Change of leadership in Vietnam signals a move to accelerate market reform

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Faced with a flagging economy and deepening social tensions, the ruling Communist Party in Vietnam made a number of changes to its top leadership at the end of April. They signal a stepping up of pro-market reforms in a bid to secure foreign investment.

The most significant alteration to the leadership lineup was the removal of General Le Kha Phieu, 69, from his post of general secretary, just three years into his five-year term of office. His replacement, Nong Duc Manh, 60, a civilian, has been head of the country's National Assembly for the last nine years.

While the new leadership was rubberstamped unanimously at the party's national congress, the shift was clearly the outcome of bitter behind-the-scenes wrangling in the top party circles. The key vote was taken in the party's central committee which overturned a previous decision of the smaller executive—the politburo—to retain Phieu in office. Phieu was also dumped from the central committee and politburo, which was reduced in size from 18 to 15. Six other politburo members were also retired.

According to an *Agence France Presse* report, a group of three party "advisers" led by former prime minister Vo Van Kiet was behind the move to oust Phieu. Kiet circulated an internal letter calling for a shakeup of the party leadership, reportedly accusing Phieu of "failings in party and state management" and detailing his use of military intelligence against opponents. Following his ousting, Phieu admitted to having made "mistakes in his work" and said he was standing down because of his age.

Naturally, the removal of Phieu has nothing to do with age, "mistakes," or the bureaucratic abuse of power. In the international media, the divisions in the Communist Party are loosely and somewhat misleadingly referred to as being between "hardliners," on the one side, and "moderates" or "reformers," on the other. Neither Phieu nor Manh are socialists or communists. They belong to a Stalinist party that long ago broke from the fundamental principles of socialism and based itself on the nationalist ideology of "Socialism in One Country".

Within that context, the "hardliner" Phieu represents a layer within the Communist Party leadership, particularly those in the state bureaucracy and connected to the management of state enterprises, whose interests are threatened by the process of market reform or *doi moi* that began in 1986. The so-called moderates are pressing for the further lifting of restrictions on the operation of the market and private enterprises and, in some cases, are seeking to enrich themselves by establishing their own businesses.

Described by one commentator as "one of Vietnam's most astute powerclimbers," Manh is expected to speed up the privatisation or closure of state enterprises and further liberalise rules for foreign investment and private enterprises. The *Washington Post* pointed out that he was one of the few senior bureaucrats to have travelled widely outside Vietnam, including in the US. "After he visited Washington last year," the newspaper noted, "one US official said, 'We were left with the feeling that he's a guy we can deal with.'"

In choosing Manh, Hanoi no doubt has an eye to encouraging Washington to ratify the US-Vietnam trade agreement that was finally signed last July after four years of negotiations. The Vietnamese government is becoming increasingly agitated that, while it has given its official seal of approval, the deal has not passed the US Congress, where it has been packaged together with other trade items and may be delayed for months if not years.

From his record, Manh appears to be the epitome of the career bureaucrat. He trained in forest management in the Soviet Union, joined the Communist Party in 1963, worked his way up the ladder to become director of the Provincial Forestry Service in the late 1970s, and then a member of the Central Committee in the 1980s. He joined the Politburo in 1991.

The fact that he seems to have played no appreciable role in the protracted revolutionary struggle against US intervention between 1963 and 1975 probably accounts for the circulation of a rumour—modestly denied by Manh—that he is the illegitimate son of Ho Chi Minh. Within Communist Party circles, weighing up the choice between a civilian forester and a military veteran, the story would certainly have done him no harm.

The international press cautiously welcomed the choice of Manh.

The US-based magazine *AsiaWeek* commented: "Not before time. Great excitement surrounded Vietnam's landmark 1986 *doi moi* (renovation) reforms, which encouraged free-market policies and transformed the nation's living standards. Investors saw a bonanza and rushed to cash in. But the publicity was better than the reality. Obsessive red tape and rampant corruption soon caused more foreign investors to leave than to arrive. Economic growth, which had promised so much, stalled. 'Everyone over-estimated Vietnam as a potential tiger,' says a Western banker in Hanoi."

The British *Financial Times* noted: "Mr Manh's mandate is clear—to curb the rampant corruption suffocating Vietnam's progress (Vietnam ranks as the most corrupt country in Asia, scoring 9.75 out of a possible 10 in a recent survey by Political and Economic Risk Survey, based in Hong Kong) and to speed up the reforms, the country needs to revive the levels of foreign investment of the mid-1990s. Though the international response has been positive, diplomats and officials at the International Monetary Fund and World Bank are guardedly optimistic about what Mr Manh will be able to achieve."

The leadership changes are clearly motivated by concerns over the economy and growing social frictions. According to the government, the economy grew by 7.2 percent in the first quarter of the year as compared to the predicted figure of 7.5 percent. Salomon Smith Barney forecast the growth rate for 2001 will be 5.8 percent. Other figures, however, point to fundamental economic problems.

In the aftermath of the 1997-98 Asian financial crisis, foreign direct investment in Vietnam fell sharply from an annual figure of around $2 billion for the years 1995-97 to just $500 million in 2000. In 1996, investment pledges hit a record of $8.6 billion, of which only $2.6 billion materialised. But by 1999, investment promises had slumped to only $1.5 billion.

As a result of Hanoi's orientation towards foreign investment and private enterprise, the state-owned sector has declined markedly. The state share of industrial output has fallen from 62 percent in 1990 to 42 percent in 2000 and, over the same period, the number of people employed by state-owned firms has dropped from 2.5 million to 1.6 million. The country's 5,400 state enterprises are in debt to the tune of $12.9 billion and, according to state officials, between 75 and 80 percent of them are operating in the red.

IMF-World Bank plans call for the rationalisation and privatisation of the state sector initially through a process of "equitisation" or the transfer of shares into private hands. So far only the smaller and more marginal state firms have been targetted but, as it proceeds, the restructuring is likely to add to the country's already high levels of unemployment.

According to the World Bank, around 25 million people are either unemployed or underemployed—60 percent of the labour force. Those actually out of a job account for 10 percent of the workforce in urban areas and 30 percent in rural areas. About 1 million people join the workforce each year, far more than can find jobs. The World Bank estimates that about 30 million people out of a total population of 82 million are living in poverty.

As the Vietnamese economy has opened up to private enterprise and foreign capital, layers of the bureaucracy have sought to exploit the situation for their own benefit. A recent internal inspection found that 69,000 party members out of a total membership of about 2 million had been found guilty of corruption over the previous five years.

In part, the high levels of "corruption" relate to a debate within the Communist Party ranks over *boc lot* or "exploitation"—that is, whether or not party members have the right to engage in private business themselves. Given the limited and shrinking character of the state sector, party members are compelled to look to private enterprise for opportunities and unemployment.

Since the leadership as a whole has given the green light to capitalism, the debate over "exploitation" is a rather hypocritical attempt by the so-called hardliners to rein in their opponents. As one party member—Pham Chi Lan, executive vice-president of the Vietnam Chamber of Commerce and Industry—commented in the *Far Eastern Economic Review*: "Private enterprises are operating under the laws in Vietnam. All laws are approved by the party and the leadership. So why don't we allow party members to do business?"

The magazine also quoted a Vietnamese economist who was even more vehement about the need to remove barriers to private property and businesses. "Vietnam must stop terrorising the private sector by threatening them that they are potential exploiters. By doing so, Vietnam, intentionally or unintentionally, is raising unemployment and creating misery. If this is overlooked, it creates social and political instability, and provides very fertile soil for all the social evils that the party is fighting against: prostitution, drugs and criminality."

Far from ending unemployment, however, the further unleashing of the market in Vietnam will inevitably lead to sharper divisions between rich and poor and increasing social tensions. In February, sizeable protests over land and religious freedom erupted among ethnic minorities in Daklak and Gia Lai provinces in the central highlands. Thousands of people from the Ede, Giarai and other ethnic minorities demanded an end to the encroachment on their ancestral lands by resettled migrants from the north.

Hanoi cracked down on the protests, arresting around 20 people, and blamed agitators from the US for fomenting the demonstrations. During the Vietnam War, the US military exploited the hill tribes as mercenaries in their operations against the National Liberation Front troops. While there is evidence that the Montagnard Foundation, based in the US, maintains contact with ethnic minorities in Vietnam, the underlying source of the protests lies in the government's religious repression, and in the encroachment of coffee plantations on the land claimed by these groups. As coffee is one of Vietnam's main exports, there is pressure to further expand production.

As well as being an advocate of economic reform, another secondary reason for the choice of Manh as party leader was that he is a Tay—one of Vietnam's 53 ethnic minorities. Three quarters of Vietnam's 10 million minority population live in poverty and are among the country's most oppressed social layers. The new party general secretary will no doubt be expected to play a role in quelling the ongoing unrest among hill tribes.