

Over the next decade, Vietnam promises a strong economic performance and a cautiously muscular external policy.

Vietnam has done well since the Indochina wars. To quote the World Bank, its development over the past 30 years has been “remarkable”. The economic reforms under Doi Moi (Open Door policy), begun in 1986, have taken Vietnam from least developed to lower middle-income status. Between 2002 and 2018, 45 million people - half the population- have been lifted out of poverty. Per capita GDP has increased 2.5 times. GDP growth peaked at 7.1% in 2018.

The outlook for Vietnam remains positive with real GDP projected to dip slightly in the next couple of years but to remain robust. FDI inflows, which are currently almost 24% of total investment, should continue to be strong. Vietnam ranks high on the Human Capital Index – second in ASEAN to Singapore. It is member of the two new regional economic groupings, the Trans –Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

However, Vietnam faces severe environmental challenges, will have to avoid the middle-income trap and, like Japan and China, must deal with issues deriving from an aging population. It also recognizes the consuming requirement to combat corruption.

Vietnam is now in the post Doi Moi era, leading into a second generation of economic reforms. The level of success of these reforms will influence whether Vietnam will eventually come to enjoy the prosperity of a Malaysia or, optimistically, a Taiwan. The reforms will have to deal inter alia with the dominance and corruption of Vietnam’s oligarchic enterprises and the need to privatize state enterprises.

Economic liberalization will depend in part on the concomitant issue of political reform. Vietnam’s elective bodies do not act simply as rubber stamps. The National Assembly can and does reject government proposals and the party is looking at options to create greater representative democracy within a one-party system including at a local government level. But Vietnam remains at bedrock a one-party authoritarian state with limited political freedoms and it will need to simplify a bureaucracy still stultified by Marxist structures and practices

The speed and depth of this new generation of reforms will depend on the outcome of the next quinquennial party congress to be held in January 2021. This will be because of the actual decisions the Congress will make but also because the composition of the future Central Committee and Politburo will be decided at the Congress.

Vietnam’s second major set of challenges are external. The most significant is the management of its relations with China and the United States.

It is too easy to see Vietnam’s relations with China primarily in terms of the two countries’ historical and current differences, including the border war in 1979 and Chinese actions in the South China Sea (SCS) arising from conflicting territorial claims.

Vietnam is indeed a bulwark against China in Southeast Asia, but party-to-party relations remain important to both countries. While Vietnam can be outspokenly critical of its neighbour, its approach to China is usually nuanced.

In the past three years tensions have increased in the SCS. China forced Vietnam to cancel two oil exploration projects, one involving the Spanish energy company RESPOL.

A key issue next year will be whether ExxonMobil decides to go ahead with the Blue Whale project off Central Vietnam, a project which has strong United States Government support,

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and which will be critical for Vietnam's economy. But China's approach may weigh on ExxonMobil's evaluation.

In the past few months there have been signs that Vietnam is toughening up on maritime security issues and the question arises as to whether it is listening more closely to American overtures and moving towards closer strategic alignment with the United States. Last month American Defense Secretary Esper announced a new defence aid package to Vietnam.

And Vietnam, which has been a winner thus far from the United States-China trade war remains nervous that the United States may seek to redress its trade deficit with Vietnam by imposing sanctions, which possibility may be giving the Americans some leverage over Hanoi.

That said, Vietnam's preference to avoid even informal alignment with the United States runs strong given a long held doctrine of non-alignment as between the two major powers, the disparity between its own military strength and that of China and the view held by some in Hanoi that Vietnam would be China's preferred "warm up fight" to quote a term used by Derek Grossman, a senior analyst at Rand Corporation. But if pushed by China, it is likely to hedge by moving closer to the United States while seeking to maintain strategic autonomy.

Vietnam will continue to work hard on its related foreign policy priority namely the extension of its clout in the region and globally. Next year its external profile will be enhanced when it takes over the rotating Chairmanship of ASEAN and will begin a two-year term on the United Nations Security Council. Diplomatically skillful, it will use these positions to further its interests in a period of continuing uncertainty arising from United States –China tensions and the fragility of the international order.



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