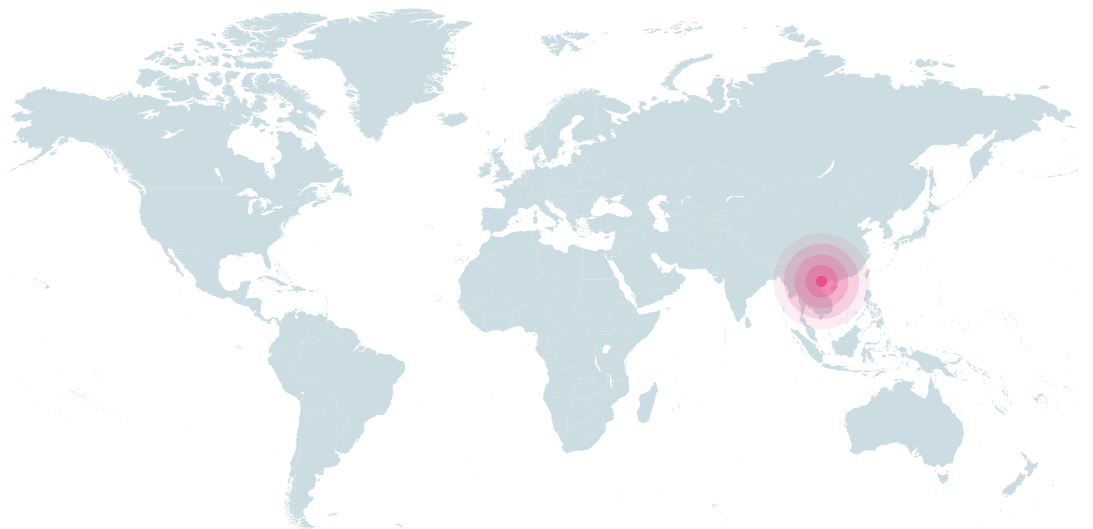


Powerful or Merely Important?

Vietnam as an Up-and-Coming Actor in South-East Asia

Peter Girke



Vietnam is one of the few remaining communist countries on the political world map. It regularly figures low in human rights and rule of law rankings, and the “socialist-oriented market economy” is celebrating its thirty-year anniversary. Vietnam is at risk of being crushed between China’s aggressive conduct in the South China Sea and the USA’s claim to leadership in the region. There are, however, indications that Vietnam may be able to establish itself as an influential actor in the South-East Asia Region in the medium term.

“But the reason I’m here is because Vietnam is extremely important not just to the region, but I think to the world. [...] Vietnam is a large, vital, growing country in a large, vital, and growing region of the world.” While one should allow for a certain amount of political politeness in this statement made by Obama during his state visit to Vietnam in the spring of 2016, the basic message is clear: the country has developed into an important and influential actor in South-East Asia. At first glance, this may seem to be an astonishing view as one would expect to see China, Japan, India, Australia as well as possibly Singapore and Indonesia top the list of the great and powerful actors in the broader region. What then underlies the high ranking of Vietnam? After all, this is a country that only escaped from the disorder of a war that was costly in every respect some 40 years ago, which had a poverty rating of some 60 per cent just 25 years ago, and used to be cut off to a large extent from the outside world on account of its centrally planned economy. And what risks and costs does this rise entail? Answers to these questions can be found by taking a closer look at Vietnam’s economic development, its multilateral policy approach, its geostrategic location and the necessary long-term view influencing its political agenda as well as the situation regarding human rights and the rule of law.

Economic Upturn

Vietnam is one of the Asian states whose economic growth has continued almost uninterrupted for the last three decades. This steady

upturn is also being recognised within and outside South-East Asia and is one of the reasons Vietnam’s regional significance has increased considerably over time. One of the mainstays of the country’s economic success has been the *Doi Moi* program, implemented since the second half of the 1980s, which introduced step-by-step economic policy reforms. Reconciling the communist system with a modern economic structure that is at least partly market-oriented is difficult, but Vietnam appears to manage it in principle. It is definitely the case that in this so-called “socialist-oriented market economy” the centrally controlled and subsidised state-owned businesses must accept competition from the private sector, which is highly dynamic and characterised by a strong entrepreneurial spirit. This competition is now also being conducted in areas of strategic importance. Ms Thao, for instance, the country’s richest woman, owes her wealth to the founding of the first private airline: Vietjet only recently awarded Boeing an order for the supply of 100 civilian aircraft worth over a billion euros. However, it has not only been the privatisation of state-owned businesses that have contributed to economic growth averaging some seven per cent since 1990. Improvements in conditions for foreign direct investment, measures to foster industrialisation as well as the elimination of state monopolies were crucial factors at play which were conducive to constant economic growth.

Favorable economic conditions also serve the Communist Party of Vietnam as a basis of legitimisation, in line with the motto: “You citizens are doing well, so keep supporting us.” Or in



Star without stripes: 40 years after the American war in Vietnam, U.S. President Barack Obama emphasises the importance of Vietnam as an economic player in the region during a visit in May 2016. Source: © Carlos Barria, Reuters.

other words: if people have a reasonable income and a solid basis for living, there is less incentive to question the constrictive rule of the all-powerful Communist Party. Indeed, according to calculations by the World Bank, Vietnam joined the league of countries with lower middle incomes back in 2012, and Vietnamese employees are renowned as Asia's Prussians. However, there is a second, riskier side to the "economic coin". Should the economy fail to develop as forecasted over a longer period, the legitimisation argument could turn against the Party and the government.

One of the strategies for shaping and securing the economy for the long term is to push the internationalisation of Vietnam's economic

relations. Negotiations on a free trade agreement with the EU were completed recently; its ratification is expected in 2016 or 2017. Vietnam is also a member of the Trans-Pacific Partnership (TPP), a free trade agreement of twelve Pacific Rim states, which comprises the USA and Vietnam as well as Japan, Australia, Canada, Singapore and Mexico, among others; it was signed in February 2016 and is due to be ratified by all member states within two years. These trade agreements entail multi-lateral strategic partnerships and, among other things, the lowering of customs duties and a reduction in regulatory trade barriers. That being said, free trade agreements may turn out to be a double-edged sword for the Party and the government. That is because they entail further privatisation and

investment protection – and therefore also legal certainty – that the partner countries are likely to insist upon. And one aspect must not be forgotten: labour productivity is relatively low in Vietnam. Agriculture and fishing are still the largest sectors of the economy. While Vietnam is one of the economically most dynamic countries within ASEAN, the ten-state South-East Asian community, it has the least economic power in comparison to the other South-East Asian TPP member states. However, this may be the very reason there is a particularly great potential to exploit the free trade agreements to the full and why Vietnam also has a great deal to gain from them, not least in importance within the South-East Asia Region.

Multilateral Trade

The internationalisation of Vietnamese trade – and the associated increase in the importance of foreign trade policy and foreign policy – is not only reflected in the free trade agreements. In 2007, after more than a decade of negotiations, Vietnam joined the World Trade Organization (WTO). This has opened up new markets to the country at a global level and brought in additional foreign investment. At the same time, the opening up of Vietnam’s own market meant that both state-owned and private Vietnamese businesses were then not only exposed to the relatively new internal competition at the time but also had to compete with cheaper, better



The booming sector: Vietnam's rapidly growing footwear industry makes up one of the most important branches of the country's economy. Vietnam remains in the top three of the world's largest footwear producers alongside China and India. [Source: © Nguyen Huy Kham, Reuters.](#)

products from abroad.¹ This spurred an increase in competitiveness in the medium term.

ASEAN membership promises economic benefits and greater international participation.

Over a decade beforehand, in 1995, Vietnam's regional presence had already become stronger when the country joined ASEAN. This alliance originally focused on economic cooperation, but more recently politics and security have come increasingly to the fore as well. There are undoubtedly significant hopes invested in ASEAN as a regional organisation, but these are not necessarily being fulfilled. Vietnam links its membership to the expectation that its integration in ASEAN will generate economic benefits and that Vietnam will generally gain influence internationally as part of a larger alliance. ASEAN is also attributed some significance in its role as a multilateral forum, for instance with respect to helping to resolve inter-state conflicts at the regional level in a diplomatic and peaceful manner. However, in view of the great challenges, one should also be aware of ASEAN's weaknesses. The alliance is politically heterogeneous. The spectrum of regimes ranges from only partially functioning democracies to monarchies, authoritarian regimes and military governments, to communist one-party states. Internally, there are historically grown hostilities (e.g. between Vietnam and Cambodia) and border conflicts (e.g. between Indonesia and Malaysia) which still have a detrimental impact on current relations. In addition, every member state has differently weighted alliances with countries such as China, the USA, India, Japan, Australia and Russia. In view of this diversity, the fact that any decision requires unanimity can represent something of a hindrance in some cases.

Geostrategic Location

Even disregarding its alliances at the international level and its integration in regional cooperation

mechanisms, Vietnam has a special geostrategic significance due to its geographic location. The country borders the rich fishing grounds of the South China Sea, one of the most important and largest trading routes of the world, which has large reserves of oil, gas and minerals. The states bordering the South China Sea include China as well as the ASEAN member states of Vietnam, the Philippines, Malaysia and Indonesia. They have been in disputes about territorial claims for decades, which have not only kept diplomats, military strategists and innumerable conferences busy but have also occupied international maritime law organisations.

China claims sovereignty over some 80 per cent of the maritime area as it faces vehement opposition from the other bordering states, and justifies this claim historically, maintaining that thousands of small, uninhabited islands had always been part of Chinese territory. The People's Republic of China substantiates this claim by establishing facts on the ground: it enlarges reefs and small islands by banking them up with earth, builds harbours and landing strips as well as stationing missiles and surveillance facilities there. The other bordering states have also put up claims to parts of the same maritime domain and regard China's conduct as a real threat to their sovereignty rights – all the more significant given the existing dominance of the powerful neighbour in the north in the general economic and military situation.

Control over this enormously significant trading route is an issue of geostrategic importance, which also places the onus on the USA to take action. The military presence of the United States in the region has been significant since World War II in any case, but due to China's increasingly expansionist conduct involving the islands, the South China Sea has been coming back to the fore in U.S. politics. While both countries have repeatedly stated they are not interested in further escalation, each side seeks to secure as much influence as possible for itself.

Most of the bordering states already maintain close security links with the USA, and while this



Far from a mere walk at the ocean: China lays claim to large swaths of the South China Sea, including the Spratly Islands. The Sea is often sealed off by China for military drills as a demonstration of its political goals.

Source: © Reuters.

has only been the case for Vietnam to a limited extent in the past, there are signs of an increasing rapprochement here as well. During his visit to Vietnam, President Obama announced the complete lifting of the arms embargo. While it was stressed that this was not directed against China but merely a logical step in the course of establishing a comprehensive strategic partnership between the USA and Vietnam, one can assume that China will take this signal as being directed against it.²

In the context of the conflict, both superpowers are also turning their attention to Vietnam with its long coast bordering the South China Sea,

which places the country in a difficult position. From a strategic perspective, the question is which (security-related) political conduct will be most expedient for the country – and for the Party and the government. Benefits and risks need to be weighed up in the event that Vietnam increasingly sides with China or in the event that it allies itself more closely with the USA – the other option being to maintain a type of equidistance to both.

Vietnam has a generally difficult relationship with China despite the fact that a communist party is in control in both “brother states”. There have been frequent border clashes in the past,



which, among other things, led to a two-month war in northern Vietnam in 1979, that left over ten thousand people dead; there have also been armed skirmishes at sea, for instance in 1988, when several dozen Vietnamese lost their lives in clashes with Chinese armed forces over the Spratly Islands. In 2014, the transport of a Chinese oil rig into waters claimed by Vietnam triggered anti-Chinese demonstrations and even some violent incidents – a rarity in strictly regimented and controlled Vietnam. Despite these tensions, China is by far the most important trading partner for Vietnam; the trading relationship is by no means well-balanced, with Vietnam having an enormous trade balance deficit. Entire industry sectors in Vietnam are dependent on China, and Vietnam’s economy still represents

a source of contract manufacturing for China with little added value being created in the country itself.

The current relationship with the USA, the military enemy from the 1960s and 1970s, can be described as generally good these days, and not just since Obama’s visit. As far back as 2001, a bilateral trade agreement came into force, and the USA has developed into Vietnam’s second most important export market after China. In 2013, the two countries agreed on a “Comprehensive Partnership”, which laid the groundwork for the much-noted visit to Washington by the Secretary General of the Communist Party of Vietnam in 2015. One of the purposes of the visit was to continue the negotiations on the TPP – an agreement that excludes the People’s Republic of China. But there has also been a rapprochement between Washington and Hanoi in recent years in the military sphere, illustrated for instance by a joint exercise in the South China Sea and by negotiations about ways and conditions for the U.S. Navy to be granted access once again to the strategically important military base at Cam Ranh Bay. With the complete lifting of the arms embargo, Hanoi can now contemplate the possibility of procuring modern armaments from the USA so it can free itself from its dependence on Russian military hardware. Vietnam may be in particular need of American systems for reconnaissance and monitoring of maritime domains to improve its defence system.³

Vietnam will have to find the right balance between closeness and distance to China and the USA.

There are many voices in Vietnam maintaining that the country must cooperate with the USA to prevent Beijing from continuing to change the status quo in the South China Sea to its advantage and militarising the conflict further.⁴ However, one must also bear in mind that Vietnam would probably be well advised from a realpolitik

perspective not to let its relations with China deteriorate too far for no good reason given the extent of the country's economic dependence on China and the military might of the northern neighbour. Traditionally, Vietnam has defined its defence strategy, including its strategy towards China, by the concept of the "Three Nos": no to military alliances, no to foreign military bases on Vietnamese soil, and no to alliances that are directed against third parties. Added to this is the fact that Vietnam's leadership, which was elected at the party congress in early 2016, is regarded as having a more China-friendly stance.⁵ It would consequently be interested in shaping relations with China in a positive manner and in making efforts to avoid giving the impression that Vietnam intends to line up alongside the states bordering the South China Sea – China's forecourt as the government there sees it – influenced by the USA. In addition, a pro-China leadership, in contrast to the previous government, whose stance was more pro-Western, is arguably in a better position to convince its Chinese counterpart that Vietnam's foreign and security policy is not directed against China.⁶ As far as one can currently tell, however, Vietnamese policies have not (yet) developed significantly in a pro-China direction. It is likely in principle that the challenge to maintain a balance between closeness and distance to the USA and China will determine Vietnamese politics for some time to come. Vietnam's importance and position within the region will also depend on the country's success in maintaining or creating this balance.

In this context, one should also take a look at the military power situation. Vietnam is not as insignificant as one might assume considering the other powers active in the region. While the USA, China, but also Russia, Japan and other actors have more comprehensive military capabilities than Vietnam, the six submarines purchased from Russia, five of which were delivered by early 2016, definitely have the potential to exert a deterrent effect in the "East Sea", as the South China Sea is referred to in Vietnam. Added to this are several new frigates and patrol boats as well as fighter planes mainly of Russian origin, some of which are new, but many of which originate

from the times of the Vietnam War.⁷ Vietnam is also negotiating with India on the supply of military hardware. According to calculations by the World Bank, Vietnam's defence budget for the period from 2011 to 2015 averaged at some 2.3 per cent of its GDP (by comparison: USA: 3.5 per cent, China: 1.9 per cent, Germany: 1.2 per cent).⁸

In its foreign and security policy, Vietnam relies on international law and peaceful conflict resolution.

Vietnam makes a point of stressing that its foreign and security policy is founded on multilateral cooperation and that the country is engaging actively and responsibly particularly in regional multilateral mechanisms.⁹ That is no doubt the case – and as such partly in contrast to the approach taken by China, which believes it can leverage its strength more effectively in bilateral negotiations. Hanoi further insists that conflicts need to be resolved in a peaceful manner and that all sides have to observe international law and legal principles – a stance that makes sense for a country that does have a significant geostrategic location, but faces considerably more powerful economic and military actors in its neighbourhood. And it is therefore ultimately no contradiction that the government stresses that protection of national sovereignty has top priority, particularly given the fact that its own population is rather critical of China. In addition to the border areas in the country's interior and the roughly 2,500 kilometres of coastline, home to half the Vietnamese population, this also relates to the aforementioned Vietnamese claims to parts of the South China Sea.

Vietnam 2035

One further factor influencing Vietnam's standing in South-East Asia is the country's long-term vision underlying its actions in many strategic policy areas. One milestone along the road



Asymmetrical fights: Human rights organisations deplore the Vietnamese government's repression of the Khmer Krom, an ethnic minority inhabiting the south-western part of the country. The Buddhist monks seen here are part of that same minority. Source: © Chor Sokunthea, Reuters.

of law and a democratic society – although these two come last in the listing.¹¹ The fact that the road will be hard and paved with obstacles is illustrated by the listing of highly diverse problem areas. There is mention, for instance, that Vietnam's productivity may not grow as would be required and that the environment may suffer even greater harm from further growth than it does already. Marginalised groups would have to be granted greater equity, and an urbanised middle class, which will have grown strongly and will have aged by 2035, will require new ideas and a reorientation in social and domestic policies, which used to focus predominantly on the rural and poorer sections of the population.¹² To allow the visionary efforts to actually

materialise, government institutions will need to become modern, transparent and fully grounded in the rule of law. The document stresses three mainstays in particular: a well organised government and administration, economic rationalism and well-functioning monitoring mechanisms between the three state powers including broad-based public participation – and with respect to the third point it is particularly worth mentioning that the government was heavily involved in the preparation of the World Bank report.¹³

The Rule of Law: An Area of Concern

It has to be said that Vietnam's development into a significant actor on the regional and inter-



national stage is being hindered by the human rights situation in the country. While it sometimes appears as if concerns about human rights are only of secondary importance in the realm of real foreign politics – the USA, for instance, is accused of not having made the lifting of the arms embargo conditional on an improvement in the human rights situation – accusations about human rights violations definitely represent a clear stain on Vietnam’s reputation, at least from the perspective of Western states and international human rights organisations. In Vietnam, there are severe restrictions in the area of human rights: freedom of speech of the individual, freedom of the press and freedom of assembly are not guaranteed. Vietnam has been classed as “not free” in the Freedom House Index since 2006 and is still listed in the lowest category with respect to “political rights”. Amnesty International, Human Rights Watch and other human rights organisations rightly call attention to the political prisoners (the number fluctuates between 45 and 200), who are incarcerated under alarmingly poor conditions, many of whom did not receive a fair trial nor any trial to begin with. These are predominantly bloggers, political activists, but also frequently Christians, who speak up about human rights, land use rights, minorities and social justice. Despite the difficult and even dangerous circumstances, there have also been more cases of environmental activists speaking out, for instance in the context of the fish scandal, where a massive fish kill took place that was attributed to a factory illegally releasing liquid waste and effluents. Amnesty International points out that while the number of human rights activists being prosecuted may have gone down temporarily, that does not necessarily mean that the pressure has reduced. Instead, tightened surveillance measures, short-term detention, other restrictions of the freedom of movement as well as physical attacks by security officers are alternative safety valves whereby pressure is released.¹⁴

Vietnam’s standing within the international community is also determined by the “location factor” of the rule of law. Of course Vietnam has been quite successful in attracting foreign direct investments in recent years despite rule

of law deficiencies. That said, membership of various trade agreements – first and foremost the EU-Vietnam Free Trade Agreement and the TPP – entail commitments to reforms in the economic and financial sectors. Some of the areas where Vietnam has a great deal of catching up to do include predictable and well-documented action by the government and the administration, adherence to the rule of law in issues relating to land and other property rights, the enforcement of rights and responsibilities on the employer and employee side, as well as an independence of the judiciary that does not merely exist on constitutional paper.

Conclusion

In summary, one can state that Vietnam’s continuing economic growth, its geo-strategically important location on the South China Sea and its multilateral integration into international and regional organisations as well as free trade agreements have contributed to the country’s success in developing into a significant actor in the region. In other words, the political efforts to become a respected member of the international community, which have been going on for years if not decades, are bearing fruit. Having said that, besides the poor human rights situation, the condition of the rule of law is one of the areas in which there is still a great deal of potential for the Vietnamese government to improve in order to gain greater influence and strategic significance in the regional and international context.

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