

BTI 2016 | Vietnam Country Report

Status Index	1-10	4.72	# 91 of 129	
Political Transformation	1-10	3.52	# 103 of 129	➔
Economic Transformation	1-10	5.93	# 53 of 129	➔
Management Index	1-10	4.85	# 69 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	90.7	HDI	0.638	GDP p.c., PPP \$	5629.0
Pop. growth ¹	% p.a.	1.1	HDI rank of 187	121	Gini Index	38.7
Life expectancy	years	75.8	UN Education Index	0.513	Poverty ³	% 13.9
Urban population	%	33.0	Gender inequality ²	0.322	Aid per capita \$	45.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Vietnam is governed by an authoritarian, single party regime, which is led by the Vietnamese Communist Party (VCP). This regime governed North Vietnam from 1946. After reunification in 1976, the regime extended its rule over the entire country. However, in recent years, the National Assembly has become increasingly active. Since 2006 and 2007, there has also been a growth in an increasingly vocal, politically motivated and well-organized civil society. In addition, social media, in particular the blogosphere, has become increasingly prevalent. This growth in social media has created a space for lively debate on politically sensitive issues, such as corruption, human rights, multi-party democracy, democratization and Vietnam's relations to China. In practice, blogs have almost replaced traditional news reporting and the VCP controlled media. Blogs even serve as virtual seminar rooms for academic discussions of censored social science literature. Social media has had a vital role in promoting democratization. To establish control over internet forums, the government in July 2013 introduced Decree 72. The decree made online political discussions and citizen journalism illegal by banning the sharing and discussion of news in online forums. Arrests and prosecution of bloggers also increased in 2013 and 2014, with bloggers typically charged with "abusing democratic freedoms to infringe upon the interests of the state."

During the period under review, a number of unprecedented political events took place in which pro-democracy groups organized public demonstrations and publicly presented petitions. The most famous of these actions was Petition 72, which was organized in response to a government call for comments on the draft of a new constitution. Furthermore, the National Assembly held its first ever vote of confidence in which the prime minister achieved the lowest rating, followed by the Minister of Education, Minister of Health and the State Bank Director.

The most notable political achievement, during the period under review, was the development of a new constitution in 2013. The most contentious debates related to paragraph four of the constitution, which reasserted the central role of the VCP within the state and wider society. The

ratified constitution strengthened the VCP through new stipulations defining the responsibilities of the armed forces in protecting the VCP and political regime.

While substantial progress has been made in reducing poverty, various forms of inequality have continued to increase, including economic inequality, inequalities in accessing public services, and inequalities in education and healthcare outcomes. Public protests have increased pressure on the state to provide better social insurance. Currently, only a small proportion of employees in the formal sector are covered.

Inflation was brought under control in 2013 and 2014, after a period of macroeconomic instability following the 2008 economic slowdown. However, despite improved economic growth in 2013 and 2014 of around 5%, many problems persist. The most damaging of these problems is the pervasive nature of corruption. Vietnam's increased level of public debt is also a major concern.

In addition to corruption, Vietnam's political and economic problems are related to a lack of transparency, the decreasing legitimacy of the VCP and the deteriorating condition of the country's physical infrastructure.

Internationally, Vietnam continued to integrate into the global economy and international institutional architecture. Most notably, Vietnam was admitted into the UN Human Rights Council in December 2013.

History and Characteristics of Transformation

In 1986, the Vietnam Communist Party's sixth party congress initiated the Doi Moi economic reform program. In doing so, the party conceded to the failure of the centrally planned economy, responded to a severe socio-economic crisis and paved the way for a market economy to develop. However, economic reforms have been accompanied by only moderate structural changes to the political system, and every effort to 'democratize' have been related to an improvement in the intraparty political process, and to stimulate some popular participation within existing political institutional frames on issues assigned by the party. But the Vietnamese regime is increasingly under pressure primarily from domestic forces demanding political rights, democratic change and respect for human rights. In the years from around 2006 and 2007, it was clear that these actors were getting better organized and gaining more widespread support, although a mass movement with demands for democratization has not emerged.

To date there has been no indication of any move towards a multi-party system among the political elites within the formal political system, and political reforms have been focused largely on improving the rule of law, and particularly on reducing the high level of corruption. While the government has scored a number of high-profile successes in its campaign to eliminate graft, these

efforts are almost exclusively tied to its efforts to attract investment and ODA, and do not suggest a desire for any profound reform.

Initial reform measures, such as the significant reduction of internal trade barriers and steps towards liberalizing foreign trade, remained largely ineffective due to galloping, triple-digit inflation rates. Desired results came only after the role of agricultural cooperatives was reduced, planned-economy structures were abolished, prices for goods and services were allowed to float, and additional trade liberalization measures were implemented in 1988 and 1989. The number of state owned enterprises (SOEs) was radically reduced from around 12,000 in 1990 to 6,224 in 1993, according to the World Bank, a process in which around a third of a total of 2.6 million SOE employees were laid off. Vietnam soon rose to its current position as the world's second-largest exporter of both rice and coffee beans.

Since 1990, the Vietnamese economy has shown continual improvement. In 2010, Vietnam reached per capita GDP of \$1,160 and attained 'middle-income' status, according to World Bank criteria. International trade and inflows of foreign direct investment – mainly into export-oriented manufacturing – have been the main drivers of economic growth. The government engineered industrialization process included the establishment of Export Processing Zones (EPZ), which due to cheap labor attracted foreign investment into its manufacturing processes. Although macroeconomic instability since 2009, and especially in 2011, has undermined external perceptions of Vietnam as one of the most successful and promising economies in the world, "fears of an economic meltdown", as the New York Times put it, are premature.

Today, Vietnam is a market-based economy with fewer product and service monopoly markets than in previous decades. Nonetheless, SOEs receives privileges from the government through special bank loans and other policies. Privatization, which was only half-heartedly advanced during the assessment period, also exposes firms to competition. Having to compete with other firms for costumers and market share creates the pressure required to stimulate efficiency and profitability.

Thanks to successful foreign policy focused on diversifying international relationships, the Vietnamese government was better able to absorb the economic and political aftermath of international structural changes than were other communist regimes. In the 1990s, Vietnam quintupled its number of active international relationships and joined most of the important regional and global international organizations. In 1995, Vietnam scored a triple diplomatic success by joining the Association of Southeast Asian National (ASEAN), establishing official relations with the United States and signing a framework cooperation agreement with the European Union, which contains a human rights clause and covers economic and trade relations. As part of its accession to ASEAN, Vietnam also became a member of the ASEAN Free Trade Area (AFTA).

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force covers the entire country. Between 1954 and 1975, Vietnam was divided into a socialist north and a capitalist south. This dividing line was at the time described as one of the most closely sealed borders in the world. All communications were cut off, including post, roads, railways, air and sea traffic. In the years immediately following reunification there were three main factors that compromised the state's monopoly on the use of force. First, ideological conflicts continued to exist between north and south. Second, ethnic and religious minorities existed in southern Vietnam. Third, there was a high level of crime around Ho Chi Minh after the war, which had resulted from a lack of state institutions. The Communist Party has traditionally regarded national unity as a main policy goal, as can be noted in widely known party slogans. The Fatherland Front was assigned responsibility for implementing policies of national unity. There is discrimination against some ethnic minorities. In particular, discrimination is directed against those who are considered to have aligned with the Americans during the war.

The struggle for national independence was a protracted and violent process. The Vietnamese Communist Party came to power as a result of revolution and the war of national liberation. Traditionally, the Communist Party has been tightly intertwined with the idea of the nation and national liberation, which has provided the party-state with legitimacy. But the time when political leaders rose to positions because of their revolutionary credentials has come to an end. A major event in the period under assessment was the passing away of national hero General Vo Nguyen Giap on 4 October 2013. Edmund Malesky noted that Giap's death was a "reminder that the connection is thinning between the Vietnamese Communist Party ruling elite and their role in bridging independence and reunification." While there are no major groups in society who question the legitimacy of the nation-state, it is clear that there is pressure from certain groups for a renegotiation of the meaning of citizenship and

Question
Score

Monopoly on the
use of force

10

State identity

9

the rights connected with it. With the exception of some ethnic minority areas, there is a single, shared national identity.

Although religion plays an important role, for example, in the organization of political opposition, the legal order and political institutions are secular. These institutions and systems are defined without interference from religious dogma.

No interference of religious dogmas
10

The party-state apparatus is present all over the country. The architecture of the regime is inspired by Leninist organizational principles, with parallel systems of party and state organizations at each subnational institutional level forming the party-state. The administration comprises the People's Council and the People's Committee at the commune, district and provincial levels. There is an on-going pilot program to remove People's Councils at the district level. If this program proves successful, it will be implemented over the entire country. The program represents an attempt to re-centralize power.

Basic administration
7

A major problem in the implementation process of policies is the high level of corruption throughout the public administration system. The United Nations Development Programme (UNDP) Viet Nam Provincial Governance and Public Administration Performance Index (PAPI) 2013, a survey based on citizens' experiences of administrative performance underlined how corruption and bribery remain constant in the public sector. The PAPI covers all provinces in the country and measures the standards of governance and public administration drawn from citizens' experiences in their interactions with governmental authorities at different levels, finds that the best performers on public service delivery were centrally governed municipalities Da Nang, Hai Phong and Ho Chi Minh City. There were some regional patterns which were fairly consistent with previous surveys, showing that the poorest performers were scattered in the northern mountainous, Central Highlands, south-central and southern provinces with poor quality of roads as well as limited access to safe water, electricity and adequate sanitation facilities. The 2013 PAPI report states that, in addition to differences between regions, there are large differences within regions in access to improved sanitation and water sources. Despite the fact that cities in general provide better access to safe water and sanitation, rapid urbanization has led to high levels of inequality in access within cities. In general, physical infrastructure remains poor in the country and is one of the major challenges in both rapidly growing cities and poor rural areas.

2 | Political Participation

Local and national elections are arranged every five years. As a single-party regime, there are no alternative parties to vote for other than the Vietnamese Communist Party (VCP). Organization of competing political parties is considered a criminal act. Voting is compulsory in the country from 18 years of age and at 21 citizens may stand

Free and fair elections
2

for election. The VCP controls the nomination procedures for elections. All candidates who are standing for elections are first vetted and approved by the Vietnam Fatherland Front (VFF), which also applies for ‘independent’ candidates (meaning non-party members standing for election). In the most recent election for the 13th National Assembly (quoc-hoi), 22 May 2011, 827 candidates were approved by the VFF to compete for the 493 seats. Of these candidates, 42 were not members of the VCP and four were self-nominated, meaning they were not recommended by a party-state organization. The 2011 election had fewer ‘independent’ and ‘non-party’ candidates than the previous election.

Vietnam’s leaders are not selected through elections that fulfill minimum standards of free popular choice and fair process. The military is represented in the most important political institutions, including the Politburo and the Central Committee of the Communist Party. If the number of seats in these two respective institutions are an indication of the military’s influence, then there has been a slight increase since the last election. This assessment is supported by Carlyle Thayer, who argues that the military’s representation had been fairly constant during recent elections, but has increased somewhat since the last election. Furthermore, economic elites are entrenched within elite politics. Martin Gainsborough contends, in his research on elites in Ho Chi Minh City, that it is often very difficult to distinguish between economic and political elites in any meaningful way.

Article 25 of the 2013 Constitution guarantees all citizens “the right to freedom of speech and freedom of the press, and have the right of access to information, the right to assembly, the right to association, and the right to demonstrate.” However, the first article under Chapter II, “Human Rights, Fundamental Rights, and Obligations of Citizens,” allows restrictions on human rights if it is in the interest of national defense and security, public order or social morality (Article 14:2). In addition to these provisions, there are also regulations and directives which further water down freedoms of association and assembly. Decree No. 88/2003 was expected to define the new boundaries between civil society and the state, which had been discussed for many years. The decree defined ‘association’ as “a voluntary body of Vietnamese citizens and organizations that have the same area of work and the same interest/hobby, are of the same gender, and pursue the same purpose of bringing together and uniting its members’ legitimate rights and interests, helping one another to work effectively and efficiently, contributing to the socio-economic development of the country” (Article 2). Thus, organizations are allowed to work within the clearly defined boundaries of pre-defined national interests. Article 23 of the same decree stipulates that it is the obligation of associations to “be subjected to management by the Government agency responsible for managing the area/sector in which the Association operates”. The leadership of the organization must be approved by the responsible government agency to which it must also provide regular reports. Vietnamese workers are forbidden to organize trade unions independent of the

Effective power to govern

2

Association / assembly rights

3

government-controlled labor confederation. Decree 38 bans public gatherings in front of government or party offices or in front of places where government, party or international conferences are held, and requires organizers of public gatherings to apply for and obtain advance government permission. During the assessment period, there were several occasions of severe crackdown on protestors. In particular, repression was directed at demonstrations related to the South China Sea and Vietnam's relations with China as well as peaceful human rights, such as the "Human Rights Picnics" where people gathered in the public parks of major cities to discuss the UN Declaration of Human Rights. Human Rights Watch reported that, in May 2013, authorities in three cities "intervened with violence, temporary arrests, and concerted harassment to prevent and breakup "Human Rights Picnics." On the other hand, the internal security forces often allowed workers protests without repression. In general, all labor strikes are illegal, because they do not follow the cumbersome formal process stipulated by law. Labor strikes are allowed if demands are related to rights (as defined in existing laws), but not over interests (defined as being beyond the rights stipulated in laws). Overall, there has been an increase in the number of public protests organized by informal civil society actors in the period under review. There was some evidence of formal NGOs being able to advocate policy change in specific issue areas.

International human rights organizations, like Amnesty International and Human Rights Watch, agree that the human rights situation has deteriorated significantly, particularly in 2013, with the arrest many people engaged in demonstrations or arranging informal organizations. But there were also some positive steps. In 2013, the National Assembly Committee for Foreign Affairs and the United Nations Development Programme (UNDP) carried out the first ever comprehensive legal review of international human rights conventions to which Vietnam is a party. The aim of this review was to identify gaps in national legislation relating to human and citizen rights. Vietnam also accepted 182 of the 227 recommendations made by the United Nations Human Rights Council (HRC) in its June 2014 review on Vietnam's human rights record. Although several of the crucial recommendations were rejected. These include recommendations relating to the release of political prisoners, legal reform preventing politically motivated imprisonment and protecting opportunities to peacefully exercise fundamental human rights, the creation of an independent national human rights institution and initiatives to promote public participation in politics.

New legislation has been introduced to simplify the process of submitting citizen petitions. Public protests continue to rise. There was no new official report on public protests during the period under assessment. The most recent report by the National Assembly stated that protests, or gatherings of large numbers of people, had seen a 22% increase between 2011 and 2012. A majority of these were related to land conflicts and land-grabbing by local politicians, according to the report. Considering

the smaller and large scale anti-China protests in the period, as well as continued labor protests and human rights protests, the number of public protests is likely to be higher in 2013 and 2014 than in the previous period.

Freedom of expression is guaranteed under chapter two, of the 2013 Constitution, “human rights and citizen’s fundamental rights and duties.” Articles within the human rights chapter, however, are conditional on article 2, which limits these rights under circumstances of “national defense, national security, social order and security, social morality and the health of the community.” The constitution guarantees freedoms of expression, including press, speech, assembly, movement and association. However, these freedoms have been severely restricted during the assessment period. The period saw both increased repression as well as an increasingly lively public sphere. In June 2014, for example, official online media published stories on the crackdown of the democracy movement at Tiananmen Square 25 years earlier. Previously, the reporting Chinese internal affairs has been off limits for Vietnamese media. However, it is likely that China’s increasingly confrontational moves in the South China Sea has led to this change in attitude among censors. Newspapers also reported on the pro-democracy ‘umbrella movement’ in Hong Kong.

Freedom of
expression
2

Traditional media is controlled by the party-state, but there is some limited space for independent reporting. In particular, there are a few specific newspapers that have stood out in this regard. In large cities, however, ‘citizen journalism,’ blogs and social media have surpassed newspapers as the most popular sources of information. Individual journalists and bloggers are testing the limits to free expression. Some journalists at official print newspapers have published stories, which were prevented from being printed in the newspapers, on their blogs.

On 15 July 2013, the government issued Decree 72/2013/ND-CP, which came into effect on 1 September 2013. Decree 72 was a response to the fast and seemingly uncontrollable development of social media. It is an extensive and detailed regulation of activities relating to providing internet services and activities on the internet. It makes it illegal to share or discuss news online and in effect bans all contents that in any way criticize the regime or the Vietnamese Communist Party. The decree strictly forbids the use of internet services to oppose the government or harm national security, national interests, social order and national unity. Owners of internet cafés were made responsible for customers’ internet use and are required to install government approved software to monitor customers’ online activities. Article 5 of the decree limits broad range of online activity, including “opposing the Socialist Republic of Vietnam,” inciting violence, revealing state secrets and providing false information. A couple of months later, Decree 174 was introduced, which is supposed to deal with offenses that are not serious enough for a prison sentence. This decree instituted ‘administrative fines’ of up to 100 million VND for anyone who “criticizes the government, the party or national heroes” or “spreads propaganda and reactionary

ideology against the state” online. While not being able to control the internet as thoroughly as in China, there are also other strategies to deal with online content. In January 2013, the BBC reported that Hanoi’s Propaganda and Education Department was running at least 400 online accounts and 20 microblogs to “fight online hostile forces.”

Internet usage has been growing fast in Vietnam. A 2014 survey found that 67% of internet users between the ages of 25 and 34 were accessing the internet every day. In the age group between 16 and 24, 81% of users accessed the internet every day. By the end of May 2014, official Vietnamese media reported that there were 35 million internet users and perhaps the fastest growing ‘Facebook population’ in the world with nearly 25 million Facebook accounts. The number of Facebook accounts belonging to Vietnamese users was estimated to have doubled between 2013 and 2014. Facebook services were occasionally blocked during the assessment period, but blocks were generally easy to bypass. Although, the blocking of Facebook services was reported to have been less common in this period than before.

Reporters without Borders stated, in its 2014 annual report, that Vietnam was “the world’s second biggest prison for bloggers, only bypassed by China.” Consequently, Vietnam ranked 174 of 180 countries in their Press Freedom Index. In January 2015, Prime Minister Dung stated publicly that Vietnam would stop banning social media services. Official media reported that the prime minister said “You are all on social media, checking Facebook for information” and “it is impossible for us to ban it.” His message was that the government should instead use social media in order to reach out with ‘correct’ information to the public. While still investing in information and communication technology, Vietnam had doubled the number of netizens in prison between 2011 and 2014. The period under assessment started with a high-profile trial in January 2013 in which 14 young activists and bloggers were convicted of political crimes. They were sentenced to up to 13 years in prison. The same month, a Vietnamese court began the trial of 22 democracy activists in the central province of Phu Yen on charges of “activities aimed at overthrowing the people’s administration.” Bloggers have in general been charged with “abusing democratic freedoms to infringe on the interests of the state and on the legitimate rights and interests of organizations and citizens” (article 258 of the criminal code), or article 88 which prohibits “propaganda against the State of the Socialist Republic of Vietnam.”

3 | Rule of Law

There is no separation of powers in Vietnam, the legislature, the executive and the judiciary are combined into the party-state system. The Vietnamese Communist Party (VCP) formulates the strategic policies, while the government, comprising the executive agencies (the state apparatus) and the National Assembly, is responsible

Separation of
powers
2

for implementation. The Politburo is elected by the VCP Central Committee, which is in turn elected by the Party Congress, which is held every five years. The Central Committee Party Secretariat issues directives to party members and oversees government policies on a day-to-day basis. The party and government organizations are intertwined at every level of the administration. One-party rule was reconfirmed in the 2013 Constitution. The National Assembly has gained more prestige and become more actively engaged in debates of policies and laws. Debates are taking place in the National Assembly and sometimes delegates vote against suggested bills. Delegates are also increasingly interested in offering their views to the public through interviews in the media. On 11 June 2013, the National Assembly was empowered with the authority to hold its first ever vote of confidence in which delegates were allowed to rate each minister as well as other selected high ranking officials on a scale of low, medium or high confidence. An official would be monitored for two years, if more than 50% of votes indicated low confidence in them. In addition, immediate action would be taken against an official where two thirds of votes indicated low confidence. None of the officials reached the 50% threshold. However, among those who received the worst scores were the State Bank Governor Nguyen Van Binh with 42%, the Prime Minister Nguyen Tan Dung with 32%, and the Health and Education Ministers with 29% and 36% respectively. This suggests that voting reflected the poor performance of economic, education and health policies. In the public debate, the prime minister has been connected with the debts of the SOEs. In May 2013, a parliamentary committee issued a report stating that the shipbuilding company, Vinashin, was close to bankruptcy in 2010 with the company's debts having reached \$4.5 billion. Vietnam's public debt burden has also been increasing.

Several articles in the Criminal Procedure Code contain provisions guaranteeing the independence of courts and Procuracies in legal proceedings. These include Articles 16, 23, 36, 37, 181, 195, 196 and 232. The Penal Code also contains one article (Article 297), which protects, prevents and handles acts infringing upon the independence and objectivity of members of judicial agencies in investigations, prosecutions and trials. In addition to these legal provisions, the independence of courts is also supposed to be assured by provisions in the 2002 Law on the Organization of the People's Courts and the Law on the Organization of the People's Procuracies. Despite these provisions, the judiciary continues to be influenced to the Vietnamese Communist Party. Judges have limited tenure and are selected through political processes. The party directs politically sensitive judgments. There is an on-going judicial reform process in Vietnam led by a Central Steering Committee for Judicial Reform, which is headed by President Truong Tan Sang. In early 2015, the former deputy justice minister Nguyen Duc Chinh was quoted in the Tuoi Tre (Youth) daily as having said that "corrupt officials make up a big proportion of the judicial office and it is hard for the public to trust the judicial system." In addition, the deputy chairman of the Ho Chi Minh City Lawyers Association, Nhuyen Van Hau, stated "a lot of lawyers pay bribes [to get a favorable verdict] because judicial officials demand

Independent
judiciary
2

them.” He explains further that “the existing justice model has created conditions for lawyers to become bribers to get favorable verdicts because of the lack of oversight over the justice system.”

Several agencies have been established in Vietnam in recent years tasked with controlling abuse of power related to public office, but they continued to lack coordination. From time to time officials are held accountable both in relation to public corruption and other forms of abuse of office. However, the general perception is that it may depend on changing fortunes relating to the system of patronage. In February 2014, a high-profile case was concluded when the Hanoi People’s Court sentenced Bui Quoc Anh, a former deputy general director of the Viet Nam National Shipping Lines (Vinalines), to three years in prison for “abusing power while on duty.” The same trial also sentenced four other defendants for embezzlement and for abusing their positions. Some observers believe these convictions and others may be politically motivated, and related to internal power struggles among the top echelons of the party.

Prosecution of
office abuse
3

While the 2013 constitution guarantees civil rights, in practice these rights only protected to a limited extent. During the period under assessment there has been some progress made with respect to LGBT rights. For example, the government removed the ban on same-sex marriages through an amendment to the Marriage and Family Law, which came into effective from 1 January 2015. It is the the first country in Southeast Asia to legally recognize same-sex marriages. Men and women enjoy the same formal rights and legislation prohibits discrimination on the basis of gender. On 7 November 2013, Vietnam also signed the UN Convention against Torture.

Civil rights
3

Religious rights were respected if religious groups and individuals operated within the party-state religious organizations. Religious activities and organization outside these official organizational frames are in general not permitted. Some of these organizations were reported by international human rights organizations as having been targeted by government monitoring, harassment and sometimes violence.

According to Human Rights Watch, the general situation for civil and human rights “deteriorated significantly” in 2013. In particular, repression of bloggers and democracy activists increased. It was estimated that there were 150 to 200 political prisoners in 2014, of which as many as 63 had been convicted in 2013 alone. This criticism came not only from international human rights organizations, but from many organizations, bloggers and some high level party officials within Vietnam. For example, the vice president of the Vietnam Fatherland Front in Ho Chi Minh City, in a widely read article, called the political regime a dictatorship, which had only been developing in an increasingly authoritarian direction. According to the vice president, there could never be democracy in Vietnam without an official opposition and,

therefore, he argued for establishing a new party in opposition to the Communist Party.

4 | Stability of Democratic Institutions

There are no democratic institutions in Vietnam. All formal political institutions are institutionally linked to the party. Every formal political or socio-political organization, such as the mass organizations, is embedded formally and informally in the party-state. The political institutions were stable during the assessment period.

Performance of democratic institutions
1

Elections to the People's Congress at county, municipal, provincial and national levels are not freely competitive, even where there are more candidates than seats. The political leadership openly rejects parliamentary, democratic institutions. All the candidates who desire to stand for election at any level are first vetted by the Vietnam Fatherland Front (VFF), which is a part of the party-state structure. The VFF is the umbrella organization responsible for all mass organizations of the party-state.

Commitment to democratic institutions
2

5 | Political and Social Integration

The government bans all independent political parties. According to Article 4 of the 2013 Constitution, the Vietnamese Communist Party is responsible for providing the state and society with leadership. Mass organizations, organized under the Vietnam Fatherland Front, are expected to fulfill the role of functional representation in the political system. It is, for example, the role of the Vietnam General Confederation of Labor to represent the interests of workers in the political sphere.

Party system
1

Formal and informal (i.e. unregistered) civil society groups and activists are increasingly able to advocate for policies related to their own interests. While there are many restrictions on the establishment of civil society organizations, these organizations have flourished in recent years. To be able to operate, the organizations need to work within the framework established by the Vietnamese Communist Party. They are also obliged to report their activities to the government organization responsible for overseeing their activities. The formal civil society sphere consists of domestic and international NGOs, professional organizations, business associations (foreign and domestic), and religious and community organizations. The business associations - in particular the various associations of foreign investors - are among the most powerful of the civil society organizations.

Interest groups
3

The formal representation of interests typically occurs through the party-state mass organizations. Laws provide these organizations with the right to give their opinion and recommendations on issues relating to their immediate sphere of interest. The executive committee of the Vietnam General Confederation of Labor, for example, regularly meets with committees belonging to the Ministry of Labor, Invalids and

Social Affairs, and the National Assembly. The purpose of these meetings is to discuss issues of specific concern for their members. A problem in recent years, however, has been the increased lack of legitimacy that these mass organizations have among their constituent members.

As is the case in several other autocracies in Southeast and East Asia, the results of recent public opinion surveys such as the Asian Barometer Survey (ABS; 2012) in Vietnam demonstrate that the vast majority of Vietnamese seem to support democracy as an idea while at the same time exhibiting strong support for the political institutions of the authoritarian regime. In fact, the level of institutional support in Vietnam is the highest among all seven countries in Southeast Asia (and second only to China in all of East Asia) for which the ABS 2012 provides data. Moreover, in the ABS and other surveys, Vietnamese respondents show a high level of satisfaction with how “democracy” works in their country. The seeming contradiction between support for the idea of democracy and authoritarian practices, combined with the Vietnamese’ belief that they live in a democracy not only suggests that their understanding of democracy is very different from that which involves multiparty representative institutions, but also makes it difficult to assess just how strong support for democracy and its institutions are in Vietnam.

Approval of
democracy
n/a

Survey data on social capital in Vietnam is inconclusive owing possibly to differences in the interpretation of survey questions. With a score of 19.6 on the 2012 Gallup Civic Engagement Index, Vietnam ranks 136th of 160 nations in the survey, which assesses individuals’ likelihood to volunteer their time and give assistance to others (the highest score achieved by any country was 60). Only 13% of Vietnamese donate money to charity (a decline of 4% compared to the 2009 poll), and just 8% (increase of 2%) volunteered their time; both figures are in the world’s lowest quartile. At the same time, according to the East Asian Barometer Survey for Vietnam, which uses 2005 data (the most recent available), 59% of respondents “strongly agreed” with the statement: “A citizen who does not actively participate in the affairs of his local and national community is not performing his duties.” Based on the World Values Survey, a comparatively high 52.1% of Vietnamese believe they can trust others (2006 data – most recent).

Social capital
3

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
5

Although being a middle-income country (according to World Bank criteria), Vietnam remains a poor country. The country is held up as a good example, by international development organizations, because of its impressive achievements in reaching the Millennium Development Goals (MDGs). The proportion of the population living below the national poverty line decreased from 28.9% in 2002 to 14.2% in 2010 to 12.6% in 2012. The national poverty line for Vietnam, annually adjusted for inflation, is currently defined as a monthly average income of 480,000 VND (\$23) for rural areas and 600,000 VND (\$29) for urban areas.

In April 2014, the Ministry of Labor, Invalids and Social Affairs reported that the national poverty rate was 7.8%. However, the UNDP cautions that poverty rates are likely to be underestimated due to relatively low poverty thresholds by international standards and the exclusion of key vulnerable groups from national surveys. In comparison, the minimum wage ranged between 1.9 million and 2.7 million VND (\$90 to \$128) a month in January 2015, depending on the cost of living in different locations. The minimum wage, however, is not adequate to cover all the costs of living.

The “achievements in poverty reduction are very impressive,” said the World Bank in 2013. However, a slowdown in economic growth after 2009 has negatively affected poverty reduction. It is increasingly difficult for poverty reduction initiatives to reach the poor. Patterns of poverty are also closely associated to ethnicity. Although Vietnam’s 53 ethnic minority groups make up less than 15% of the population, they account for nearly 50% of the poor in 2010, according to the World Bank.

Vietnam’s Human Development Index (HDI) value for 2013 was 0.638, which places it in the ‘medium human development category’ of countries. The 2013 Gender Inequality Index (GII) value was 0.322, which meant that it was ranked 58 out of 149 countries. Almost 60% of adult women had achieved a secondary level of education, compared to 71.2% of males. Furthermore, in 2013, the labor force participation rate for women was 72.8%, compared to 81.9% for men.

There has been a moderate increase in economic inequality, measured by nationally aggregated Gini coefficients. However, economic inequality is not evenly spread. In some provinces, people are still more or less equally poor. In other provinces, citizens have experienced fairly equal economic development. Meanwhile, in a third group of

provinces, there has been a fast increase in economic inequality. In other words, nationally aggregated levels of economic inequality fail to capture politically relevant geographic patterns. Despite moderate changes in economic inequality at the national level, there has been a development in geographically concentrated areas, or agglomerations, of extremely high levels of economic inequality. Moreover, the distributional implications of economic development differ depending on whether results are calculated nationally or locally.

Perceptions of economic inequality follow a similar pattern. A World Bank survey, published in 2014, shows a “substantial concern about inequality” exists among Vietnamese citizens, particularly among urban residents. As much as eight out of ten urban residents expressed a strong concern about rising levels of economic inequality. The World Bank reported that inequality increased both in terms of income inequality and inequality of opportunity. The World Bank further reported that “high-end wealth” had also increased. By 2014, the number of extremely wealthy individuals had skyrocketed. By one estimate, the number of “super-rich,” defined as having assets of more than \$30 million, had nearly quadrupled in ten years.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	57633.3	115931.7	171222.0	186204.7
GDP growth	%	7.5	6.4	5.4	6.0
Inflation (CPI)	%	8.3	8.9	6.6	4.1
Unemployment	%	2.1	2.6	2.0	-
Foreign direct investment	% of GDP	3.4	6.9	5.2	-
Export growth	%	17.8	8.4	17.4	11.6
Import growth	%	14.2	8.2	17.3	12.8
Current account balance	\$ M	-560.2	-4276.0	9471.0	-
Public debt	% of GDP	36.5	48.1	52.6	57.2
External debt	\$ M	19038.7	44922.6	65460.7	-
Total debt service	\$ M	969.2	1873.4	5070.9	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	5.5	6.0	6.2	6.3
Public expnd. on education	% of GDP	-	6.3	-	-
Public expnd. on health	% of GDP	1.4	3.0	2.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.8	2.3	2.2	2.3

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The Deputy Minister of Labor, Doan Mau Diep, estimated in September 2014 that about two-thirds of the total workforce was involved in vulnerable and low productivity jobs in the informal sector. The informal sector accounts for about 20% of GDP and includes 8.4 million informal household businesses. At the national level, manufacturing and construction make up the largest informal industry (with 43% of total employment in the informal sector), followed by trade (31%) and services (26%). SOEs control around 40% of the country's economic output, but the role of the private sector has steadily grown. In 2014, private firms dominated the list of the 500 largest enterprises in Vietnam (according to the VNR500 list, published by Vietnam Report, 2015) and accounted for 44% of the companies in the list, compared to about 20% in 2007.

While price control has largely been abolished during the reform process since 1986, the state still determines the price or price limit for several goods and services, including petrol, gas and electricity. In November 2013, Decree No. 177/2013/ND-CP eased the control of cement prices through removing it from the list of goods and services subject to price stabilization, and moved it a list of goods and services subject to "price declaration." This list includes construction steel, coal, animal feed, printing paper, writing paper, domestically produced newsprint paper, textbooks and functional food for children. Decree 177 regulates that public authorities must be notified of a price change by manufacturing and business organizations at least five days before the price is set.

Market-based
competition
4

The main deterrents to trade and investment are the opaque legal system, complex foreign investment laws, persistent high levels of corruption, an underdeveloped financial system, and unclear rights relating to land ownership and usage.

The Vietnam Competition Law applies to all types of businesses operating in Vietnam, regardless of ownership type.

Two bodies are in charge of regulating the competition law, namely the Vietnam Competition Authority (VCA) and the Vietnam Competition Council (VCC). The VCA is in charge of investigations, while the VCC is the authority responsible for final decisions. The VCA is organized as a department under the Ministry of Industry and Trade, and the VCC comprises 11 to 15 members appointed by the prime minister. The Council is independent of the Ministry of Industry and Trade, and has the power to control economic competition, conduct investigations into anti-competitive conduct and handle sanctions of unfair practices. To date, the VCC had only resolved three cases concerning competition and price-fixing cartels. However, according to its own annual reports, it deals with over 30 cases of unfair competition practices each year. In 2013, the number of cases handled by the VCA fell sharply to only five cases. According to the VCA annual report 2013, this was due to legal issues relating to the competence of the General Director of the VCA. A draft decree was submitted to the government in 2013, which intended to replace a previous decree on violations of the competition law and clarify the legal competencies of the General Director of the VCA.

One of the more important policies related to the Doi Moi process has been Vietnam's opening up to the global market. In 1995, Vietnam became a member of ASEAN. In 1998, it became a member of APEC. In 1994, the U.S. embargo was lifted, while a bilateral trade agreement was signed with the United States in 2000. In 2007, Vietnam joined the WTO. As a member of ASEAN, Vietnam became a member of the ASEAN Free Trade Zone (AFTA), leading to sharp reductions in tariffs on imports from Southeast Asian countries. Under the U.S. Bilateral Trade Agreement, average tariffs on Vietnam's exports to the United States were reduced from about 40% to between 3% and 4%, and Vietnam undertook significant commitments to reduce its own tariff and non-tariff trade barriers. Tariffs and duty rates are frequently revised. There is an extensive list of prohibited import items.

Between 2008 and 2010, Vietnam signed a free trade agreement (FTA) with Japan, while also joining the ASEAN-Australia-New Zealand and ASEAN-China FTAs. In 2014, Vietnam concluded negotiations for a bilateral FTA with its largest foreign investor, South Korea, which is expected to come into effect in 2015. In January 2015, it was announced that the Trans-Pacific Partnership negotiations are expected to be concluded and signed during the first quarter of 2015. This is essentially a FTA between 12 countries, including the United States, Japan, Canada, Singapore, Mexico, Australia, Chile, Peru, New Zealand, Brunei and Vietnam. Vietnam is also

Anti-monopoly
policy

6

Liberalization of
foreign trade

8

negotiating a FTA with the EU, which is expected to be signed in the beginning of 2015.

Vietnam's banking sector is still strictly regulated. The primary legislation governing the banking industry is the Law on Credit Institutions (2011). It specifies permitted activities for commercial banks and non-bank credit institutions (i.e. financial companies, financial leasing companies, and others).

Banking system

4

During the assessment period, the issues under most focus were non-performing loans, transparency and corruption related to the banking sector. Doubts were cast over the State Bank of Vietnam's (SBV) reported estimates of bad debt. According to the rating agency Moody, 15% of all assets and investments made by Vietnamese banks were "problem assets." In contrast, the SBV estimated problem assets to be less than 5%. In December 2014, the SBV stated that the ratio of non-performing loans as a proportion of all loans at only 3.63%. In an attempt to deal with bad debts in the banking system and to help recapitalize the banks, the SBV in July 2013 set up the Vietnam Asset Management Company (VAMC). In the first quarter of 2014, the VAMC was reported to have purchased nearly 4 trillion VND (\$190.4 million) in bad debts from 10 different credit institutions. Since its launch, it has bought a total of 42.8 trillion VND (\$2.038 billion) of debts from 40 credit institutions.

In 2014, there were a number of high-profile banking officials were arrested on suspicion of fraud, tax evasion and embezzlement. On 26 September 2014, according to Thanh Nien (daily), the Ho Chi Minh People's Court sentenced four former officials of the state-owned Agribank to life imprisonment and three other officials to death by lethal injection. They were convicted of embezzlement, "abuse of position of power," taking bribes, and "intentionally violating state regulations on economic management." The verdicts were seen by some as a sign of the government's commitment to clean up corruption in the banking sector. However, others saw the verdicts as evidence of widespread corruption, poor management and oversight in the banking sector.

8 | Currency and Price Stability

In the mid 1980s, Vietnam experienced a period of hyperinflation. Since then, managing inflation has been a key government priority. After high levels of inflation in recent years, with inflation peaking at 23% in August 2011, inflation was brought under control in 2013, when it dropped to 6.6% and to 1.84% in 2014. In January 2015, inflation was reported to have fallen to the lowest level in over 13 years. By early 2015, Tran Hoang Ngan, in association with the National Advisory Council on Monetary and Financial Policies, said that Vietnam had sacrificed economic growth for economic stability.

Anti-inflation /
forex policy

7

The national currency, the Dong, is not convertible. The State Bank of Vietnam (SBV) operates a managed floating policy, the so-called crawling peg. While the Vietnamese Dong (VND) is tied to the dollar at a certain rate, the VND had previously been allowed to crawl within a 1% band either side of the pegged rate, reflecting the SBV's judgment of market developments. The effect is that the inflation differential, between the United States and Vietnam, cannot freely impact the relative values of the two currencies. In 2014, the SBV put a 2% cap on fluctuations of the VND against the dollar. In a meeting with the National Assembly in September 2014, the central bank governor said 2014 would be the third consecutive year the SBV had stabilized the exchange rate by allowing it to adjust within a set range. Vietnam's forex reserve increased in 2013 and 2014. It reached a record high of \$35 billion in September 2014, according to the SBV.

The SBV is not independent of the political system, but is a component within the party-state. According to several different indexes measuring central bank independence, the SBV is less independent than comparable developing markets (Duong Thi Thuy Nga and Do Van Vinh 2014).

The implementation of stabilization measures in the period of assessment has continued to stabilize the macroeconomic situation. There has been a turnaround in the current account balance from a deficit of 3.8% in 2010 to a surplus of 5.9% in 2012 and 5.6% in 2013 (IMF). The 2012 surplus was, according to the World Bank, the largest in the country's history. The exchange rate was also stable and there were significant increases in foreign reserves. The trade balance is in surplus and the total volume of exports rose by 16% in the first half of 2013 compared to the same period the year before. Meanwhile the ratio of FDI to GDP declined in 2013, according to World Bank estimates. The value of exports also increased by 15.9%, as measured in dollars, in the first five months of 2014. While the official unemployment rate was 1.9% in 2013, the unemployment rate among those under 25 was more than 11% in urban areas, according to ILO. Most employees are employed in vulnerable, low-producing, low-income jobs, with poor social protection and working conditions. Economic growth was 5.42% in 2013 and 5.9% in 2014, compared to a set target of 5.8%.

However, public debt continued to rise in 2013 and 2014, and reached \$70 billion in late 2013. The government, leading Vietnamese economists and the IMF worried that public debts were reaching unsafe levels. By December 2014, a report from the Ministry of Finance said that Vietnam's debt had climbed from 889 trillion VND in 2010 to 1,500 trillion VND in 2013, equivalent to 60% of GDP. National debt is expected to rise to 64.9% of GDP in 2016. The IMF suggests that a safe level of debt for Vietnam would range between 40% and 45% of GDP, while the government ceiling is set at 65%. A report by a parliamentary committee, in May 2013, argued that the national public debt level is even more alarming than suggested by these

statistics, given that debts owed by SOEs (except debts that are guaranteed by the government) are excluded from these calculations.

Vietnam sustained a value of 4.5 in The World Bank's CPIA fiscal policy rating for the period 2010-2013, which is above average for the surveyed countries (mainly low and middle-income nations). The CPIA assesses the short and medium-term sustainability of fiscal policy, taking into account monetary and exchange rate policy and the sustainability of the public debt – and its impact on growth. The scale ranges from 1 (low sustainability) to 6 (high sustainability).

9 | Private Property

Property rights and the regulation of property acquisition are formally defined by law, but are not yet sufficiently protected from intervention by the state. Major disputes and protests have emerged during the period of assessment in relation to land rights. The 2015 International Heritage Index of Economic Freedom, private property rights are not strongly respected, and resolution of disputes can take years. Infringements of intellectual property rights are common. The 2015 report gives Vietnam an unchanged score of just 15 (a maximum of 100), as compared to the previous BTI assessment period.

Property rights

4

Significant obstacles to private sector development continue to exist in terms of access to credit and real estate. During the period of assessment, issues of transparency and the high level of debt related to SOEs have been vigorously debated. The government has reaffirmed its plan to restructure Vietnam's economy with a focus on reforms, and continued privatization of SOEs and the banking system. The 2013 constitution, however, reaffirms the leading role of the state sector in the economy.

Private enterprise

5

In 2014, despite the reaffirmation of the leading role of the state sector in the economy, several laws were amended in order to facilitate the continued development of the private sector. These included the amended Law on Investment, Law on Enterprises, and Law on Public Procurement. The Vietnam Business Forum in December 2014 estimated that there were approximately 600,000 private enterprises in 2014 (compared to approximately 15,000 when reforms were introduced in 1986). The Ministry of Finance, in 2012, announced that 367 firms were to be privatized by 2015. However, in January 2015, a delegate of the National Assembly inquired why the state budget provided no account of the contributions made from the equitization of SOEs. It is generally estimated that the private sector accounts for between 50% and 60% of GDP. Meanwhile, the state owned sector's contribution toward GDP was reported to have dropped to 32.2% of GDP. It is likely that this decline reflects inefficiencies, rather than a general decline in the sector. SOEs continue to enjoy a monopoly in the telecommunications, aviation, electricity, energy and petroleum

sectors. In the period under assessment, the prime minister announced plans to equitize (i.e. partially privatize) the telecommunications sector. The state-run Vietnam Posts and Telecommunications Group (VNPT) subsequently announced that it had submitted a plan to separate MobiPhone (one of three telecommunications SOEs that accounted for 95% of the market) from VNPT to the government. By the end of 2014, however, no detailed plans for the equitization of the company were publicly available.

10 | Welfare Regime

Overall, the welfare system is still inefficient, and faces multiple challenges. Apart from limited coverage, there is also high inequality in terms of coverage. For example, the richest 20% of the population receives 40% of all social welfare resources, while the poorest 20% receive about 7%. Furthermore, public expenditure on social security programs is insufficient. However, Vietnam is adopting a market-based mechanism to deliver public services, which includes a compulsory social insurance program for public sector employees contracted for a minimum of three months. Voluntary insurance schemes exist for, among others, self-employed workers. However, since the social insurance program exclusively covers those working in the formal sector, only about 25% of the workforce is covered by the scheme. For the millions of people living near or under the poverty line, the lack of social security coverage is a major challenge, with informal networks of family and social groups being their only safety net. However, there are specific programs targeting extremely poor households or people who participated in the National Revolution. According to an OECD report, the latter accounted for one-third of the total state budget for cash transfers. Evasion and postponement of compulsory social insurance payments by both employees and employers continues to be a serious problem. Many of the frequent labor strikes are responses to employers evading social insurance payments.

Social safety nets
5

According to the World Bank report 2014, there has been a rather dramatic rise in inequality of opportunity between groups within urban areas. In addition, the situation is particularly alarming among ethnic minorities.

Equal opportunity
6

Vietnam has made some progress towards gender equality, though substantial problems persist. The Global Gender Gap Index 2014 ranked Vietnam 76 out of 142 countries, while the UNDP Gender Inequality Index gave Vietnam a score of 0.322. Women play an important role in the economy. Currently, the labor force participation rate of women is 72.8%, compared to a participation rate of 82.9% for men. Yet, it is also notable that the majority of female workers are concentrated in the informal sector and in vulnerable types of employment. Current legislation is failing to adequately address issues of domestic violence, sexual abuse of women, prostitution and trafficking of women. Women within ethnic communities are

particularly disadvantaged. For example, of women from an ethnic minority, one in four is illiterate, while roughly only 60% of girls aged 15 to 17 are in school. Ethnic minority women also have a much higher infant and maternal mortality rate compared to the national average.

11 | Economic Performance

Per capita GDP at current U.S. prices reached \$1,910 in 2013, up from \$1,523 in 2012. In 2010, Vietnam achieved middle-income status according to World Bank criteria. Economic growth continued to stay at moderate levels at 5.42% in 2013 and 5.9% in 2014.

Output strength
8

The country's Consumer Price Index (CPI) 2013 increased by 6.6% compared to 2012. This was the lowest rate of increase for a decade. In 2014, the CPI increased by only 4.03%. For 2013, FDI increased by 36% compared to 2012, bringing total registered FDI capital to \$22.34 billion, according to a 2014 Ministry of Planning and Investment's Foreign Investment Agency. In the first six months of 2014, newly registered FDI capital was \$6.85 billion, which was equivalent to 64.7% compared to the same period of 2013. After reaching a trade surplus for the first time in 20 years in 2012, a trade surplus was maintained for the two following years. The trade surplus was \$863 million in 2013 and \$2.4 billion in 2014. Vietnam has an extremely inefficient tax collection system and often fails to detect tax evasion. According to the Heritage Foundation's Index of Economic Freedom, Vietnam's tax revenue accounted for 19.6% of GDP in 2014.

12 | Sustainability

Vietnam faces multiple challenges related to the deterioration of the environment. Biodiversity is shrinking. Illegal exploitation of timber, forest destruction and environmental pollution destroys habitats of many wildlife species. In recent years, environmental movements have focused mainly on polluted rivers and Bauxite mining in the central highlands by Chinese companies.

Environmental
policy
6

According to the Asian Development Bank (ADB), the Vietnamese government has demonstrated a strong commitment to the strengthening of strategic, legislative, and institutional context for environmental protection and management. The strategic and policy framework has been enhanced through the development and adoption of a number of high-level strategies, including the National Strategy for Environmental Protection to 2010 and Vision Toward 2020, which acknowledges the links between the environment and poverty, but does not mention any potential tension between the environment, and the government's current trade and FDI based development strategy. There is a lack of hierarchy between and prioritization of the various

strategies. In 2014, new legislation on the management of natural resources was introduced. To date, most of the national and local projects related to the environment are supported and financed by international donors. Vietnam has a comprehensive national policy to address the effects of climate change and regularly consults with the donor community and international NGOs on the methods to mitigate the impact of climate change, including rising sea levels.

Education is a key priority for government spending. Education is also one of the sectors where Vietnam has achieved some of the fastest and most impressive successes in its efforts to reach the Millennium Development Goals (MDG). The country's literacy rate is reported to be 94%, which is high compared to countries with an equivalent income level. According to the 2009 national census, 97% of children went to primary schools and 88.5% of them finished five years of primary education. There is also universal access to childcare services for children of five years of age. There are no major gaps regarding the literacy rate or enrollment rates between rural and urban populations or between genders. The principle challenges for the education system are the number of well-qualified teachers and the lack of a modern curriculum. The lack of a modern curriculum is particularly evident in some higher education institutions. In some fields, such as the social sciences, the lack of modernization is connected to a lack of academic freedom. Vietnam has 376 universities, with places for 400,000 of the 1.2 million candidates who annually sit the university entrance exams. In 2010, only 0.5% of the population attained tertiary education. There are repeatedly reports of the falsification of degrees and other forms of corruption within the education system.

According to the Ministry of Science and Technology, there are nearly 1,500 scientific research institutes, which employ 2.6 million people, including 60,000 researchers. Yet, R&D expenditure was only about 0.2% of GDP, according to the latest available data (2002).

Education policy /
R&D
6

Transformation Management

I. Level of Difficulty

The country suffers from inadequate physical infrastructure. Moreover, while Vietnam has been largely successful in eradicating extreme poverty, this success has been uneven and extreme poverty persists within certain regions and cultural groups. The ethnic dimension of poverty is particularly strong, with as much as 50% of ethnic minority groups still living in poverty. New data also shows an increase in disparities within more prosperous regions. The rapid rate of urbanization, particularly in the Ho Chi Minh City area, has led to some of the more important challenges.

Structural
constraints

5

Vietnam's political system has long been regarded as highly stable. However, in the period under assessment, there has been an increase in public demands for democratization. To date, the government has been able to effectively manage the democratic opposition, with the opposition failing to evolve into a mass movement. However, this may well present a major challenge for the regime in the medium term.

Civil society organizational activities are not new in Vietnam. Indeed, it is a country that emerged out of social movements, political and non-political organizations. However, these organizations were gradually forbidden, especially during the Stalinist years of the USSR. Only in recent years has a public space re-emerged. Although, the boundaries of this space remain highly ambiguous. Today, there are different forms of civil society organizations. Some are formally registered organizations, which must regularly report their activities to a relevant government agency, while others are informal organizations that prefer not to register with authorities for political or other reasons. Recent research has suggested that both formal and informal civil society organizations are increasingly involved in advocacy work, and can influence policy.

Civil society
traditions

9

Conflicts related to resource distribution have increased in recent years. In particular, labor action related to wages, social security and labor conditions increased dramatically after 2005 and 2006. Since then, the number of labor strikes rose to over 800 a year and has remained at this level until 2014. Although national labor strikes do occur, strikes are usually concentrated within a few provinces surrounding Ho Chi Minh City, where most of the industrial zones are located. These same provinces have also experienced a number of other protests related to land distribution, religion and

Conflict intensity

4

environmental degradation. Furthermore, in May 2014, the same provinces experienced a sudden wave of anti-China protests. Tens of thousands of protesters participated in response to the Chinese government's decision to move an oil rig into the disputed South China Sea. These protests resulted in deaths, looting and the destruction of many factories in the industrial zones, before security forces gained control of the situation. Pro-democracy activists have stated in the media that they used the Chinese provocation to mobilize the protests.

II. Management Performance

14 | Steering Capability

The government is following a clear objective of long-term economic restructuring. The 11th Party Congress reaffirmed the country's strategic goal of becoming a modern industrialized nation by 2020. Furthermore, the 2013 Constitution reaffirmed the party's intention of maintaining one-party rule, while also introducing a political reform program. The government has announced a series of economic reforms, including through further equitization of SOEs. However, the new constitution reaffirms the leading role of the state sector within the overall economy. This likely reflects the different interests within the leadership. The process of equitization of SOEs has been slow.

While previously having been able to show a more or less united public front, the different interests and priorities among the leadership have become increasingly public. Factional interests within the leadership are not discussed in the government controlled printed media, but find voice in political blogs on the internet. During the last few years, the position of the prime minister has become more powerful within the party leadership, at the expense of the president and general secretary. A notable development is also the increased power of the Chairman of the National Assembly, which reflects the increased importance of the institution.

The overarching strategic goal of consecutive governments has been to achieve economic development and reduce poverty. Vietnam has been successful in both these regards. Within 25 years, the country has gone from being one of the poorest and underdeveloped countries in the world to a middle-income country. There are, however, several other policy areas where the party has not been as successful in its implementation even when they have been highly prioritized. For example, the establishment of a welfare system has been on the agenda at least since the mid-1990s, but results have not been satisfactory.

Question
Score

Prioritization
5

Implementation
5

The leading political actors are capable from learning from policy mistakes. For example, several modifications have been made to existing legal frameworks to address mistakes and challenges in the economic sphere. The rigidities of the political regime, however, make it less possible to learn from mistakes in ‘sensitive’ policy fields. For example, mistakes related to the growing number of labor disputes and protest movements, or to provide legal frameworks for the growth in civil society participation.

Policy learning
5

In addition, economically powerful groups and individuals are able to formally and informally influence policy- and decision-making. The private business sector has been granted the possibility to form independent interest organizations, which is not permitted for other interest groups, such as trade unions. The organizational capacity of private business will increase support for economic liberalization.

During the assessment period, there has been a persistent inability to turn ideas into action. This was partly due to political divisions between factions. Although big bang solutions have historically been the exception. Instead, policy has usually been undertaken through incremental and piecemeal reform. The overall direction of policies has been achieve a modern, industrialized market economy while reproducing the single-party regime.

15 | Resource Efficiency

By law, Vietnam is a politically centralized government organized in four levels. The country is made up of 64 provinces, 690 districts and 11,055 communes. Decentralization has increasingly taken place in the areas of fiscal and public administration and regulatory policymaking. In the course of this process, the central government has assigned a certain degree of decision-making authority to sub-central governments, with the provinces serving as the most important level in terms of devolved power and responsibilities. With 55% of state expenditure and 75% of private expenditure directed toward sub-national projects, Vietnam could be seen as a highly decentralized country by international standards (World Bank, 2014).

Efficient use of
assets
5

Yet, the autonomous policy experimentations of local governments, which avoids using formal regulation, has been described as “fence-breaking” or informal decentralization. In the past, fence-breaking provinces and officials responsible have been named, shamed and in several cases punished by the central government. However, many policy experiments have been very successful and were later been legalized.

The relatively high degree of actual autonomy at sub-national levels of government has intensified conflicts between central and local governments. These conflicts have contributed to problems of budget planning and implementation of national policies.

Public administration remains a domain of the Vietnamese Communist Party and, because the party controls the party-state, there are no independent institutions that can audit the public administration. Yet, in recent years, cooperation with World Bank and UNDP has contributed to the emergence of innovative quality assessment instruments, which have allowed journalist to report misconduct and suggest areas for reform.

There is a formal and informal side to policy coordination. Despite its success, reform policy has not been universally consistent and coherent. This inconsistency has been attributable to structural constraints to policy coordination among implementing government agencies, weak monitoring and evaluation mechanisms, and the absence of incentives for good governance. Some government ministries and agencies have been merged to reduce the number of decision-making bodies; this was intended to facilitate better policy coordination and to increase the consistency and efficiency of policymaking. However, this process has been largely mechanical and has not resulted in significant coordination improvements, according to the government's own assessment. Effective coordination mechanisms are still lacking for some cross-sector issues, including human resource development, public expenditure and environmental protection, resulting in gaps and overlaps in policymaking. Last but not least, there are few incentives serving to improve government officials' performance. Promotions are not merit-based, and salaries continue to be very low compared with many private sector enterprises.

Policy
coordination
6

At the time, strong informal coordination mechanisms exist between the agencies of the state apparatus and the Vietnamese Communist Party committees. These mechanisms are also used to prepare cabinet meetings. Every government body, including ministries, has a party committee embedded within it. These party committees meet on a regular basis. As a single party-state, Vietnam assigns key decision-makers dual roles, making them elites who occupy both party and state positions. Actual day-to-day informal coordination takes place among their state/government role.

During the period under assessment, there have been a number of high-profile public corruption cases that have led to convictions. In two instances, the convicted were sentenced to death, while the other convicts received long prison sentences. Some argue that this signifies a more focused campaign against corruption. However, such conclusions cannot be drawn from these cases, as anti-corruption campaigns have ebbed and flooded throughout the reform period.

Anti-corruption
policy
4

The Vietnamese Communist Party (VCP) openly states that corruption is one of the major challenges to economic development. There are several different agencies assigned with the task of fighting corruption. These include the Committee on Inspection and Control and an internal security affairs unit, which is tasked with investigating and reporting corruption by party members. Some prominent party

functionaries, government officials and, more recently, top executives of state conglomerates have been prosecuted. However, this seems to have been motivated in large part by the desire for good publicity. Patronage continues to be a significant problem.

In 2012, the government amended the Anti-Corruption Law with additional decrees introduced in 2013 to guide its implementation. These decrees include Decree 59 (transparency) and Decree 78 (on disclosing assets and income declarations of public officials). Despite the lack of a corruption watchdog, civil society organizations both expose and debate corruption in social media.

16 | Consensus-Building

During the assessment period, it has become increasingly clear that while there is consensus over economic goals, there is no consensus over the direction of political reforms. Not only have public demands for democratization increased, but prominent party officials have taken a lead in organizing petitions demanding greater democratization and an end to one party rule. One such petition was publicly presented in January 2013. This petition is now known as Petition 72, as it was organized by 72 politicians, prominent economists, writers and intellectuals. The petition was led by a former deputy minister of justice. On 23 September 2013, the same year, the Civil Society Forum was established to coordinate civil society groups, contribute to democratization and advocate for the end of one party rule. Among the initiators of this group were several former deputy editors-in-chief from some of the main daily newspapers. Other notable groups include the Declaration of Free Citizens and Declaration 258.

All major political actors agree on the general direction of economic reforms. Although the state sector continues to be important, there is general agreement on the long-term goal of developing a market economy.

Discussions on political reform within the party have taken place for many years. However, these discussions remain within the party. Institutional and ideological reforms of the Vietnamese Communist Party have been continuously discussed for many years. Some control mechanisms have been introduced to improve intraparty accountability. For example, the National Assembly held its first ever vote of confidence on the performance of government officials. This mechanism will also be extended to the central committee, which will vote on the performance of Politburo members.

In general, the military is often seen as the most conservative actor. In public debates army controlled newspapers serve as 'ideology police' in response to liberal

Consensus on goals

6

Anti-democratic actors

2

arguments gaining prominence. The party's official line is that it will never accept multi-party democracy.

There are new cleavages that have emerged in recent years. In particular, these cleavages relate to distributive issues, such as land distribution, wages, and social security. This development has been evident in the rise of labor conflicts, which are increasingly regular, more extensive and better organized. The main institutional mechanism used by the party-state to manage these types of protests is the Vietnam Fatherland Front (VFF), or one of the mass organizations organized under the VFF. Such mass organizations include the Vietnam General Confederation of Labor and the Women's Union. The challenge for these mass organizations, however, is that public confidence in the abilities and belief that they represent the interests of their constituent members has decreased. In some labor protests in the southern industrial zones there have, for example, been reports of trade union officials being attacked by workers when arriving at strike sites.

Cleavage /
conflict
management

6

Civil society participation is not a recent phenomenon in Vietnam, especially in the south. After the revolution of 1946 (in the North) and following forced unification in the South (1975), predefined interests were largely organized from above into mass organizations. These mass organizations were part of the party-state with both political and economic responsibilities. In the south, independent organizations were more or less wiped out, but re-emerged in new forms in the early 1990s. It was only in the 1990s that these organizations were discussed in terms of 'civil society.' With the Doi Moi reforms and the increased ODA activities in the country, an extensive NGO sector developed with international NGOs establishing offices in the country and local NGOs gradually developed. The NGO sector is mainly focused on delivering services and carries out development consultancy work. NGOs are to a very limited extent involved in advocacy work. Despite their limited political activity, government and party-state officials are largely suspicious of NGOs, but have today accepted their presence. The arguments for accepting the NGO sector have mainly been related to their economic contribution.

Civil society
participation

3

Vietnamese civil society today includes both formal (registered) and informal (unregistered) organizations. Informal organizations are illegal and are regarded as a possible threat to the political regime. Civil society has become much more active in advocacy work in recent years and has also managed to influence political decisions and policy. For example, in May 2013 20 civil society organizations jointly succeeded in postponing the passage through the National Assembly of a revised land law. Studies have also shown that some policy advocacy work occurs through networks of formal and informal organizations, operating inside and outside the party-state framework. These networks are sometimes able to influence policy-making.

The development of a dense and more politically active civil society has been one of the most remarkable developments in recent years. A fast growing cyber public sphere has supported this development. The party does not allow the organization of anti-corruption, labor rights, legal aid, human rights or pro-democracy groups. Organizers of such groups are frequently arrested and charged, under Articles 79, 88 or 258 of the penal code, with “crimes infringing upon national security,” “propaganda against the Socialist Republic of Vietnam” or “abuse of democratic freedoms to attack state interests and the legitimate rights and interests of collectives and citizens.” Bloggers who support such groups also risk prison for activities under the same penal code articles. Their activities are further restricted by Decree 72, which has been in effect since September 2013. Decree 72 bans almost all other activities on the internet other than sharing personal information. But despite this restrictive environment, civil society groups and political blogs flourish, and their influence on policymaking will increase.

On 28 November 2013, a revised constitution was adopted. A consultation process precipitated the revised constitution, in which the National Assembly asked citizens to comment on a draft of the constitution. In March 2013, the National Assembly chairman claimed that more than 30,000 deliberative meetings had taken place, and 20 million comments and suggestions had been submitted. It was an unprecedented example of public participation in several ways. From a democratization perspective, the consultation process created a public debate over constitutional reform and a space for civil society groups to lobby for political change.

What emerged during the consultative exercise took the party by surprise. Many civil society groups responded to the invitation to comment, while a group of 72 senior officials and prominent intellectuals achieved widespread coverage in state media and in the blogosphere. These 72 individuals presented an alternative constitution, which became known as Petition 72, on 4 February 2013. The group was led by Dr. Nguyen Dinh Loc, a constitutional scholar and former Vice Minister of Justice. This group publicly handed their petition to the Constitutional Amendment Drafting Committee. Two months later Petition 72 had received more than 6,000 signatories. The senior profiles of the 72 individuals, which included, in addition to the former Vice Minister of Justice, prominent advisors to Prime Minister Vo Van Kiet, as well as several prominent economists, writers and professors, obliged the party leadership to respond.

Due to the nature of the political regime, an open and sincere process of coming to terms with the past (including issues of regime repression before and after 1975) has not been possible. Research on the reunification process is still seen as ‘sensitive,’ despite the publication of “The Winning Side,” which is a critical analysis of the post-1975 period. Initially, the book could not be published in Vietnam, according to the author. Although, it is now available on the internet.

17 | International Cooperation

Vietnam has been Southeast Asia's leading recipient of Western and Japanese overseas development assistance aid (ODA) in absolute terms. Japan is the leading donor having pledged \$2.6 billion in 2013. However, the effectiveness of ODA is compromised by pervasive corruption, which has caused donors to withdraw. In May 2014, a new corruption scandal erupted when the deputy director of the railways was arrested over allegations of "failure to carry out responsibilities causing serious consequences." Three other officials were also arrested for "abusing power," after the head of Japan Transportation Consultants had admitted paying an ¥80 million bribe to officials at Vietnam Railways. In 2008, Japan suspended ODA to Vietnam for four months after a corruption scandal connected to a major physical infrastructure project tied to Japanese ODA. In 2012, Denmark's Ministry of Foreign Affairs also suspended ODA to three of the four climate change projects it was funding, after its Vietnamese partners had misused more than \$500,000. Generally, however, Vietnam has been effective in using ODA to support economic development and poverty reduction. International donors have in general attached few human rights and democratization demands to the provision of development aid.

Effective use of support

6

The leadership is eager to develop closer regional and global relationships. As a result of this determination and despite widespread corruption, the government is increasingly perceived as a reliable partner by other governments and international organizations, such as the ADB, the World Bank and the UNDP. After a long period of isolation from the Western world, diplomatic relations were re-established in 2014 with most countries in the world. In 2013, a bilateral trade agreement, worth almost \$30 billion, was signed with the United States in 2013. In 1995, Vietnam joined ASEAN and has since established itself as a proactive member of the group. In January 2007, Vietnam joined the WTO. In October 2007, Vietnam was elected a non-permanent member of the U.N. Security Council for 2008 and 2009. Most prestigiously, in November 2013, Vietnam was elected as one of the 47 members of the U.N. Human Rights Council for a period of three years, starting 1 January 2014.

Credibility

7

A combination of economic and security concerns have driven Vietnam's regional and international engagement. In recent years, China's increased assertiveness in the South China Sea has accelerated the perceived need within the government to strengthen regional and global relations, particularly with Japan, the United States and India.

Regional cooperation

8

In multilateral settings, Vietnam has been able to make a significant contribution to international organizations and cooperation programs. Together with the other nine member states, Vietnam is working toward implementing a roadmap for an ASEAN Community. This roadmap is based on three pillars, namely a political and security

community, an economic community (with the aim of establishing a fully integrated regional market) and a socio-cultural community.

Vietnam's relations with China deteriorated to their lowest point in more than two decades when, in early May 2014, the Chinese SOE, China National Offshore Oil Corporation (CNOOC), moved an oil rig into waters Vietnam claims lie on its continental shelf, close to the Paracel Islands, in the South China Sea. The Paracel Islands are claimed by both China and Vietnam. Escorting the oil rig were, reportedly, around 80 Chinese ships, including some coastguard and naval vessels. Some confrontations between this escort, and Vietnamese patrol and fishing boats were reported. Both sides blamed each other for the confrontations. Japan and the United States have since condemned China's actions. Tens of thousands took to the streets in Vietnam to protest against China's acts in the South China Sea, Chinese exploitation of factory workers in industrial zones and the perceived leniency of Vietnam's government toward Chinese provocations. In response to the protests, the government sent text messages urging protesters to show their patriotism in a peaceful way. After two weeks, the security forces asserted control over protests. During the protests between two and 20 people were killed (reports vary), several factories in the industrial zones were destroyed and hundreds of people had been arrested. The quick escalation of tension between Vietnam and China and the manipulation of the dispute by pro-democracy activists has complicated future relations with China.

Strategic Outlook

The government has successfully promoted economic growth and development, and poverty reduction. It has increased its influence within the international community and developed closer relations with key international actors. However, before Vietnam can become a developed, modern, stable country, there are several policy areas that require attention.

Although no mass movement for democracy has emerged, pressure for greater democratization continues to build. Pro-democracy forces are increasingly better organized, have access to new communication channels and include party elites as well as informal civil society organizations. In response, the government has resorted to the well-established strategy of targeting the opposition leaders, while avoiding mere participants. But, while ‘beheading’ these organizations proved temporarily successful during the wave of pro-democracy activities in 2007, the context in 2014 is completely different. The circulation of videos showing arrests or the intervention of security forces during demonstrations increased rapidly due to the wider use of social media. With greater mobility between rural and urban areas, citizens are becoming more aware of policy problems, regional differences and are generally better informed. In 2013 and 2014, the government introduced new measures designed to improve the accountability of the political leadership. For example, in 2013, the National Assembly held a vote of confidence for the first time. The vote of confidence enabled representatives in the National Assembly to rate the performance of government officials. However, these reforms are unlikely to obstruct the development of this budding pro-democracy movement. For example, although these reforms improve competition and democracy within the Vietnam Communist Party, this form of ‘democratic centralism’ fails to provide ordinary citizens with a mechanism to express their confidence in the country’s leadership. The pressure for greater democratization is also evident in the public demands of high-level party-state officials. For example, the vice president of the Vietnam Fatherland Front organization in Ho Chi Minh City published several widely circulated articles, which expressed support for multi-party democracy. Together with other like-minded party officials, he established the Social Democratic Party.

Socioeconomic inequalities are increasing, according to a recent World Bank report (*Taking Stock: An update on Vietnam’s Recent Economic Development 2014*). The politicization of these issues is evident in the increasing size and frequency of labor strikes. While regulation restricting the organization of labor and strikes has loosened, regulation continues to prevent the development of autonomous trade unions capable of negotiating wages and better working conditions. The current trajectory of industrial development is not sustainable and does not support the development of a modern labor market.

More attention needs to be directed to issues of social security, including access to healthcare and quality of education. The practice of paying informal fees (‘envelopes’) for access to health and educational services needs to be eradicated. In higher education, the development of a modern

curriculum is an especially urgent issue. The social and political sciences are stunted by censorship. As a result, the children of the political and economic elites are sent abroad for their education. A modern education system is needed to enable Vietnam to develop beyond the status of a middle-income country.

Corruption needs to be systematically tackled. In particular, anti-corruption policies need to improve coordination between agencies, strengthen agencies' authority, enhance existing legislation and increase the effectiveness of the judiciary. However, a systematic approach to tackling corruption also requires the creation of a more open climate. A climate that allows journalists to report on corruption cases without fear of repercussion. A climate that fosters the establishment of independent anti-corruption watchdog organizations.

While Vietnam has achieved many economic successes in recent years, political challenges are increasingly common.