Until fairly recently, Vietnam was the darling of Asia’s emerging economies, but with growth rates slowing, government debt levels rising and state-owned companies plagued by a series of scandals and chronic inefficiencies, the country is entering a challenging period that could test the Communist Party’s gradualist approach to reform.

Complicating the government’s task is an emerging “politics from below” spearheaded by citizen journalism, writes Long S. Le.

IN 2008, A REPORT by the Goldman Sachs Economic Research Group famously dubbed Vietnam the “Next Asian Tiger in the Making.”1 Today, many observers wonder whether the country is rapidly losing its stripes. Calls for gradual reform and some measure of political pluralism are mounting amid a sluggish economy. With 35 percent Internet penetration, the voice of reform is increasingly being carried by citizen journalists who seem to be gaining traction with the general population at a time of uncertainty.

It may be that these citizen journalists and their growing audience will play a crucial role in expanding the room for debate in Vietnam as the country seeks to meet the promise many analysts have laid out for it.

THE STATE AND THE ECONOMY

Vietnam’s state sector has played, and continues to play, a leading role in the economy, and it provided much needed stability following the global financial crisis, but state-owned companies in recent years have become a source of macroeconomic instability. Burdened by a sluggish real estate market since 2008 and the accumulation of bad debt by the state sector — now totaling about 55 percent of gross domestic product (GDP), the highest rate in the region — Vietnam’s economy grew at only 5 percent in 2012. Although GDP growth in 2012 was the lowest since 1999, the economy managed to expand 5.4 percent in 2013 and is forecast by government officials to grow at 5.8 percent in 2014. Nevertheless, in the context of predictions that it would become a true tiger, courtesy of average annual growth of nearly 8 percent from 2001-2007, Vietnam is now expected to experience seven straight years of growth well below 7 percent.

By implication, the country risks experiencing what economists call “L-curve” economic stagnation. Many independent Vietnamese economists, including Le Dang Doanh, one of the country’s leading economists, argue that GDP growth at or below 5 percent means Vietnam cannot improve the living standards of its people. Already, consumer confidence among the urban population has dropped from 89 percent in 2008 to 56 percent in 2013 due to domestic economic woes; in addition, the percentage of urban residents saying they risk becoming unemployed increased from 20 percent in 2012 to 32 percent in 2013.3 In many ways, the party leadership is losing one of its pillars of legitimacy: its ability to deliver increasing prosperity. This may be another factor driving the desire for alternative information offered by activists on the net to an increasingly literate and savvy population.

Until recently, the Communist Party was able to satisfy the aspirations of its relatively young population — more than 65 percent of the country’s 89 million citizens are under 30 years of age. As long as the party’s modernization program could create more high-quality institutions of higher education and absorb the 1.8 million young job-seekers that enter the labor market each year, Vietnamese in general showed they could live with a one-party state. However, then, will happen if the party is unable to provide its citizens with sustained, improved living standards? That issue is being raised increasingly by implication in social media and elsewhere on the Internet.

FOREIGN INVESTORS TO THE RESCUE

But interestingly, even as macroeconomic instability takes root, foreign investors are keeping Vietnam’s economy buoyed.

Registered foreign direct investment (FDI) rose nearly 96 percent to $13.1 billion in the first 10 months of 2013 compared to the same period a year earlier, far outpacing overall growth and creating a “two-speed” economy. In particular, Singapore’s FDI into Vietnam surged 153 percent year-on-year to $4.37 billion, second only to South Korea among 54 countries and regions investing in Vietnam in 2013.

The increase in FDI is a tribute to Vietnam’s reputation as a frontier market, neither developed nor emerging, but whose stability and integrity in business terms have significantly improved.
over the years. Bloomberg Markets magazine calls Vietnam one of the most exciting and promising of the 45 “frontier markets” in the world.4 Other analysts, such as those in PwC’s Macroeconomics team, forecast that Vietnam will join the ranks of the world’s top 20 economies by 2050, taking 19th place as one of the “wild cards” outside the current G-20.5 This optimism is linked to several factors, including the fact that Vietnam has the fastest-growing middle class and “affluent” class in the region. The two classes combined are expected to grow from 12 million in 2012 to 33 million in 2020.6 This is also reflected in the maturing Vietnamese Internet population, with 31 million people online, from just 2 million in 2000.7 The growth in the number of registered domains has increased by an average of more than 170 percent annually since 2000. Indeed, the maturation of the social system along with the consumer products market has led Starbucks and McDonald’s to believe that they can be successful in Vietnam by either adjusting their business models or attempting to change the market’s behavior, despite particular institutional shortcomings in Vietnam (see Figure 1).8

And while Vietnam recently became the world’s biggest coffee exporter and just surpassed Thailand as the top exporter of rice, the country has been able to transition from a largely agriculture-based economy toward one more reliant on manufacturing and services. Hanoi and Ho Chi Minh City are among the top 10 emerging global outsourcing cities, where mobile phones and related accessories have become the second-largest export item, after garments. In fact, mobile phone companies — such as Samsung Electronics, LG Electronics and Nokia — are shifting their output of higher-end tech and mechanical products from China to Vietnam to take advantage of lower wages. By some accounts, monthly pay for general workers in Vietnam is roughly 32 percent of levels in China, 43 percent of those in Thailand and Malaysia, and 62 percent of those in Indonesia.9 Importantly, these workers are likely to be quite literate and disciplined — a report by the Organization for Economic Co-operation and Development (OECD) showed that 15- and 16-year-old Vietnamese students had higher math scores than their counterparts in the US and Britain.10

In many ways, the belief that Vietnam’s frontier market can deliver the risk-adjusted returns to warrant investment is further illustrated by the high level of investment beyond the government’s own resources in the country’s transportation infrastructure.11 In addition, exports by foreign-invested manufacturing firms are expected to reach 20 percent of total exports in 2014, up from 15.4 percent in 2013. Vietnam’s export growth was more than twice that of China’s export growth in 2013, with the country’s export-to-GDP ratio rising to 75 percent from 56 percent in 2009.

8 www.bcgperspectives.com/content/article/consumer_insight_growth_vietnam_myanmar_southeast_asia_new_growth_frontier/
10 https:// muse.uchicago.edu/journals/contemporary_southeast_asia_a_journal_of_international_and_strategic_affairs/v031/13/1/Thayer.pdf

Citizen Journalism and the Future

Notwithstanding the good news, to fulfill its potential as one of the most promising frontier markets and become a member of the G-20, Vietnam will need to confront longstanding problems. These include having many forms of ownership and economic sectors within the socialist-oriented market economy, but without the state sector assuming the leading role. Importantly, political will is needed to reform the state sector. So far, though, turf wars have emerged among ministries, which openly undercut each other. Essentially, there appears to be no political will to reform, because there is neither political consensus nor a strong enough prime minister to implement transformative changes.

By many accounts, it is unlikely that macroeconomic instability will lead to any reversion to complete authoritarian rule in Vietnam. According to Carl Thayer, Emeritus Professor at the University of New South Wales and Director of Thayer Consultancy, what lies ahead for Vietnam is a pattern of political change involving what he calls “transformation,” in which party leaders negotiate among themselves regarding the pace and scope of change. Other forms of change, such as “replacement,” in which opposition groups take the lead, or “transplantation,” in which there is joint action by elements of the power elite and the opposition are not yet viable in the short-term.12 Nevertheless, the emerging patterns of “replacement” and “transplantation,” along with the pressure for “transformation,” are all at work and are the result of a new politics from below in Vietnam.

This politics from below is increasingly driven by online citizen activism, inspiring common patterns of “replacement” and “transplacement,” aiming to attract and sustain foreign investment. As a frontier market, both superior and inferior conditions coexist in Vietnam.

Mapping the Institutional Contexts in Vietnam

Political and Social System

Foreign companies cannot count on Vietnam’s rule of law or fair enforcement of legal contracts. Corruption occurs at all levels of governments. Local officials have abused power for personal gains, but, at the same time, other officials have been promoted for their ability to attract and sustain foreign investment. As a frontier market, both superior and inferior conditions coexist in Vietnam.

Openness

The number of foreign enterprises has increased fourfold from 2000 to 2009. In this context, particular foreign products have earned a reputation for quality in Vietnam. Still, foreign companies must think long-term and build good relations over time with government, media and civil society organizations. Without strong contacts in Vietnam, it may not matter if the company is a top brand.

Product Markets

Hanoi and Ho Chi Minh City are on the top 10 emerging global outsourcing cities, yet few suppliers have strong technical abilities to upgrade their manufacturing capabilities. There are high levels of investment beyond the government’s own resources in transportation infrastructure, although infrastructure bottlenecks continue to affect economic growth.

Labor Markets

There is a window of 10 to 15 years before wage rates catch up to regional levels, though labor strikes against foreign labor-intensive companies are becoming common. A relatively small salary increase can cause local skilled workers to leave the company. In terms of business culture, dimensions such as power distance, individualism and long-term orientation are likely to pose problems for US managers in Vietnam.

Capital Markets

Vietnam has an underperforming stockmarket, a high credit default swap spread, and is vulnerable to internal capital flight. State-owned enterprises operate in more capital-intensive industries aided by state banks, but inefficient in using capital and land than the private sector. Thus, foreign companies would have to raise both debt and equity in home markets along with anticipating high rent for land/offices.

Corporate Citizenship

Although state ownership in Vietnam is shrinking, the state still controls all the critical sectors. This contributes to the lack of corporate transparency in the country. According to the World Bank-Vietnam Chamber of Commerce, the majority of citizens prefer greater private ownership. Other studies show that Vietnamese consumers are willing to pay extra for products and services from socially responsible companies.

rigid censorship and limits on open public discourse. Not unlike in other developing countries, such “netizen” activism is marked by the growth of citizen journalism — “bottom-up coverage” by people offering unfiltered first-hand news reports, contributing their own opinions and disseminating information about current events. In contrast to “everyday politics,” in which previous generations contested norms and rules through quiet and subtle acts that were rarely organized or direct, citizen journalism in Vietnam directly challenges the one-party system’s monopoly on news and opinion.

Increased Internet penetration and a more affluent citizenry make this online activism possible and gives it a rising potency. The numbers bear repeating — 35 percent Internet penetration and 31 million people online makes for a significant potential audience largely outside government control. Vietnam also has more than 20 million Facebook users.

Although citizen journalism blogs are still only a small part of the Vietnamese blogosphere, probably their most pronounced contribution is the capacity to break and make news. In turn, there has been a general acceptance of the perspectives of citizen journalism. To some degree, citizen journalists have created a level of solidarity with the public in the belief that critical discussions of public affairs — including press freedom, political pluralism, environmental conservation, national sovereignty and corruption, are necessary for the country’s future.11

HOW MUCH DOES IT MATTER?
With regard to the state sector, citizen journalism has been deeply suspicious of existing cronyism between the party elite and their family members and large state-owned corporations. Indeed, citizen journalism blogs have begun to link the country’s widening wealth gap to recent corruption scandals due to the party’s ineffective financial monitoring and control of large state-owned corporations such as VinaLines, Vinashin, EVN and Petro Vietnam. Moreover, the level of anger at these scandals may indicate that citizen-generated content is fueling rejection of the party’s gradualist approach to reforming the state sector.

But what is the true status of citizen journalism in Vietnam? Does it represent just a tiny vocal minority or echo what most citizens might be thinking already?

There are few cases in Vietnam where citizen journalism can act alone to increase pressure for political change. Rather, a dynamic environment for citizen journalism needs constant interaction with (and implicit support from) the state media, social movements and common citizens, intellectuals and decision-makers.12

For the moment, the rise and role of citizen journalism in Vietnam appears to be driven by its outward critique of what it perceives as the collusion of the party elite with the Chinese government — accusing the party leadership of censoring and suppressing the Vietnamese public’s right to “speak ill” against Chinese expansionism. The violent public uproar against China’s recent decision to tow an oil rig into disputed waters in the South China Sea is an example of the kind of tinderbox that citizen journalism can help ignite. And perhaps it is in the expressions of patriotism and nationalism against Chinese aggression that citizen journalism has gained greater legitimacy. This likely provides further public support for actions directed internally at issues of human rights, press freedom and political pluralism.

Importantly, despite the recent intensification of the government’s online censorship and control, along with the imprisonment of some bloggers, citizen-generated content — both critical and political — is already becoming part of everyday politics in Vietnam.

CONCLUSION
According to many observers, the party leadership in Vietnam has so far shown a capacity to address and manage politics from below.

In fact, the party leadership is in the midst of saving itself from being “poisoned” by corruption scandals. Last year, through “cleaning” and “self-criticism” campaigns, party leaders attempted to demonstrate that they are capable of becoming “party people” once again. By admitting “grave errors” and promising to improve institutions for fast and sustainable development, party leaders are “implanting” themselves in the country’s new constitution, which took effect this year. In renewing its place as the leading organization in society, the Communist Party wants to be seen as the leader of all Vietnamese, and no longer just the working class.

Believing that the country’s economy has bottomed out, party leaders, specifically the prime minister’s office, have a new opportunity to pursue gradualism in reforming the state sector, including banks. For this year, the government is planning initial public offerings for the country’s largest state-owned enterprises, which will further open parts of the economy to foreign investors. This restructuring of state-owned companies will include an asset management company to buy bad loans in order to prop up the ailing banking system.

Such gradualist policies may well convince foreign investors to continue to operate and expand in Vietnam. The risk, of course, is that the motive for the government’s gradualist strategy is to implement just enough reform to forestall social and political instability, which is needed for party survival. In doing so, the economy may turn the corner and growth may return. But this may quickly be followed by another credit boom/bust cycle and consequent public displeasure.

With regard to expressions of criticism from citizen journalism, the party leadership is likely to tolerate what it considers to be moderate criticism. Although posting material deemed critical of the state or espousing “reactionary ideology” may not be treated solely as a criminal offense, actions arising from citizen journalism directed at the legitimacy of the one-party system will not be tolerated. It has been reported, for example, that netizens can be fined up to $5,000 for criticizing the government on social media platforms.

In general, the party leadership is also pursuing gradualism in the rule of law. According to a recent message from Prime Minister Nguyen Tan Dung that was designed to appease public support for democracy: the “people can do everything that the law does not forbid,” while the “government can do only things that the law allows.” While this was seen by some as the first time the party leadership elaborated on issues of democracy, it appears to fall short of calls from citizen journalists and others for a responsible government based on the rule of law, along with some form of political pluralism that allows for participatory democracy. Ultimately, the question becomes whether netizen activism and citizen journalism reflect what most Vietnamese citizens are thinking already.

If so, in the coming years, the government’s gradualist policies are likely to run up against a public “firewall” that only will accept some form of “displacement” of the one-party system.

Long S. Le is a Research Fellow in the Department of Asian and International Studies at City University of Hong Kong.