory. Vietnam's bears considerable risk in the governance area for its failure to adhere to internationally accepted standards of human rights including religious freedom. Externally, Vietnam is subject to risk arising from changes in the global economy, China's rise as an economic power, and the potential for armed conflict across the Taiwan Straits.
