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VIETNAM IN 1995

Successes in Peace

Brantly Womack

For the Vietnamese economy, 1995 was quite a good year and because it was a fairly stable period, it was also a good year in domestic politics. But 1995 will be remembered more for two events that were decided outside of Vietnam—its admission to membership in the Association of Southeast Asian Nations (ASEAN) and its establishment of diplomatic relations with the United States. These two diplomatic victories were not only important in themselves, but marked the culmination of a protracted attempt by Vietnam to restructure its foreign relations and the beginning of an era in which Vietnam has finally joined the community of national actors in Southeast Asia. After an analysis of developments in the economy and domestic politics, this article will review the course of Vietnam’s diplomatic emergence from isolation and assess the consequences of diplomatic victory.

Economic Growth and Constraints

Vietnam’s economy in 1995 continued and even accelerated the rapid economic progress of the past few years. The GDP has grown by an average of 8.2% since 1991, and is expected to reach 9.5% in 1995. There has been progress in most economic sectors, including agriculture and exports. Oil production is up considerably from 1994, to an estimated 7.7 million tons, though there have been disappointments in prospecting. Foreign aid and investment continue to rise rapidly. The cumulative total of approved licenses for direct foreign investment stood at $16 billion in July 1995, though only $5 billion has actually been invested. In December international donors pledged $2.3 billion for 1996, slightly larger than the $2 billion pledged in 1994 and 1995.

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The growing momentum of nine years of renovation politics (*doi moi*) combined with international curiosity and optimism about Vietnam’s potential have created a boom-town atmosphere, especially in areas directly touched by the internationalization of the economy. Ho Chi Minh City’s economy grew 15% in 1994; nationally, construction grew by 19% and industry by 13%. At 10% of the export total in 1994, coffee is now earning more export money than rice. The food grain harvest in 1995 is expected to reach 28.4 million tons, an 8% increase over 1994 and well above expectations.\(^1\) The official economic targets for 1996 propose rates of growth almost identical to the accomplishments of 1995.

Dreams grow even faster. Nguyen Nam Thai, deputy director of Ho Chi Minh City’s Urban Planning Institute, is quoted as saying, “Perhaps some day before too long the city will be able to stage the Olympics.” At the individual level, Communist Party General Secretary Do Muoi said that party members can become rich if they use legal means. When asked if party members could become multimillionaires (in dong, presumably), Do Muoi responded, “Yes.”\(^2\)

There are, however, numerous impediments to Vietnam’s economic prospects, and they are perhaps more apparent to those involved in the economy than they might be to distant observers and investors. The impediments can be divided into those resulting from the persistence of the old system, those resulting from market-driven reform, and those indicating more general constraints on Vietnam’s economic potential. The economic constraints imposed by incomplete reform attract the most resentment and criticism. These include bureaucratic entanglements, inadequate legal and court systems, and most important, corruption. The party-state system is by no means the only source of corruption, but the power of underpaid officials to create obstacles to market transactions is certainly enhanced by a monolithic, state-dominated structure of authority. It is hard to assess the comparative seriousness of corruption in Vietnam (official statistics on corruption are an oxymoron), but popular sensitivity to, and resentment of it are enhanced by the egalitarianism of official ideology. The reform leadership acknowledges this category of impediments and its policy mission is to eradicate inefficiency, waste, and corruption by continuing the process of *doi moi*.

Market-driven reform also creates its own impediments, most prominently inflation. Inflation was only 5.2% in 1993, increased to 14.4% in 1994, and

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is estimated at 15.6% for 1995. It has been particularly severe in food prices, which rose 39% in 1994. Whereas inflation in the 1980s was caused primarily by state budget imbalances, the current upsurge owes more to the overheating of the economy caused by the absorptive and taxation capacities lagging behind investment and growth. Inflation is not the only serious effect of rapid development. In 1994 there was a decline in the sown area of food crops in every region except the Southeast and Mekong Delta, and has been especially marked in the Red River Delta.\textsuperscript{3} There is also a decline in forest area. As Vo Van Kiet summarized the problem in his report to the National Assembly in October: “In certain areas of the country, the destruction of natural resources—land, forests, coastal areas and environment—is seemingly uncontrollable.”\textsuperscript{4}

Certainly the most serious economic obstacles are those that cannot be blamed either on the old system or the new market forces. These include poverty, unequal economic growth, and low state capacity. Poverty is well described in a World Bank study based on the Vietnam Living Standards Survey of 1992–93, the first nationally representative household survey of living standards in the country.\textsuperscript{5} Although the distribution of consumption expenditures in Vietnam is relatively equal, the World Bank classifies 51% of the Vietnamese population as below the poverty line, including 25% who are classified as “food-poor,” that is, they could not meet their basic caloric requirement even if they spent their entire income on food.\textsuperscript{6} The comparable poverty rates for other countries in the region are much lower: China (9%), Indonesia (15%), Philippines (21%), Thailand (16%). Economic reform has helped—95% of the units surveyed reported that life had improved over the past five years—but a population this poor will inevitably have a low savings rate, a low consumption rate, and a high demand on distributive and infrastructural expenditures.

Poverty is aggravated by regional inequalities, as 71% of the population of the North Central region is poor, compared to 33% of the Southeast (which includes Ho Chi Minh City). The poverty rates are reflected in per capita GDP and in GDP growth. In 1993 Ho Chi Minh City had a per capita GDP of 1,322 dong and a growth rate of 16.2%; the North Central regions’

\textsuperscript{3} Nong Nhiep Viet Nam, pp. 178–79. A 4.2% decline in sown area has occurred in the Red River Delta since the high point of 1991, though its effect has been partially offset by higher yields.

\textsuperscript{4} Vo Van Kiet, “PM’s Report,” p. 41.


\textsuperscript{6} Ibid., pp. 6–8. It should be noted that there are different definitions of the poverty line, and that the Vietnam Government Statistics Office estimates food poverty in 1994 at 20% nationally (22% rural and 10% urban).
equivalent figures were 278 dong and 2.5%, and the national average was 478 dong and 8%. It is clear that the immediate effect of market reform will be to increase the gap between advantaged and disadvantaged regions and between rural and urban areas. The World Bank estimates that if Vietnam maintains an 8% overall growth rate and the current regional growth distribution, poverty will be virtually eliminated in the Southeast by the year 2000, the national average will be down to 29%, but in the North Central rural areas it will still be 67.7%.

A final constraint, related to poverty, is low state capacity. The state’s successful attempt in the late 1980s to control its budget has led to a marked deterioration in state services. The population is most directly affected by deteriorating education and health services as well as increased user fees for all services. But the state’s low resources can also be seen in its inability to pay living wages to its officials (which makes petty corruption inevitable) and to control smuggling and other illegal activities. Incapacity encourages a gap between official policy and effective enforcement, and this increases uncertainty and anxiety in the economy as well as allowing illegal activities to flourish. Premier Kiet summed up the problem:

> Our nation is striving to meet the urgent requirements for development while facing various difficult issues in daily life related to capital, employment, infrastructure, and social welfare. We have experienced difficulties in setting priorities for decisive tasks and in integrating efforts to resolve the daily urgent work.7

The impediments mentioned above are not a cause for alarm about the Vietnamese economy, but they do qualify optimism about the future. To the extent that the current investment atmosphere is overly optimistic, it runs the risk of having its bubble burst; indeed, a cycle of this sort is almost inevitable. What is more important, the single-minded pursuit of greatest possible gain will have to be modified by the requirements of a poor population, by policies aimed at balancing distributional inequalities, and the taxation needed to rebuild state capacity.

**Domestic Politics: The Calm Before the Quiet**

Politics in 1995 has been dominated by the approach of the Eighth Party Congress scheduled for the summer of 1996 and the Tenth National Assembly shortly afterward. It is a very busy time for the leadership, since all of the personnel and policy decisions to be announced then must be discussed and re-discussed throughout the various echelons, and preparations for propaganda and elections must be made. Nevertheless, the pre-Congress year has

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been a quiet time for public politics. Difficult personnel decisions can be postponed, and eager candidates have been careful not to spoil their chances through premature publicity. Moreover, well-known dissidents have been imprisoned in order to establish strict boundaries on what can be discussed and who can discuss it.

With high politics in suspended animation, the domestic political stage has been occupied by legal reform and government reorganization, the products of the seventh session of the Ninth National Assembly (opened March 28) and especially the eighth session (opened October 5). The major objectives were administrative reform and the promulgation of a civil code, though the perennial issues of corruption and imbalances in budget and trade also received much attention.

Administrative reform has continued an initiative begun at the fifth session in 1994 to streamline state management of the economy. The 1995 phase has included a cabinet-level simplification in which several ministries were combined. The most impressive legislative accomplishment was the passage of Vietnam’s first comprehensive civil code (834 articles in 181 pages), which had been a topic of discussion at the previous 15 sessions of the National Assembly. The law will be further refined and take effect in July 1996. The National Assembly also proposed an additional vast program of legislative drafting to be completed for consideration by the Tenth National Assembly in 1996.

The ninth plenum of the Seventh Central Committee was held in November, and it had the task of discussing and approving the official drafts of documents for the upcoming party congress. Nearly 400 speeches were made in the six days of the conference (at ten hours a day, that would be a speech every ten minutes), and the resulting drafts of the political report, the report on development tasks for 1996 to 2000, and amendments to the party statute will be circulated inside and outside the party for discussion. The discussion cycle began with basic-level party congresses in December.

Although the Eighth Congress, scheduled for late June 1996, is billed as “a turning point in our country’s shift to the stage of intensified industrialization and modernization,” there is little in the reports from the plenum to suggest major changes. The party would like to continue the current pace and direction of economic reform, maintain a “market economy under socialist direction,” and uphold the leadership of the Communist Party. It is rumored that both General Secretary Do Muoi and Premier Vo Van Kiet will retire, but not as part of a shift in direction. So the low-key preparatory politics of 1995 is

not intended to be the calm before the storm, but rather the calm before the quiet.

The official political lid does not prevent the societal pot from simmering, however. Clearly, the unevenness of economic development led to budget squabbles between central and local authorities. Phan Van Khai pointed out to the National Assembly that 75% of budget revenue comes from six provincial units, with Hanoi and Ho Chi Minh City contributing half. The six also receive 31% of total budget spending but have only 18% of the population. So from the perspective of the rich, these units are giving more than they get, while from the perspective of the poor the rich are getting more than their share; within the government, both sides are adamantly defending their perspectives. Khai went on to request that the National Assembly not discuss the issue of budget reallocation. Since the preponderance of economic power is with the rich and the pressure of survival is with the poor, the national government’s task of allocating costs and benefits will remain a sensitive point of contention for the foreseeable future.

Lurking further in the background of current Vietnamese politics is the fundamental political problem of reform communism, namely, the contradiction between the continued liberalization inherent in the reform program and the monolithic character of the communist regime. In a quiet year, reforms can progress and society can change without challenging the political order. But if a crisis occurs, the leadership can be confronted suddenly with an impossible choice between its policy commitments to reform and its institutional base in a monolithic system.

From Isolation to Normalization, 1985–95
While 1995 has been a year of continuity in domestic economics and politics, it has indeed been a historic year for Vietnam’s foreign relations. Formal diplomatic relations with the United States is the culmination of 10 years of patient diplomacy, and admission to ASEAN marks the official end of decades of regional division. The conclusion of a framework agreement with the European Union is less historic but it is also an important step in integrating Vietnam into the global political economy. It is impossible to appreciate the significance of these events without a brief review of the 10 years of diplomacy that produced them. The full story is very complex, but the chief formal issue in Vietnam’s isolation was its occupation of Cambodia and the most complicated and final process of ending it was establishing relations with the United States. Thus we will focus on these two sequences.

The Cambodia Issue

Vietnam lost any momentum it may have had in efforts to normalize its relations with Southeast Asia and the United States with its invasion of Cambodia in December 1978. Pol Pot had given Vietnam sufficient reason to be concerned about a Chinese-Cambodian alliance and to fear for its security, but the combination of lingering American hostility, newly inflamed Chinese hostility, and the security concerns of ASEAN, especially Thailand, led to a concerted effort to bar Vietnam from normal economic and political relations as long as its forces remained in Cambodia.

Until 1985 Vietnam was more concerned with consolidating its control of Cambodia and maintaining readiness for a "second lesson" from China than it was with ending its isolation. It relied on the Soviet Union for material and strategic support, and its leadership was not unhappy with the fact that it controlled all of Indochina. Enmity with China was considered almost inevitable since it was attributed to China's historic desire to dominate Vietnam rather than to Vietnamese actions. International efforts to continue the recognition of the Pol Pot government at the United Nations and to establish in 1982 an exile Coalition Government of Democratic Kampuchea (CGDK), with Prince Norodom Sihanouk as its figurehead, were not enough to change Vietnam's policy. Vietnam's position was not unreasonable. The precondition of improving relations with the non-Soviet world was withdrawal from Cambodia, and the return of the so-called legitimate government of Cambodia—this time with broad international support—could again present a serious threat to Vietnam's national security. Moreover, aid from the Soviet Union and reliance on it as a strategic counter to China meant that Vietnam's international situation, though undesirable, was not desperate.

Meanwhile, other countries had found it convenient to be hostile to Vietnam. For the ASEAN countries, opposition to Vietnam's occupation of Cambodia became a unifying regional issue as well as a bridge to better relations with China and to greater respect from the United States. China had the immense satisfaction of improving relations with Southeast Asia and the U.S. and increasing its profile at the U.N. while at the same time isolating its new enemy. For Washington, continuing hostility toward Vietnam was domestically convenient as well as personally satisfying to many in the leadership, and it could claim that it was merely following the wishes of the countries in the region. Conditions were present for an indefinite stalemate, and by 1985 there was no end in sight.

Vietnam's 1984–85 dry season campaign defeated the Khmer Rouge and ended the necessity for large-scale military activities within Cambodia. So Hanoi took the bold step, widely ignored at the time, of announcing in August 1985 that it would withdraw its troops from Cambodia unilaterally by 1990. The announcement of unilateral withdrawal was a masterstroke of for-
eign policy on Vietnam’s part even though the payoff did not arrive for another five years. Vietnam had to be the country to break the deadlock, and by promising to remove the main obstacle to better relations by 1990, it created a time frame for reconsidering the stalemate. Moreover, regardless of the international context, the military occupation of Cambodia was undesirable. It was costly to Vietnam as the Soviet Union was increasingly unhappy about supporting Vietnamese efforts there. By seizing the initiative and making the withdrawal announcement, Vietnam made a diplomatic virtue out of an eventual necessity.

Vietnam carried out its unilateral withdrawal from Cambodia in September 1989, three months ahead of the original schedule. There was little immediate response from China or the United States even though the withdrawal met their primary demand. Ultimately, however, the withdrawal increased fears in the U.S. Senate that the Khmer Rouge might come to power, and Congressional pressure forced Secretary of State James Baker to take a public stance against the Khmer Rouge in July 1990. Concerned that it would be isolated in its support of the Khmer Rouge, China changed its policy within weeks of Baker’s announcement. Party Secretary Nguyen Van Linh was invited to a secret summit meeting, and the process of normalization between China and Vietnam was begun that culminated in Li Peng’s visit to Hanoi in November 1991. By 1992 Cambodia still had its own problems, but the “Cambodian problem” that had defined Vietnam’s isolation for 13 years was over.

Waiting for America

The Greek philosopher Zeno described a race in which Achilles could not overtake a tortoise because he was always taking some amount of time to run half of the distance between himself and the tortoise, and space can be divided indefinitely. American progress toward normalization with Vietnam recalls Zeno’s paradox because each time progress was made, it was always half the distance to the goal line. From 1985, normalization of relations with the United States was a primary goal of Vietnam’s foreign policy. It became even more urgent as the Soviet Union began to improve its relations with China and cut assistance to Vietnam. As the economic and political isolation of Vietnam began to disintegrate in the early 1990s, the United States was increasingly the one remaining obstacle to Vietnam’s full membership in the community of nations, and Vietnam concentrated considerable energy and swallowed considerable pride in acceding to American demands on searches for soldiers missing in action (MIA) from the war 20 years earlier.

By contrast, the U.S. was content to take a seat behind ASEAN and China during the 1980s, joining in but not leading the chorus demanding Vietnam’s withdrawal from Cambodia. When Vietnam did withdraw, the U.S. changed its demands to emphasize Vietnamese cooperation in a peaceful settlement in Cambodia and cooperation on the MIA issue. By late 1991 Cambodia had been defused as a regional issue and the Vietnamese were being very cooperative on MIA searches, but the Iraq war and presidential electioneering prevented major progress.

The Clinton administration continued the cautious rapprochement of its predecessor. By July 1993 the U.S. dropped its objections to international lending to Vietnam by the World Bank and Asian Development Bank. This was a necessary concession to the multilateral character of these institutions, since the remaining issue for Washington was the strictly bilateral one of MIAS, but it also greatly increased American business pressure to lift the embargo. Then came the major step of lifting the trade embargo in February 1994. After that, only the last formal step of normalization remained but Clinton hesitated because of his fear of domestic political costs. The final decision to normalize was made rather quickly and announced on July 11, 1995, no doubt inspired by Vietnam’s scheduled admission to ASEAN on July 28.

**1995 and Vietnam’s Regional Future**

Vietnam’s success in ending its political and economic isolation was primarily the result of 10 years’ persistence in a policy of “protracted peace,” although, as with the earlier struggle for national reunification, regional and global factors played important roles. Vietnam has pushed long and hard to open the international door, and now that it has swung wide Vietnam must cope with a new political economic context. The three foreign policy accomplishments of 1995 can serve as convenient indicators of the dimensions of Vietnam’s new world. The most important dimension is the regional one, marked by Vietnam’s entry into ASEAN; the second is integration into the global economy, marked by the framework agreement with the European Union; and the third is the global and strategic dimension, marked by the establishment of formal relations with the United States.

Membership in ASEAN is crucial for Vietnam’s new international identity. Already 30% of its current trade is with ASEAN, and regional ties of trade, investment, and developmental cooperation will continue to expand. Just as important, Vietnam’s problems and opportunities as a developing country mirror those of its Southeast Asian neighbors. To be part of a regional unit within which group-internal conflicts can be mediated and influence on external conflicts can be pooled is something new to Vietnam’s world. The be-
nign influence of ASEAN membership can be seen already in the final push that it provided for American normalization.

Vietnam is the only ASEAN country bordering China, and the growth of China as an economic powerhouse is especially important to it. Despite regional membership, relations with China will continue to be Vietnam’s single most important bilateral concern. But the opportunities and worries that Vietnam feels so acutely regarding China are shared by the region as a whole, so regional membership should help buffer the relationship. Relations between China and Vietnam prospered in 1995, culminating in Do Muoi’s visit to Beijing in December.

Southeast Asia’s economic development has depended on global aid, investment, and trade. Vietnam is a newcomer to the global economic context, and the framework agreement with the European Union is one important indicator among many active efforts to integrate Vietnam globally as well as regionally. It is almost inevitable that Vietnam will be pushed faster than it can move, and that its stumbling will be blamed on its own footwork rather than on the impatience of its patrons and investors, but in any case progress will be made and change will occur. The process of change will increase the diversification of Vietnam, since its most commercially attractive assets are concentrated in the southern region, while the north has locational advantages in dealing with China.

Vietnam’s prosperity in the first half of the 1990s, before the lifting of the embargo and the formal relationship with the U.S., has underlined the decline of America’s economic presence in Asia. But the U.S. is the world’s only superpower, and so the formal ending of 20 years of malign neglect was a significant diplomatic achievement. Moreover, the American military presence has been the keystone of the strategic order in Asia. Although Vietnam would be foolish to align so closely with the United States as to cause China’s enmity, a normal relationship with the United States encourages a normal relationship with China by offsetting some of the strategic anxieties inherent in having a vastly more powerful neighbor. Just as reunification did not prove to be a panacea for Vietnam’s problems, joining the communities of nations in Asia will bring problems as well as opportunities. The events of 1995, however, do confirm that Vietnam has entered a new era in its external affairs, and the economic and political dynamics of the year show a positive adaptation to new opportunities.