



VIETNAM ACCELERATES TRANSITION AHEAD OF OBAMA'S VISIT

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SUMMARY

- President Barack Obama will make his first visit to Vietnam in May while in Asia for the Group of Seven (G7) Summit in Japan, which will be held on May 26-27. The official visit will center on the two main objectives that have underpinned the strengthening of the bilateral relationship: enhancing security ties and increasing bilateral trade and investment. Human rights and democracy, education, and people-to-people ties will also be key topics of discussion.
- Despite the ouster of Prime Minister Nguyen Tan Dung from the Politburo, Vietnam's government transition is not expected to significantly alter the political or economic climate for foreign companies, or impact Vietnam's desire for closer relations with the United States.

NEW LEADERSHIP EXPECTED TO STAY THE COURSE

The 13th National Assembly, which is holding its last session from March 21 to April 12, is in the process of putting in place the Vietnamese government's new leadership team. The National Assembly confirmed Nguyen Thi Kim Ngan as its chairwoman on March 31, and is scheduled to confirm Tran Dai Quang as president on April 2 and Nguyen Xuan Phuc as prime minister on April 7. The confirmation process was previously scheduled for early July, when the new National Assembly will hold its first session following the May 22 general election. However, the leaders of the Communist Party of Vietnam (CPV) decided to move up the timeline, to put Vietnam's new leadership in place for Obama's visit.

The 12th Party Congress in January reaffirmed the primacy of the CPV and the collective nature of its leadership. Incumbent Prime Minister Nguyen Tan Dung campaigned for the top position of general secretary, but failed to win the nomination reportedly due to concerns that he was amassing too much personal power. Dung had also been criticized by many stakeholders for corruption, particularly involving state-owned enterprises (SOEs). Instead, incumbent General Secretary Nguyen Phu Trong was re-elected for another term with 80 percent of the vote. Under Trong's continued leadership, the government is expected to continue to take a cautious approach on political reform, preferring to safeguard political stability and maintain the CPV's monopoly on power, as well as to continue to pursue closer ties with both the United States and China. Notwithstanding Vietnam's increasing openness to the global economy, the

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12th Party Congress also reaffirmed the government's stated commitment to "perfecting a socialist-oriented market economy" in which the state sector guides the economy towards the long-term development of socialism.

Trong, at age 71, was technically ineligible for re-election since the age limit for a new term in the Politburo is 65. Most analysts assess that the Central Committee made an exception to prevent Dung from assuming the post. Trong is expected to carry out only half of his five-year term before handing off the reins to a younger Politburo member, possibly incoming president Tran Dai Quang, who is the outgoing minister of public security and has strong support within the party.

The transition is not expected to significantly alter the economic policy environment for foreign companies. Though Dung has been the public face of several of Vietnam's largest economic reform initiatives, namely the relaxation of foreign investment rules and Vietnam's membership in several free trade agreements (FTAs), the majority of the CPV leadership also support these measures and accept the need for further reforms to enhance Vietnam's competitiveness. The sweeping commitments Vietnam has undertaken in recent trade agreements underscore the leadership's consensus on the continued opening of the economy.

There is broad support in Vietnam for the Trans-Pacific Partnership (TPP), as indicated by the 12th Party Congress' explicit endorsement of the agreement and favorable public opinion polls. According to a survey by Pew Research, 89 percent of Vietnamese believe TPP would be "a good thing" for Vietnam. In addition to the economic benefits of the agreement, which has been projected to spur a ten percent increase in Vietnam's GDP by 2030, Vietnam also views the TPP as an integral part of its balancing strategy towards China's growing political and economic influence. Vietnam is on track to ratify the agreement in July.

Similarly, the privatization of SOEs will likely remain a slow and arduous process under the new leadership team. SOEs dominate a wide range of industries, including oil and gas, telecommunications, mining, banking, and aviation. Dung tried to "equitize" them by selling minority interests and non-core assets to privately-owned domestic and foreign companies, but many of the sales have been cancelled or delayed due to, among other factors, political resistance, bureaucratic hurdles, and disputes over valuation between the government and foreign companies. Vietnam conditioned many of its concessions in the TPP on securing exemptions to the SOE disciplines in the agreement, highlighting the sensitivity of accelerating SOE reform.

Vietnam will continue to pursue a delicate balance in its relationships with China and the United States. Though Dung is closely associated with the effort to develop stronger ties with Washington, this policy enjoys strong support among Vietnam's leaders, who are deeply concerned by China's growing economic and strategic influence. Trong has also played an active and personal role in strengthening ties with the United States. The general secretary held a historic meeting with President Obama in the Oval Office in

SELECT RECENT REFORMS & INITIATIVES

- Negotiation of six FTAs
 1. TPP (signed in 2016)
 2. Republic of Korea-Vietnam FTA (EIF in 2015)
 3. Vietnam-EU FTA (signed in 2015)
 4. Vietnam-Eurasian Customs Union FTA (signed in 2015)
 5. Regional Comprehensive Economic Partnership (RCEP) (under negotiation)
 6. Vietnam-European Free Trade Association FTA (under negotiation)
- Effort to equitize SOEs (launched in 2015)
- Launch of ASEAN Economic Community (2015)
- Revision of the Enterprise Law (2014)
- Revision of the Investment Law (2014)
- Revision of the Bankruptcy Law (2014)
- New Housing Law (2014)
- New Real Estate Business Law (2014)



July 2015 to mark the 20th anniversary of the normalization of U.S.-Vietnam relations, the first meeting between the leader of the CPV and a U.S. president. The meeting was pivotal in reaching agreement on sensitive outstanding issues in the TPP negotiations, such as Vietnam allowing for independent unions and collective bargaining. The inclusion of Dung's deputy and Minister of Foreign Affairs Pham Binh Minh in the new Politburo will likely reassure Washington, as Minh also has been a vocal proponent of closer ties with the United States.

VISIT TO REAFFIRM U.S.-VIETNAM STRATEGIC AND ECONOMIC COOPERATION

President Obama's first visit to Vietnam will focus on enhancing security and economic cooperation, while also addressing the issues of human rights and democracy, education, and people-to-people ties. The bulk of discussions will inevitably center on the most pressing issues of mutual interest: the peaceful resolution of Vietnam's territorial disputes with China in the South China Sea and the successful implementation of the TPP.

Maintaining Peace and Freedom of Navigation in the South China Sea

Mutual security interests have led the countries to enhance maritime and defense cooperation. Vietnam is one of five ASEAN countries that have overlapping territorial claims with China in the South China Sea, and views U.S. support for the rights of freedom of navigation and overflight, the peaceful resolution of the disputes, and the right to seek international arbitration as critical to balance China.

In 2010, the United States and Vietnam initiated an annual Defense Policy Dialogue, and in 2011, the two countries signed a Memorandum of Understanding on Advancing Bilateral Defense Cooperation covering humanitarian assistance and disaster relief, maritime security, peacekeeping, search and rescue, and regular high-level dialogues. The United States began providing training and equipment to the Vietnamese Coast Guard in 2010 and announced in June 2015 that it will provide another \$18 million for the Vietnamese Coast Guard to purchase American Metal Shark patrol vessels. Vietnam is also eligible to receive funds for maritime capacity building under the newly launched Southeast Asia Maritime Security Initiative.

Shortly after the formation of the United States-Vietnam Comprehensive Partnership in 2013, the United States partially lifted restrictions on the sale of lethal weapons to Vietnam, and in June 2015, the two countries signed a Joint Vision Statement on Defense Relations that envisages greater defense trade and the co-production of military equipment. At the U.S.-ASEAN Summit in February, Dung urged Obama to completely lift the U.S. ban on the sale of lethal weapons, but the Obama administration has said that a total removal of the ban is partly contingent upon improvements in protecting human rights in Vietnam.

Growing Bilateral Trade and Investment Flows

A desire to diversify trade and investment flows will continue to underpin Vietnam's engagement with the United States. Vietnam's burgeoning trade deficit with China, which reached \$32.3 billion in 2015, up 12.5 percent from the previous year, has accelerated the government's efforts to diversify the country's trade and investment flows. There is also widespread dissatisfaction among the Vietnamese public about the impact of Chinese investment, particularly in infrastructure projects. For U.S. companies, Vietnam's major economic reforms, inclusion in the TPP, low cost of labor, and strategic location between China and



India make the country a highly attractive trade and investment destination, particularly for labor-intensive manufacturing and services such as education.

Obama and Vietnam's leadership will undoubtedly discuss the prospects for TPP ratification in the United States, as well as the timeline for the United States to grant Vietnam market economy status. Both China and Vietnam have asked the U.S. government to grant them market economy status since joining the World Trade Organization (WTO) in 2001 and 2007, respectively, but this is unlikely to happen in the near to medium term due to domestic political sensitivity on the issue in the United States amidst a souring mood on trade exacerbated by the negative rhetoric by a number of the U.S. presidential candidates.

Human Rights and Democracy

Differences over political ideology and human rights remain a thorn in the relationship, but have not prevented the countries from developing closer strategic and economic ties. In its latest human rights report on Vietnam, the U.S. State Department identified "severe government restrictions of citizens' political rights, particularly their right to change their government through free and fair elections; limits on citizens' civil liberties, including freedom of assembly and expression; and inadequate protection of citizens' due process rights, including protection against arbitrary detention" as the most significant human rights issues in the country.

U.S. and international human rights groups, as well as lawmakers on Capitol Hill, have criticized the Obama administration for deepening strategic and economic ties without taking commensurate steps to address human rights issues in Vietnam. Congressional Democrats are particularly concerned about Vietnam's unfair labor practices, which they argue hurt both Vietnamese and U.S. workers. In January, a group of Senate Republicans introduced a bill that would prevent Vietnamese nationals associated with human rights abuses from traveling to the United States and freeze any of their U.S. assets. The bill also calls on the U.S. State Department to classify Vietnam as a "country of particular concern" on religious freedom.

The Obama administration has raised the issue of human rights during every meeting with Vietnam's leadership, and the two countries issued a joint statement following the July 2015 meeting between Obama and Trong in which they committed to support the promotion and protection of human rights and "encourage further cooperation to ensure that everyone, including members of vulnerable groups, regardless of their gender, race, religion, or sexual orientation, and including persons with disabilities, enjoy fully their human rights." The Obama administration argues that Vietnam's inclusion in the TPP will help improve Vietnam's human rights practices, particularly its labor standards. The U.S.-Vietnam "labor consistency plan" included in the TPP requires Vietnam to legalize independent unions, enhance protections against employment discrimination, and increase penalties for forced labor before the country can benefit from U.S. market access commitments. Obama will certainly use his visit in May to reiterate that improvements in human rights are necessary to forge closer strategic and economic ties.

CONCLUSION

The government transition will not significantly alter the political or economic environment for foreign companies in Vietnam. Though Dung has been the public face of many of Vietnam's major economic reform initiatives and the development of stronger ties with Washington, these policies enjoy strong support among Vietnam's leaders, who are deeply concerned by China's economic and strategic influence and accept the need for further reforms to enhance competitiveness.



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