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A TIGER READY TO POUNCE? VIETNAM'S ECONOMIC AND POLITICAL COORDINATES IN SOUTHEAST ASIA

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Over the past twenty-five years, there has been a catch-up process in the Socialist Republic of Vietnam (SRV), which has been almost unmatched by any other country; the success of this process can be seen in the economy and foreign policy. In view of Vietnam's presidency of the *Association of Southeast Asian Nations* (ASEAN) this year and the celebrations surrounding "Germany in Vietnam 2010," there is particular reason to consider the political and economic coordinates of this country in the south-eastern Asian region. After describing the room Hanoi has to maneuver within the Southeast Asian region, this paper evaluates the stages of development to date. Two key questions underpin the following analysis: What possible courses of action are open to Hanoi in general in terms of foreign policy? To what extent can Vietnam act as a link between China and ASEAN?

AN ECONOMIC AND POLITICAL SNAPSHOT

Vietnam is one of only a few communist countries, which defied the upheavals in the political system of 1989/1991 and retained its political alignment. The power of the Communist Party of Vietnam (CPV) went unchallenged. The party and the state are closely linked at all administrative levels. In addition, the party's claim to power is protected by the constitution, and the party acts as "the vanguard of the Vietnamese working class and loyal representative of the interests of the working class, the working people and the whole nation, who [*sic*] adheres to Marxism-Leninism and Ho Chi Minh's thought."¹ The CPV sees itself as the only legitimate force entitled to decide the fate of Vietnam; as a result, other political parties are not permitted.²

The Communist Party derives its legitimacy from its historical role in the fight for independence and from the creation of national unity within Vietnam. This basis, however, was not enough to improve the living conditions of the general population. Nevertheless, the continued existence of the socialist system depended on this; hence, the party and the government have introduced selective reforms within the agricultural sector and state-owned companies since the early 1980s. This culminated in the *Doi Moi* reforms of 1986.³ In essence, this policy represented the introduction of market principles alongside the government sector. The mechanisms of the centrally planned economy continued to exist in the form of indicative plans. Furthermore, an orientation toward global markets is an inherent feature of *Doi Moi*. Conversely, policymakers welcomed foreign direct investment in the Vietnamese economy. Henceforth, the party and ruling elite considered the country on the path

- 1 | Const. of the Socialist Republic of Vietnam (as amended by Resolution 51-2001-QH10 of Legislature X of the National Assembly at its 10th Session, December 25, 2001), art. IV.
- 2 | However, over the past few years, various political groups have been formed; these include, for example, the "8406 Bloc", the "Democratic Party of Vietnam", the "People's Democratic Party Vietnam", or the "Alliance for Democracy". The authorities have treated these groups harshly; Jörn Dosch, "Vietnam in 2008: Foreign Policy Successes but Daunting Domestic Problems", in: *Southeast Asian Affairs 2009*, ed. Daljit Singh (Singapore: Institute for Southeast Asian Studies, 2009), p. 375.
- 3 | Adam Fforde and Stefan de Vylder, *From Plan to Market: The Economic Transition in Vietnam* (Boulder, 1996).

toward a “socialist market economy,” similar to that which the Chinese government created in 1978 under Deng Xiaoping.

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Between 1980 and 1989, the gross domestic product (GDP) increased annually by 5.6 percent on average; from 1992 to 2000, it increased 7.8 percent, and between 2000 and 2007, it even grew by 7.7 percent.⁴ The driving force behind this upward movement has been the industrial and service sectors. Although the agricultural sector has continued to grow, the secondary and tertiary industries together account for almost 80 percent of economic output.⁵ One must bear in mind the low starting level when considering these high growth rates; in this way, a nascent, developing economy can exhibit higher rates of economic growth than industrialized countries.

A more conclusive measure is, therefore, changes in standards of living as a result of the economic reforms and liberalization. In this respect, the Human Development Index (HDI) is an important tool. According to the first Human Development Report published in 1990 by the United Nations Development Program, Vietnam was ranked 74th out of 130 countries, with an HDI score of 0.608. At that time, the average life expectancy was sixty-two years, and GDP per capita (in terms of purchasing power parity)

4 | United Nations Conference on Trade and Development (UNCTAD): *Handbook 2009*, s.v. “Annual Average Growth Rates of Real Gross Domestic Product”, <http://stats.unctad.org/Handbook/TableViewer/tableView.aspx> [March 11, 2010].

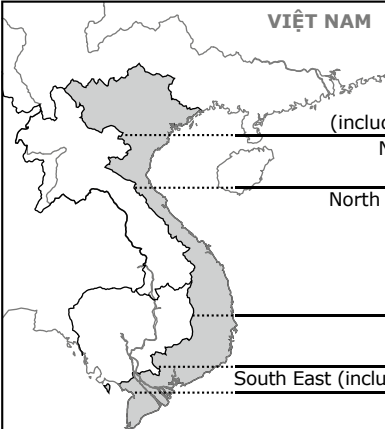
5 | In 2008, agricultural economic growth stood at 4.1 percent, while the industrial and service sectors exhibited growth rates of 6.1 percent and 7.2 percent respectively; *Asian Development Bank: Key Indicators for Asia and the Pacific 2009*, s.v. “Vietnam & Manila”, http://www.adb.org/documents/books/key_indicators/2009/pdf/VIE.pdf [March 11, 2010].

stood at one thousand US dollars.⁶ In the 2007/2008 report, Vietnam achieved an HDI score of 0.733. In the intervening period, life expectancy rose by more than eleven years and GDP per capita (in terms of purchasing power parity) trebled to 3,071 US dollars.⁷ At current exchange rates, Vietnam's GDP per capita amounted to just over one thousand US dollars in 2009. Consequently, Vietnam can be characterized as a country with an average income in the lower category.⁸ The stable economic output has had an immediate, positive impact on reducing poverty. Measured against the national poverty threshold, 37.4 percent of the Vietnamese population was classed as poor in 1998, and this figure sank to 14.8 percent in 2007.⁹

It is important not to overlook two sources of disparity when analyzing Vietnam's economic framework conditions. Firstly, the figures for economic development and poverty reduction vary considerably for urban and rural areas, and three-quarters of the Vietnamese population continue to live outside of the cities. Whilst the authorities have determined the poverty rate in urban areas to stand at 7.4 percent (2007), this figure is around 17.7 percent in rural areas. Secondly, there are considerable differences between the six regions of Vietnam, as Table 1 shows.

- 6 | United Nations Development Program, 1990, *Human Development Report 1990*, p. 128; The World Bank uses a modified calculation based on exchange and inflation rates. According to this calculation, the current value stands at 890 US dollars (2008).
- 7 | United Nations Development Program, 2007, *Human Development Report 2007/2008 – Fighting Climate Change: Human Solidarity in a Divided World*, p. 230.
- 8 | In the national currency, dong (VND), this equates to an average annual value per capita of 18.87 million VND (calculated on the basis of the average exchange rate VND:USD of 1:17,8000 in 2009). Economist Intelligence Unit, 2010, *Country Forecast: Vietnam*, p. 13. cf. P. Parameswaran, "Vietnam Set for Middle Income Status: World Bank", *AFP*, December 22, 2009, http://google.com/hostednews/afp/article/ALeqM5imsZ8f91bhjJSTybUXWV8KFfj_g [January 7, 2010].
- 9 | The government has defined the national poverty threshold for 2006 to 2010 thus: in urban areas, a person is said to be living in poverty if his or her monthly average income is less than 260,000 VND (approximately 14 USD); in rural areas, this value stands at 200,000 VND. In 1998, the government had set the poverty threshold at a monthly average income of 149,000 VND; General Statistics Office, 2009, *Statistical Handbook 2008*, pp. 196 - 97.

Table 1.

Poverty Rates by Region: 2004 and 2007 (in %)


The map shows Vietnam divided into several regions: Northern Midlands and Mountain Areas, North Central Area and Central Coastal Area, Central Highlands, South East (including Ho Chi Minh City), and Mekong River Delta. The Red River Delta is also indicated as a sub-region within the Northern Midlands and Mountain Areas.

VIỆT NAM		Year	2004	2007
Region	Country Average		18.1	14.8
	Red River Delta (including growth rates for Hanoi-Haiphong)		12.7	9.5
	Northern Midlands und Mountain Areas		29.4	26.5
	North Central Area und Central Coastal Area		25.3	21.4
	Central Highlands		29.2	23.0
	South East (including growth rates for Ho Chi Minh City)		4.6	3.0
	Mekong River Delta		15.3	12.4

Note: The national poverty threshold for the SRV between 2006 and 2010 is used as a base; this defines poor as an average monthly income of less than 260,000 VND in urban areas and less than 200,000 VND in rural areas.

Source: General Statistics Office, 2009, *Statistical Handbook 2008*, p. 196.

There is no mistaking that the economic impulse stems from the urban centers. Ho Chi Minh City and the surrounding provinces, including Ba Ria-Vung Tau, for example, the corridor between the capital city, Hanoi, and the port city of Haiphong, as well as the shoreline between Hue and Danang, are all of central importance. These regions are home to the majority of industry (particularly foreign investment projects)¹⁰ and, as a result, exhibit the highest labor force participation rates. The Southeast region is the linchpin of economic life. This is well documented, particularly with regard to the activities of foreign companies and investors. Of the 1,171 licensed FDI projects in 2008, 611 were in the Southeast, and the nine million-strong metropolis, Ho Chi Minh City, recorded 418 projects with

10 | To this end, the government has established export processing zones (EPZs), which possess special rights; Hy V. Luong, "Wealth, Power, and Inequality: Global Market, the State, and Local Sociocultural Dynamics," in: *Postwar Vietnam: Dynamics of a Transforming Society*, ed. Hy V. Luong (Singapore: Institute of Southeast Asian Studies), pp. 90 - 91.

a total volume in excess of nine billion US dollars. There were 382 projects in the Red River Delta region, with Hanoi being the primary target with 218 FDI projects totaling 3.2 billion US dollars.¹¹

The economy of the Socialist Republic of Vietnam is export-driven and has adopted a model similar to other Asian tiger states as part of their economic catch-up. Exports account for 68.3 percent of GDP (2008), putting Vietnam behind Singapore and Malaysia in the group of ASEAN states.¹² This export orientation requires integration with the global economy; thus, this is a central tenet of Vietnamese economic policy. This is evidenced by Vietnam's ascension to ASEAN in 1995 and the country subsequently joining the ASEAN Free Trade Area (AFTA). Further milestones for global integration include the bilateral trade agreement with the United States (1995) and Vietnam's admittance into the World Trade Organization (WTO) in January 2007. Recently, the EU Commission signaled its readiness to deepen its trading relationship with the Southeast Asian country and to draw up a trade agreement.¹³

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In terms of the global value chain, Vietnam has found a place for itself in light manufacturing. Fifty percent of exported goods come from this sector. The industries belonging to this sector, such as shoe making, textiles, and clothing, are primarily responsible for the rise in exports; however, products from the primary sector, such as rice, coffee or aquaculture, have also contributed (twenty-two percent of exports). The sale of crude oil has also become very important. Thanks to offshore deposits, it is estimated that Vietnam can extract up to 400,000 barrels per day, and exports of the oil account for a significant

11 | General Statistics Office, 2009, *Statistical Handbook 2008*, pp. 67 - 69.

12 | ASEAN Secretariat, 2010, Basic ASEAN Indicators: Selected Key ASEAN Macroeconomic Indicators (as of February 15, 2010), <http://www.aseansec.org/stat/Table2.pdf> [March 14, 2010].

13 | John W. Miller and Patrick Barta, "EU, Vietnam to Start Free-Trade Talks", in: *The Wall Street Journal*, March 3, 2010, <http://online.wsj.com/article/SB10001424052748703807904575096963176656100.html> [March 9, 2010].

proportion of state revenue.¹⁴ All in all, Vietnam was able to increase its exports between 2002 and 2008 on average by nearly twenty-three percent a year. Hence, volumes increased from 16.7 billion US dollars to 62.7 billion US dollars. However, within the balance of trade, imports carry more weight; these include high-quality industrial goods, chemicals, and fertilizers. In 2008 the trade deficit rose to 18.03 billion US dollars, almost six-times as high as in 2002.¹⁵ The United States, European Union, Japan, and China are the key markets for Vietnamese goods. Almost sixty percent of exports are destined for these markets. In terms of imports, most come from Asia; the People's Republic of China, Singapore, Taiwan, and Japan account for more than half of all imports. The Federal Republic of Germany is the most important European trading partner for Vietnamese exports.¹⁶

The orientation toward exports in general, as well as the direction of trade relations, suggest that the SRV has suffered several setbacks in the wake of the economic crisis. The entire Southeast Asian region experienced a double-digit collapse in export volumes between the fourth quarter of 2008 and the third quarter of 2009. The exposed economies of Malaysia, Singapore, and Thailand were particularly affected. However, Vietnam also felt the effects of the crisis. Annual export volumes for goods and services declined by 6.0 and 5.6 percent respectively.¹⁷ The decline in transfers by Vietnamese from abroad, reduced foreign direct investment, and factory closures and layoffs in the manufacturing industry are all further indicators of the effects of global economic turmoil. The

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14 | In 2008, exports of crude oil reached an estimated fourteen million tons; General Statistics Office, 2009, *Statistical Yearbook 2008*, p. 88; General Statistics Office, 2009, *Statistical Handbook 2008*, p. 147.

15 | World Trade Organization, 2009, *Country Profile Vietnam*. http://stat.wto.org/CountryProfiles/VN_e.html [September 11, 2009]; Of this, approximately half is attributable to trade with the USA; *Asian Development Bank: Key Indicators for Asia and the Pacific 2009*, s.v. "Vietnam & Manila", http://www.adb.org/documents/books/key_indicators/2009/pdf/VIE.pdf [March 11, 2010].

16 | *ibid.*

17 | Economist Intelligence Unit, 2010, *Country Report: Vietnam*, p. 8.

global downturn presents Hanoi with many challenges: in order to maintain economic stability in the country, the government announced a packet of measures with a value of 3.7 billion US dollars (four percent of GDP, 2009). These included tax cuts and credit concessions for businesses and private households.¹⁸ Increased public investment coupled with reductions in tax receipts have caused the budget deficit to increase during the past year to approximately 9.0 percent of GDP.

In addition to the strains on the budget, there are currency and monetary problems. Since the communist leadership continues to place growth before stability – not least so as to achieve the goals of the *Socio-Economic Development Plan 2006-2010* and the *Comprehensive Poverty Reduction and Growth Strategy* – inflation will continue to remain at high levels. At the same time, the national currency is under pressure; consequently, the state-controlled State Bank of Vietnam has been forced to devalue the dong several times against the dollar in recent months. The Economist Intelligence Unit predicts that this will persist during 2010. People's loss of confidence in the dong will, therefore, continue and will promote the dollarization of the economy.

Unemployment and underemployment are two other problems affected by the economic crisis. Although the labor market situation seems indeed to have improved in the meanwhile, there is still – just as is the case in neighboring China – a lack of skilled workers in several places. At the same time, the decline in orders for the export economy has caused factories to lay off vast numbers of low-paid workers. This brings social tensions since several of those who have lost their jobs have migrated to cities from rural areas, leaving their land behind, sometimes even having sold it. Now that they are unemployed and are to some extent returning to their villages, many people are not even able to earn enough money from agriculture to survive.¹⁹ For this reason, the government is again focusing

18 | World Bank, 2010, *Transforming the Rebound into Recovery: A World Bank Update for the East Asia and Pacific Region*, pp. 64 - 65 and 79.

19 | Doanh Le Dang, "Analysis of the Impacts of the Global Financial Crisis on Social and Economic Indicators in Vietnam" (working paper, UNDP Vietnam, Hanoi, 2009).

on economic stimulation rather than stability. In their eyes, only growth can create employment. The demographic situation alone makes this attitude understandable, as nearly two-thirds of the population is of working age and, every year, one million young Vietnamese flood the job market. Politics must, therefore, act to ensure qualitative and quantitative improvements in education, beginning with primary education, through vocational training, to university.

It is unlikely that the political leaders within the party and government will introduce profound economic and political changes this year. They are already concentrating on the preparations for the XIth Party Congress of the CPV at the start of 2011. Until then, the key figures, namely General Secretary Nong Duc Manh, Prime Minister Nguyen Tan Dung and President Nguyen Minh Triet, will try to achieve the goals of the current five-year socio-economic development plan as best as possible.²⁰ Concerns about the social balance are critical for this. Increased numbers of strikes and protests go to show how vital this is, whether these

be because of dissatisfaction about wages or because of anger at the corruption and mismanagement rife within the Communist Party.²¹ The goal of socio-economic stability controls policymaking, on the one hand, through state economic intervention (unsurprising in a socialist market economy), and on the other, the authorities are seeking to

demonstrate their strength in the face of criticism. Since last fall, several dissidents have been tried and a number of Internet bloggers have been threatened for speaking out in favor of freedom of speech and freedom of the press.²² In spite of these events, the situation – which can be seen as politically stable – is unlikely to change dramatically in the

Es ist unwahrscheinlich, dass die politische Führung in Partei und Staat in diesem Jahr tief greifende wirtschaftspolitische Veränderungen vornehmen wird. Sie konzentriert sich bereits auf die Vorbereitungen für den XI. Parteitag der KPV, der Anfang 2011 stattfinden wird.

20 | Ministry of Planning and Investment, 2006, The Five-Year Socio-Economic Development Plan 2006-2010.

21 | Sanchita Basu Das and Omkar Lal Shrestha, "Vietnam: Further Challenges in 2009", *ASEAN Economic Bulletin* (2009) 26, p. 3.

22 | Nga Pham, "Vietnam's New Breed of Dissident", *BBC News*, January 21, 2010, <http://news.bbc.co.uk/2/hi/8471723.stm> [January 29, 2010].
Editorial, "China, Vietnam Mark Holidays with Repression", *Washington Post*, <http://www.washingtonpost.com/wp-dyn/content/article/2009/12/31/AR2009123102603.html> [January 5, 2010].

foreseeable future. It must be made clear that any desire for political stability comes at a cost to social freedom.

It is difficult to predict how the political situation will gain influence during the next few months. In general, it is not easy to put Vietnam's political elite into camps. The categories often used – pragmatists, reformers, or conservatives – fall short in a one-party state oriented toward consensus.²³ The ongoing financial and economic crisis could, however, provide the Party with an ideological opportunity to exploit the situation for propaganda purposes, portraying it as a capitalist crisis. The result would be an empowerment of the "conservative" wing within the CPV. This would make further market-orientated economic reforms unlikely. For example, the government would not promote privatization within the state sector. It is even conceivable that planned economic mechanisms would enjoy a renaissance. As has happened so often in Vietnam's recent history, developments depend on external influences. Maneuvering through the tense economic situation, the government and party leadership is keeping a close eye on the People's Republic of China. For Hanoi, a lot depends on how Beijing deals with the continued weakness of the global economy. Hence, Vietnamese foreign policy faces challenges similar to those faced by its economic policy. Fundamentally, this proposition implies that the one area of politics will be unsuccessful without success in the other.

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EXPANDING THE ROOM TO MANEUVER IN FOREIGN POLICY

The SRV has changed its foreign policy immensely since 1989. Before the collapse of Socialism, Vietnam maintained diplomatic relations with only twenty-three non-communist states;²⁴ now, this figure stands at one hundred seventy-

23 | David Koh, *Politics in Vietnam: In Search of Interest*, Trends in Southeast Asia 6: Political Developments in Myanmar and Vietnam (Singapore: Institute of Southeast Asian Studies, 2003), p. 33.

24 | Diplomatic relations with the Federal Republic of Germany have existed since 1975. The German Democratic Republic first established official relations with the then Democratic Republic of Vietnam (North Vietnam) in 1950.

two. In terms of foreign economic relations, trade agreements exist with seventy-six countries. The number of agreements guaranteeing the "most favorable status" is almost as high.²⁵ The election of Vietnam to the United Nations' Security Council as one of the ten non-permanent members (2008/2009) was certainly a high point in the international community's recent recognition of the country. The Asia-Pacific region and the relationship to the People's Republic of China is of primary interest for Hanoi's foreign policy.

VIETNAM AND CHINA: BROTHERHOOD AND RIVALRY

Relations between the two states, which share a one thousand four hundred kilometer-long border, can be described as ambivalent and are, without a doubt, asymmetric in nature. Particular attention should be paid to Vietnamese foreign policy in East and South Asia. It is not popular in Vietnam when external observers view the country in the shadow of the People's Republic. However, Vietnam's relationship with its northern neighbor played, and continues to play, an important role for the country's economic and political development; this can be said of the whole Southeast Asian region. Since the SRV currently holds the ASEAN presidency, the country has a particular responsibility toward the region, which has been affected by the global economic and financial crisis. This is accompanied by a certain expectation of Vietnamese relations with China. Historically, the former empire is linked by a checkered past, characterized by hostility, war, as well as occupation on the one hand, and brotherhood and a shared revolutionary struggle on the other.²⁶ Vietnamese politicians continue to point to the thousand years of Chinese occupation (111 BCE to 968 AD). In spite of this defining era, developments since the 1990s have been more decisive for bilateral relations in the twenty-first century. According to Womack, the period of hostilities between 1979 and 1991 compare with a "cold war."²⁷ The profound changes in the Socialist Bloc from 1989 onwards brought

25 | Jörn Dosch, "Vietnam in 2008: Foreign Policy Successes but Daunting Domestic Problems", in: *Southeast Asian Affairs 2009*, ed. Daljit Singh (Singapore: Institute for Southeast Asian Studies, 2009), p. 384.

26 | Brantly Womack, *China and Vietnam: The Politics of Asymmetry* (New York: 2006), p. 23.

27 | *ibid.*, p. 192.

about a turning point. For the Communists in Hanoi to hold on to power at the same time as exploiting the scope for redesigning the economic system as part of *Doi Moi*, they had to adjust their foreign policy parameters.

This applied, firstly, to the troops stationed in Cambodia and, secondly, to relations with ASEAN. The deployment of the Vietnamese People's Army against the regime of the Khmer Rouge under Pol Pot²⁸ in December 1978 served to further isolate the SRV internationally. As a result, dependence on the Soviet Union and the Council for Mutual Economic Assistance increased. The solution to overcome this situation lay in a political accord with Beijing and Washington. Only by normalizing relations with both the Chinese and American governments would have given Hanoi the opportunity of actively cooperating in Southeast Asia. The presence of troops in Cambodia reduced not only Vietnam's status within the international community, but also took away important resources that the country desperately needed for its economic development. The army finally withdrew from Phnom Penh in September 1989, more than ten years after Vietnamese soldiers first captured the city.²⁹

It is difficult to predict how the political situation will gain influence during the next few months. In general, it is not easy to put Vietnam's political elite into camps. The categories often used – pragmatists, reformers, or conservatives – fall short in a one-party state oriented toward consensus.

Consequently, the foreign ministry in Hanoi diverted its efforts toward settling the dispute with China. This initiative came from Vietnam. Only if a new *modus vivendi* with Beijing could be found, which rendered "punishments," such as the border war of February 1979, impossible,³⁰ would it be possible for a sphere of shared security for mutual benefit to exist. Even with all the similarities at

28 | For information on the background to the invasion, see D. R. SarDesai, *Vietnam: Past and Present*, 4th ed. (Cambridge, 2005), pp. 162 - 64; Brantly Womack, *China and Vietnam: The Politics of Asymmetry* (New York: 2006), p. 195.

29 | An agreement to end the conflict was signed in Paris in October 1991. Carlyle A. Thayer, "Sino-Vietnamese Relations: The Interplay of Ideology and National Interest", *Asian Survey* (1994) 34, pp. 515 - 518.

30 | In response to the Vietnamese invasion of Cambodia, Chinese troops began an offensive along the border with its southern neighbor on February 17, 1979. The official reason given for this was a border dispute. Nearly 50,000 people were killed during the two-month campaign. Deng Xiaoping wanted to use the offensive to teach the Vietnamese a "lesson"; Brantly Womack, *China and Vietnam: The Politics of Asymmetry* (New York: 2006), pp. 192 and 200.

the level of the political and economic system, grave material and ideological discrepancies were evident. These pertained, among other things, to border skirmishes along the northern border and territorial claims over the Spratly Islands and the Paracel Islands in the South China Sea.³¹ There is still no solution to the dispute over the islands. Due to the multiple claims,³² only an agreement reached through multilateral means seems realistic. The publication of a joint communiqué on November 10, 1991, made at least a normalization in Sino-Vietnamese relations possible. The signatories agreed to find a peaceful solution to the territorial questions.³³

Since then, bilateral relations have deepened considerably. However, neither side talks about a special relationship.

The profound changes in the Socialist Bloc from 1989 onwards brought about a turning point. For the Communists in Hanoi to hold on to power at the same time as exploiting the scope for redesigning the economic system as part of Doi Moi, they had to adjust their foreign policy parameters.

Relations are based on the "Sixteen Word Guidelines" and the "Four Good Principles," which Vietnam's political class continually call upon at party congresses, government meetings, and national assemblies, as they did, for example, most recently during the sixty-year celebration of diplomatic relations between Vietnam and the People's Republic.³⁴ Economic facts are, though,

much more revealing than mere rhetoric. Although this once again highlights the asymmetries between the two

31 | D. R. SarDesai, *Vietnam: Past and Present*, 4th ed.

(Cambridge, MA: 2005), pp. 180 - 83; A possible reason for the escalating conflict concerning these uninhabited islands (or rather, cliffs) is the suspected oil and gas deposits.

32 | Not just the People's Republic of China and the SRV lay claim to the Spratly Islands; Brunei, Malaysia, the Philippines, Singapore, and Taiwan do as well. The latter also lays claim to the Paracel Islands.

33 | The Treaty on Land Border (signed on December 30, 1999) and the Tonkin Gulf Agreement (December 25, 2000) are further legal foundations.

34 | Vietnamese Ministry of Foreign Affairs, 2010, Press and Information Department, "Vietnamese, Chinese Leaders Cheer Diplomatic Ties", news release, January 17, 2010, <http://www.mofa.gov.vn/en/nr040807104143/nr040807105001/ns100118111740#INVuuGeeGi1R> [January 18, 2010]; The "Sixteen Word Guidelines" read: "*Láng giềng hữu nghị, hợp tác toàn diện, ổn định lâu dài, hư ớng tới tương lai.*" This translates approximately to friendly neighborhood, comprehensive cooperation, long-lasting stability, and future vision. The "Four Good Principles" are good neighborhood, good friends, good comrades, and good partners.

countries,³⁵ the intensity of economic exchange seems to indicate that, in Vietnam, it is the success of trade relations that determines foreign policy more so than security concerns. The levels of integration are increased through intensive cooperation in economic areas. Hence, the costs of abandoning relations become greater, which is why existing foreign policy disputes, such as the bilateral territorial claims in the South China Sea, should be resolved through negotiation. Vietnam requires a stable regional environment for its development strategy. And first and foremost, that means tension-free relations with China.

The population does not share the government's position unconditionally. Over the past few years, there have again been anti-Chinese protests or demonstrations, which have been directed toward the territorial ambitions of Beijing with regard to the Spratly and Paracel Islands.³⁶ The government's plans for a joint venture between the Aluminum Corporation of China Ltd. (CHALCO) and the Vietnam Coal and Mining Industry Group (TKV) to extract bauxite from the Central Highlands are a second reason for this discontent within the population.³⁷ On the one hand, there are concerns about the ecological damage. On the other, there is a fear that Vietnamese resources might be sold off to China, thereby giving Beijing greater political influence in Vietnam. In view of the unequal size of both

35 | With the border treaty of December 30, 1999, trade at the Sino-Vietnamese border was given renewed impetus. However, Vietnam's balance of trade turned from a slight surplus of 135 million US dollars compared to the People's Republic between 2000 and 2008 to a drastic shortfall of 13.42 billion US dollars; Own calculations based on *Asian Development Bank: Key Indicators for Asia and the Pacific 2009*, s.v. "Vietnam & Manila", http://adb.org/documents/books/key_indicators/2009/pdf/VIE.pdf [March 11, 2010].

36 | Jörn Dosch, "Vietnam in 2008: Foreign Policy Successes but Daunting Domestic Problems", in: *Southeast Asian Affairs 2009*, ed. Daljit Singh (Singapore: Institute for Southeast Asian Studies, 2009), p. 382; This issue exploded with the completion of a Chinese submarine base on the island of Hainan in the Gulf of Tonkin three years ago; this island is only two hundred kilometers from the Vietnamese coast; Ishan Tharoor, "China and Vietnam: Clashing Over an Island Archipelago", *Time*, January 14, 2010, <http://time.com/time/world/article/0,8599,1953039,00.html> [January 18, 2010].

37 | Duy Hoang, "Vietnam Bauxite Plan Opens Pit of Concern", *Asia Times Online*, May 17, 2009, http://atimes.com/atimes/Southeast_Asia/KC17Ae01.html [March 18, 2010].

countries, this concern is not unfounded. Thus, the search for mutual understanding is a balancing act for Vietnamese domestic and foreign policy. One advantage should not be overlooked, namely that the immediate proximity to China offers excellent opportunities for the Vietnamese economy. The country can, therefore, act as an alternative, or rather complementary location for the Chinese operations of international investors ("China plus one" strategy).

VERSATILITY AS A PREMISE FOR FOREIGN POLICY

In times of a globalized economy and complex interdependencies,³⁸ the SRV is avoiding unilateral alignment with its foreign relations. As a consequence, Vietnamese policy has been directed toward creating a variety of partnerships. A side effect of this should be a balance to the asymmetrical relationship with China. To this end, Vietnamese diplomats emphasized the importance of Southeast Asia early on. At the same time as

cementing the bilateral link between Beijing and Hanoi, there has also been multilateral involvement. In the words of an employee at the foreign ministry, this means that "Sino-Vietnamese relations will be meshed within the much larger regional network of interlocking economic and political interests. [...]

This is the ideal strategic option for Vietnam.

It is also the most practical."³⁹ Accordingly, the government has de-ideologized its foreign policy. Pragmatism and a recognition of mutual dependencies have taken the place of socialist internationalism. In terms of actual foreign policy, this requires a clear articulation of interests and *balancing*.⁴⁰

The population does not share the government's position unconditionally. Over the past few years, there have again been anti-Chinese protests or demonstrations, which have been directed toward the territorial ambitions of Beijing with regard to the Spratly and Paracel Islands.

38 | Robert O. Keohane and Joseph S. Nye, "Power and Interdependence Revisited", *International Organization* 41 (1987), pp. 725 - 753.

39 | Nguyen Hong Thach, "Vietnam-China Ties: A New But Not Easy Era", *Singapore Business Times*, December 31, 1992; Quoted in Carlyle A. Thayer, "Sino-Vietnamese Relations: The Interplay of Ideology and National Interest", *Asian Survey* (1994) 34, p. 528.

40 | Alexander L. Vuving, "Strategy and Evolution of Vietnam's China Policy: A Changing Mixture of Pathways", *Asian Survey* 46 (2006), pp. 807 and 821.

Vietnam's relations with the United States are an impressive example of this pursuit of balance. Both countries have continued to expand their relations toward each other since the middle of the 1990s, and these now go well beyond the initial economic cooperation. The US government has entered into a dialog on human rights with Hanoi, now discusses military questions with a former enemy, and conducts a program of cultural and scientific exchange.⁴¹ In return, Washington has the opportunity to expand its presence in the Asian-Pacific region. The strategic interest toward stable bilateral relations with Vietnam also reflects the desire to observe China's actions and plans in the region. The USA is, without a doubt, set for a re-balancing of the "delicate" power relationship between China and the other Southeast Asian states.⁴² From the Vietnamese government's perspective, cooperating with the United States has been an essential step toward the "diversification and multi-directionalization" of its foreign policy.⁴³ A normalized relationship with the Americans sent a signal: it laid the foundations for international development work in Vietnam, for loans from the World Bank and International Monetary Fund, as well as admittance into the WTO.

In times of a globalized economy and complex interdependencies, the SRV is avoiding unilateral alignment with its foreign relations. As a consequence, Vietnamese policy has been directed toward creating a variety of partnerships. A side effect of this should be a balance to the asymmetrical relationship with China.

Thanks to increased international acceptance, Vietnam's relationship toward ASEAN member states and other Asian countries underwent a shift in meaning. The Association of Southeast Asian Nations was originally founded in 1967, rejecting communism and as protection against the

41 | Vo Xuan Han, "Vietnam in 2008", *Asian Survey* (2009) 49, p. 191; Jörn Dosch, "Vietnam in 2008: Foreign Policy Successes but Daunting Domestic Problems", in: *Southeast Asian Affairs 2009*, ed. Daljit Singh (Singapore: Institute for Southeast Asian Studies, 2009), p. 381.

42 | Vo Xuan Han, "Vietnam in 2008", *Asian Survey* (2009) 49, p. 191.

43 | Directive of the Third Plenary Assembly of the Seventh Central Committee from June 1992, which confirmed Resolution № 13 of May 1988 of the politburo; Alexander L. Vuving, "Strategy and Evolution of Vietnam's China Policy: A Changing Mixture of Pathways", *Asian Survey* 46 (2006), p. 814; Jörn Dosch, "Vietnam's ASEAN Membership Revisited: Golden Opportunity or Golden Cage?" *Contemporary Southeast Asia* 28 (2006), p. 242.

expansionist foreign policy of Vietnam.⁴⁴ This intention had become outdated at the start of 1990s. Indonesia, Malaysia, and Singapore, in particular, all supported the SRV's ascension to ASEAN. They recognized both the economic potential of Vietnam and the political significance of its membership in consolidating the organization

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as truly regional and representative of Southeast Asia. In 1995, with the ascension of Vietnam, the wishes of the former US foreign minister, Dean Rusk, came true: "ASEAN would be a force for stability on its own that even the communist countries of Asia might want to join and that would be a better guarantee against future wars."⁴⁵ This account from the time of ASEAN's foundation regarding security was finally realized through Vietnam's motivation to join the organization. As Goodman aptly puts it, "ASEAN became a talisman for a policy premised on the need to achieve prosperity as the surest way to provide for national security."⁴⁶ This vital connection between solid foreign economic development and security requirements has already been discussed. After fifteen years of ASEAN membership, Vietnam is now strongly rooted in the region. The country is a pioneer within the CLMV group⁴⁷ in terms of economic strength, its orientation toward development, and regional responsibility. The Vietnamese government only views the growing closeness of ASEAN to China with some reticence.

The People's Republic of China has connected with the organization through ASEAN+3. It is clear to the Asia expert, Jörn Dosch, that ASEAN has abandoned regional balancing in favor of regional bandwagoning in relation

44 | M. C. Abad, Jr., "The Association of Southeast Asian Nations: Challenges and Responses", in: *The Regional Organizations of the Asia-Pacific: Exploring Institutional Change*, ed. Michael Wesley (New York: 2003), pp. 40 - 59; D. R. SarDesai, *Vietnam: Past and Present*, 4th ed. (Cambridge, MA: 2005), p. 192 et seq.

45 | Dean Rusk, quoted in Allan E. Goodman, "Vietnam and ASEAN: Who Would Have Thought It Possible?" *Asian Survey* 36 (1996), p. 592.

46 | Allan E. Goodman, "Vietnam and ASEAN: Who Would Have Thought It Possible?" *Asian Survey* 36 (1996), p. 595.

47 | Cambodia, Laos, Myanmar, and Vietnam.

to China.⁴⁸ Beijing's influence in the region is increasing noticeably in terms of economic and security issues. China relies on safe passage through Southeast Asian waters for its trade relations and its raw material supplies. Therefore, it is expanding its maritime presence and its military cooperation with individual ASEAN states (e.g., Indonesia). Also, the recent China-ASEAN Free Trade Area (CAFTA)⁴⁹ shows the increased influence the People's Republic has in Southeast Asia. Vietnam's leaders are not always happy with these developments. In view of the pull and de facto supremacy of China in the region, Hanoi faces the challenge, on the one hand, of following the foreign policy trend of other ASEAN states without, on the other, neglecting its relations with the USA.

Although the SRV clearly focuses its foreign policy toward the Asia-Pacific region, the government still places great emphasis on dialogs with European partners. The volume of trade between Germany and Vietnam totaled over 4.3 billion US dollars in 2008.

RELATIONSHIP TO GERMANY AND VIETNAM'S DEVELOPMENT OUTLOOK

Although the SRV clearly focuses its foreign policy toward the Asia-Pacific region, the government still places great emphasis on dialogs with European partners. The volume of trade between Germany and Vietnam totaled over 4.3 billion US dollars in 2008. The majority of goods exported by Vietnam to the Federal Republic of Germany are agricultural products and textiles with the label "Made in Vietnam." German companies, which have a good reputation in the SRV, supply machines and plant equipment. Examples of larger investment projects include Siemens' involvement in the planned extension of the railway network in Hanoi and Ho Chi Minh City. These activities should not be underestimated; however, trade and investment potential in both directions remains nowhere near fully exploited (see Table 2).

48 | Jörn Dosch, "Vietnam's ASEAN Membership Revisited: Golden Opportunity or Golden Cage?" *Contemporary Southeast Asia* 28 (2006), p. 250.

49 | The CAFTA came into force on January 1, 2010. Currently, it covers China and six of the ten ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand). The remaining members – Cambodia, Laos, Myanmar and Vietnam – should be included in CAFTA in 2015.

Table 2.

Selected Trade Relations of Vietnam and Foreign Direct Investments, 2008 (in million US dollars)

	Exports to	Imports from	Balance	FDI
Germany	2,715	1,612	1,103	56.6
Japan	12,594	8,615	3,979	7,578.7
Malaysia	1,606	2,747	-1,141	14,969.2
Republic of Korea	1,430	6,090	-4,660	2,019.0
Singapore	2,314	10,085	-7,771	4,495.8
Thailand	1,244	5,459	-4,215	4,046.2
USA	12,594	3,069	9,525	1,519.4
PRC	4,174	17,593	-13,419	373.5
Others	22,509	27,684	-5,175	28,952.6
Total	61,180	82,954	-21,774	64,011.0

Source: [FDI] General Statistics Office, 2009, *Statistical Handbook 2008*, 64-66; [Trade] Asian Development Bank: *Key Indicators for Asia and the Pacific 2009*, s.v. "Vietnam & Manila," http://www.adb.org/documents/books/key_indicators/2009/pdf/VIE.pdf (accessed 3/11/2010); own calculations.

German and Vietnamese politicians have emphasized on several occasions the importance both countries represent for each other. This year, there is particular reason to do so, as 2010 is the thirty-fifth anniversary of the start of Germany-Vietnam diplomatic relations. Participants in the celebrations – both here and in Vietnam – are seeking to increase the intensity of economic, social, and cultural understanding under the heading "Vietnam in Germany – Germany in Vietnam." There is a link stemming from the legacy of the historical cooperation between Vietnam and the former German Democratic Republic, where more than seventy thousand Vietnamese studied or trained. The prevalence of German learned as a foreign language is equal to that of French, which further promotes the foreign cultural policies of Berlin. A university initiative with the Federal State of Hesse and a dialog on the rule of law, which the Konrad Adenauer Stiftung is leading, are additional parts of the German-Vietnamese cooperation. As a key country, the SRV is significant for German development assistance (DA). The 2008/2009 budget provided 117 million euros for bilateral technical and financial

assistance. Federal minister, Dirk Niebel (FDP), reinforced the importance of Vietnam for Germany to his counterparts in Hanoi on his most recent visit to Asia. Here, he signed a Partnership Declaration for German and Australian DA (AusAID). Together, the parties are seeking to place the environment and environmental protection at the forefront of their activities.⁵⁰

This assistance forms a catalog of tasks for the political actors, since experts predict that the southeastern country will be particularly affected by climate change. Forty-two percent of the population lives in areas that are only twenty-five kilometers from the coast. If sea levels rise by a meter, the Mekong and Red River deltas would be particularly badly affected – the economic centers of Vietnam and the main rice growing areas. The area, home to twenty-two million people, is in danger of flooding, stronger and more frequent hurricanes, and other extreme weather phenomena. Agricultural losses as a result of salinization and the loss of arable land, such as a decline of nine percent in the rice harvest in the Mekong Delta by 2030, would damage the security of supplies considerably.⁵¹ Climate change, therefore, threatens the long-term development aims of the government, which has set an ambitious target of becoming an industrialized country by 2020.⁵² The commandment of sustainable development is more important than ever in order to reconcile the self-defined growth rates with the problem of climate change. The government of the SRV should, therefore, use its presidency of ASEAN to draw public attention to – and make decision-makers within the region aware of – the relationship between economic development and environmental damage. The southeastern community of states should not wait any longer to reach a common basis for decisive action.

50 | German Federal Ministry for Economic Assistance and Development, 2010, Press Department, *Erste Südostasien-Reise von Bundesentwicklungsminister Niebel war ein großer Erfolg*, news release, March 15, 2010, http://www.bmz.de/de/presse/aktuelleMeldungen/2010/maerz/20100315_asienbilanz/index.html [March 16, 2010].

51 | United Nations Development Program, 2007, Human Development Report 2007/2008 – Fighting Climate Change: Human Solidarity in a Divided World, p. 100.

52 | Ministry of Planning and Investment, 2006, The Five-Year Socio-Economic Development Plan 2006-2010.

Policies on climate change require patience and should be drawn up for the long-term. Infrastructure problems are also of short to medium-term importance for Vietnam's development opportunities. This primarily applies to energy supply, transport routes, and waste management facilities, but also covers public welfare institutions, with the mountainous and upland regions being most structurally disadvantaged. A welfare net is slowly starting to emerge. The government has introduced the first compulsory insurance (unemployment, illness). However, only a small proportion of citizens and workers have benefited from this to date.⁵³ In this regard, discrepancies between the urban and rural populations, as well as employees in the public and private sector, are cause for concern. Vietnam continues to describe itself as a socialist country. If the CPV wishes to remain true to this description, it must ensure that these types of domestic fault lines do not become a litmus test for the system. The party is already struggling with its image among the population. Corruption scandals and abuses of power continue to be widespread and impair not just the efficiency of public administration but also economic activities for domestic and foreign investors.

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Apart from these pressing political and socio-economic questions, Vietnam can still maintain the economic dynamic, which has been described above. The country owes its ranking among the *emerging markets*, on the one hand, to its regional pull, stemming from its link function between China and ASEAN; on the other, the Communist Party and government display an orientation toward development that is deserving of recognition. Vietnam will realize many of the Millennium Development Goals (MDGs), since Hanoi has used the MDGs as the basis for defining the national development objectives.⁵⁴ Furthermore, Vietnam is a pilot country for the United Nations' (UN) initiative, "One UN." The development assistance provided as part of the UN system should be implemented more coherently

53 | Bertelsmann Stiftung, 2009, BTI 2010: *Vietnam Country Report*, p. 18.

54 | Socialist Republic of Vietnam, 2005, *Viet Nam Achieving the Millennium Development Goals*.

and efficiently. This was the reason for the SRV accepting the "Paris Declaration on Aid Effectiveness" from the OECD (2006). Similar to the way the MDGs were adapted, this was tailored to the Vietnamese situation with the "Hanoi Core Statement." These examples clearly show Vietnam's pioneering role in the field of development assistance, which is thanks in no small part to the opening up of its foreign policy. If the country manages to achieve the status of an average income country and to implement a sustainable development strategy, then several other countries may follow suit.