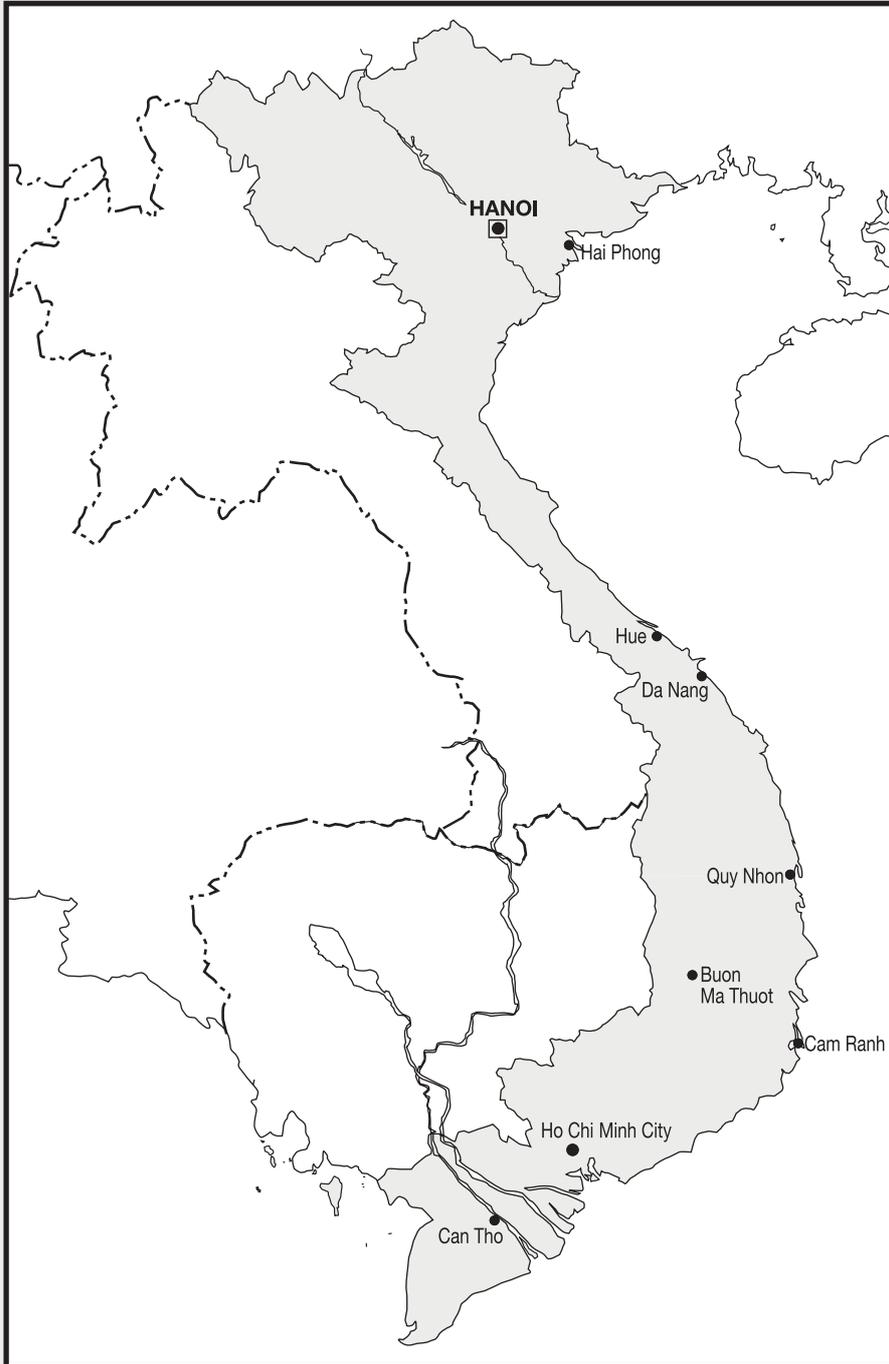


Vietnam



VIETNAM IN 2015

Challenges Persist amidst Hope for Change

Le Hong Hiep

The year 2015 marked the eighty-fifth anniversary of the Communist Party of Vietnam (CPV) and the fortieth anniversary of Vietnam's reunification under its rule. After almost thirty years of economic transformation, Vietnam has achieved considerable progress in terms of socio-economic development, but challenges to the country remain substantial as the economy has not regained full steam since the 2008–9 slowdown. Politically, the CPV has also been faced with a testing period. Its performance-based legitimacy has been undermined, while popular support declined due to widespread corruption as well as various socio-economic problems that cast doubts on the efficiency and accountability of the state and party systems. In terms of foreign policy, Beijing's increasing assertiveness in the South China Sea presents a major challenge for the party. While seeking to maintain a peaceful relationship with its northern neighbour, Vietnam also needs to look into new options to deal with the rising China threat.

Developments in Vietnam in 2015 show that the CPV was struggling to overcome these challenges while probing for changes to strengthen its political legitimacy, to improve the country's economic performance and to navigate through complex foreign policy issues. Preparations for the CPV's Twelfth National Congress obviously topped the country's domestic agenda in 2015, but other economic and foreign policy developments were also noteworthy as they may indicate how Vietnam in general and the CPV in particular will perform in 2016 and the years to come.

Politics: Preparations for the CPV's Twelfth National Congress

The CPV's quinquennial national congresses are always important events for the country's political system. Each congress not only elects the country's top leadership, but also reviews its past performance and sets out a framework for future socio-economic, political and foreign policies. Although policy orientation is generally considered the most important task of the congresses, the election of the party's top leadership attracts the most attention from the public, party members and Vietnam watchers around the world. The party's Twelfth National Congress, planned for January 2016, has been no exception.

To prepare for the congress, in September 2015 the party released a draft political report for public comment.¹ After reviewing the achievements and shortcomings for the past thirty years of *doi moi*, as well as since the last congress, the report outlines objectives and solutions for the next five years. A comparison of objectives stated in the report and those set five years ago at the Eleventh National Congress reveals a number of notable changes in the party's thinking and policy orientation (see Table 1).

First, building a "clean and strong" party has become the top priority for the CPV, which reflects its concern that widespread corruption will harm its legitimacy and thus its rule in the long run. It may also signal the party's emphasis on combating corruption in the coming years, but whether or not such an objective

TABLE 1
CPV Policy Objectives Set by Eleventh and Twelfth Congress

<i>Eleventh Congress report</i>	<i>Twelfth Congress draft report</i>
Continue to strengthen the party's resilience and governance capabilities	<i>Promote the building of a clean and strong party</i>
Mobilize the strength of the whole nation	Mobilize the strength of the whole nation <i>and the socialist democracy</i>
Promote the renovation cause in all fields	Promote the renovation cause <i>synchronously</i> in all fields
	<i>Securely defend the Fatherland, maintain a peaceful and stable environment</i>
Create foundations to turn the country into a basically modern and industrialized country by 2020	Create foundations to turn the country into an effectively modern and industrialized country <i>soon</i> .

Source: Author's compilation. Changes are italicized.

is achievable still hangs in the balance as this is not the first time the party has highlighted the threat from corruption.

Second, by referring to “socialist democracy”, party officials tend to acknowledge that there is a need to enhance democracy, both within the party as well as for the whole country. However, it should be noted that democracy by the party’s definition is of a “socialist” nature and managed under the party’s leadership, not the liberal democracy that may threaten its rule. To some observers this may represent the party’s mere lip service to democracy.

Third, by adding the word “synchronously”, the party wants to make sure that reforms will be undertaken not only across all fields, but also at the same time. This is to prevent certain areas from lagging behind in reform efforts, which may constrain the performance of the whole system. This change may also indicate the party’s determination to promote reform in areas that have witnessed no or slow progress. But, again, how achievable the objective is remains to be seen.

Fourth, the addition of the new objective, “Securely defend the Fatherland, maintain a peaceful and stable environment”, shows the party’s heightened awareness of negative developments in the regional environment, especially in the South China Sea, and their potential impact on domestic economic development. It may also signal Vietnam’s tougher stance in the South China Sea if China continues its assertive actions there.

Finally, the replacement of the deadline “by 2020” with the vague term “soon” shows that the party has acknowledged that it will not be able to achieve the goal of turning Vietnam into an industrialized country within the next five years, an objective that was first set at the party’s Eighth Congress in 1996. While reflecting the party’s more realistic assessment of the country’s development, the choice of the vague “soon” instead of a specific deadline indicates the party’s cautious assessment of the country’s future trajectory.

Whether changes in the CPV’s policy objectives will be effectively implemented will depend partly on the new leadership elected at its Twelfth National Congress. Therefore, one of the party’s main tasks in 2015 was to prepare personnel arrangements for the congress.

By November 2015, the Central Committee of the CPV had held three plenums to address the personnel issue. In January, the tenth plenum undertook an unprecedented confidence vote on twenty Politburo and Secretariat members. The results were not officially released, but informal sources revealed that Prime Minister Nguyen Tan Dung won the most number of “high confidence” votes, followed closely by President Truong Tan Sang. The result was a remarkable turnaround for Dung after his reputation was tarnished due to the Politburo’s decision to discipline him in October 2012, and his subsequent poor performance

in the confidence vote conducted by the National Assembly in June 2013.² His strong performance in the confidence vote showed that, despite a number of failures during his premiership, Dung still enjoyed strong support among Central Committee members, which helped revive his hope to run for the position of CPV General Secretary at the Twelfth Congress.

In May, at its eleventh plenum, the Central Committee discussed the general guidelines and principles for personnel planning. It also set criteria for the selection of members of the Central Committee, Politburo and Secretariat. Personnel arrangements again dominated the agenda of the committee's twelfth plenum held in early October. It reportedly conducted a preliminary vote on Central Committee candidates who would be nominated for the first time, and proposed a list of incumbent members who are eligible for re-nomination into the forthcoming Central Committee, Politburo and Secretariat. In particular, the plenum discussed criteria for "special cases", and thus touched on the question of who among the five incumbent Politburo members turning sixty-seven in 2016 will be eligible to retain their seats. The plenum, however, could not reach a consensus on either this issue or the top leadership positions. Official press releases from the plenum indicated that the committee would meet twice more, and final decisions on personnel arrangements were likely to be made only at the fourteenth and last plenum, to be held just days before the congress convenes.

Along with the CPV Central Committee's plenums, party conferences were also organized across all sixty-three provinces and municipalities from mid-September to early November to elect local party leaders and nominate delegates to attend the Twelfth National Congress. Apart from Hanoi and Ho Chi Minh City, where party secretaries will be Politburo members and thus determined after the next congress, sixty-one other provinces and municipalities had their new party leadership elected at their respective conferences.

Among the sixty-one new local party leaders, thirty-eight were re-elected, three were female, and two were under the age of forty.³ It is noteworthy that both the secretaries aged under forty years are "princelings". They are Nguyen Thanh Nghi, Prime Minister Dung's son, who was made party secretary of Kien Giang province, and Nguyen Xuan Anh, son of former Politburo member Nguyen Van Chi, elected to head the party in Da Nang. The election of Nghi and Anh caused a stir in the official media and a controversy on social media networks. Official media highlighted their family backgrounds and the fact that they were the youngest provincial secretaries. Many Facebook users, however, challenged their merits and pointed out that their family backgrounds rather than any personal qualities explained their rise.

The rise of Nghi and Anh, both aged thirty-nine in 2015 and both likely to be elected into the forthcoming Central Committee, also reveals two conflicting trends in the CPV's politics. On the one hand, both Nghi and Anh are young Western-trained cadres who were born after the Vietnam War. Their promotion may be an indication of the party's efforts to introduce a younger and better-trained generation of leaders to accelerate reforms, especially at local levels. As such, the rise of Nghi and Anh can be seen as a positive trend for the country and can help renew the party's image. On the other hand, as the promotion of young cadres focused strictly on "princelings", it indicates limitations in the party's efforts to rejuvenate its leadership structure. Indeed, their promotion even damages the CPV's reputation to some extent as it hints at nepotism. Such negative perceptions were further reinforced when media reports highlighted the promotion of a number of other young provincial officials with privileged family backgrounds.⁴

In any event, the promotion of Nghi and his twenty-seven-year-old brother Nguyen Minh Triet, who was elected into Binh Dinh province's party committee and became the youngest member of any provincial party committee nationwide, demonstrates Prime Minister Dung's power and influence. As the longest-serving member of the Politburo who has held many influential posts, Dung seems to have fostered an extensive network of ties which allows him to mobilize political support among the party's senior officials, especially those in the Central Committee. His influence over the committee was most evident in October 2012, when it reversed the Politburo's earlier decision to discipline him. In May 2013, although General Secretary Nguyen Phu Trong endorsed Nguyen Ba Thanh and Vuong Dinh Hue, who were either political rivals or non-allies of Dung, as additional Politburo members, the Central Committee elected Nguyen Thien Nhan and Nguyen Thi Kim Ngan instead. Both Nhan and Ngan are from the South and are seen as close allies of Dung. As noted above, Dung's impressive performance in the Central Committee's confidence vote in January 2015 marked his extraordinary comeback and turned him into a strong candidate for the CPV's top job at the Twelfth Congress.

Dung's bid for the position of General Secretary, however, faced certain obstacles. First, as he turns sixty-seven in 2016, he needs to secure approval from the Central Committee to be eligible for the candidacy. However, as there are four other Politburo members of the same age, the question of who will stay and who will retire becomes problematic. Second, he has to compete with other potential candidates. The most notable rival is incumbent General Secretary Nguyen Phu Trong, who was said to seek renomination to remain in office until the mid-term party conference in 2018.⁵ In fact, as the congress neared, political infighting

between Dung and his rivals began to intensify. For example, in October Dung's rivals alleged that his daughter Nguyen Thanh Phuong had become an American citizen, and he was thus an unsuitable candidate for the position of General Secretary. Phuong reacted by posting pictures of her Vietnamese passport and American visa on her Facebook page to denounce the allegation. In other words, Prime Minister Dung may or may not eventually emerge triumphant, but if he does it won't be an easy victory.

By the time this volume is out, the question of who won the battle for the position of the next CPV General Secretary would have been settled. The question remains as to how the new Vietnamese leadership will deal with the considerable problems that have long threatened the country's economic growth and the party's performance-based legitimacy.

The Economy: Better Performance, but Problems Persist

According to official statistics, Vietnam's economy performed relatively soundly in 2015. Specifically, by September the annual GDP growth rate had reached 6.5 per cent, the highest in four years.⁶ According to the Ministry of Finance, the strengthened growth rate was due to five key factors: a recovery in industrial manufacturing; a strong performance of the foreign-invested and export sectors; a rebound in domestic consumption; an improved business environment thanks to new legislation, such as the new laws on enterprises and investment; and the positive impact from free trade agreements (FTAs).

Among these factors the country's strong export performance and the good shape of the foreign-invested sector were the most remarkable. Indeed, these two factors are related, as the foreign-invested sector contributed significantly to Vietnam's export turnover. Specifically, the country's export turnover in the first ten months increased 8.3 per cent over the same period in 2014, reaching US\$134.4 billion, of which foreign-invested companies accounted for 70.6 per cent.⁷ In terms of foreign investment, in the first ten months of 2015, the country attracted US\$19.29 billion in new investment, a 40.8 per cent year-on-year increase. Meanwhile, the implemented capital from existing foreign direct investment (FDI) projects reached US\$11.8 billion, which was 16.3 per cent higher than the same period in 2014.⁸ Notably, new investments in 2015 showed that Vietnam was becoming a manufacturing hub for the regional electronics and IT industry. For example, in August Samsung increased its investment in a display module production project in Bac Ninh province by four times, to US\$4 billion, causing its cumulative investment in the country to reach US\$13.1 billion.⁹ Similarly,

companies like Intel and Panasonic have also announced plans to relocate their regional production facilities to Vietnam.

The growing dominance of FDI in the Vietnamese economy, while reflecting the relative weakness of the private and state-owned sectors, also highlights Vietnam's broader and deeper integration into the global economy. In 2015 this trend was expressly manifested in the country's conclusion of a series of bilateral as well as multilateral FTAs (see Table 2). Vietnam's participation in these FTAs is expected to bring the country new economic opportunities by expanding its exports and attracting more FDI. For example, once it comes into force, the Trans-Pacific Partnership (TPP) is expected to help Vietnam expand its GDP by 11 per cent and its exports by 28 per cent within a decade.¹⁰

TABLE 2
The Status of Vietnam's FTAs as of December 2015

<i>Name</i>	<i>Status</i>
1. ASEAN Free Trade Agreement (AFTA)	Effective
2. ASEAN–China Free Trade Agreement (ACFTA)	Effective
3. ASEAN–Korea Free Trade Agreement (AKFTA)	Effective
4. ASEAN–Japan Comprehensive Economic Partnership (AJCEP)	Effective
5. ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA)	Effective
6. ASEAN–India Free Trade Agreement (AIFTA)	Effective
7. Vietnam–Japan Economic Partnership Agreement	Effective
8. Vietnam–Chile FTA	Effective
9. Vietnam–Laos Trade Agreement	Signed 3 March 2015, pending ratification
10. Vietnam–Korea FTA	Signed 5 May 2015, pending ratification
11. Vietnam–Eurasian Economic Union FTA	Signed 29 May 2015, pending ratification
12. Vietnam–EU FTA	Signed 2 December 2015, pending ratification
13. Trans-Pacific Partnership (TPP)	Negotiation concluded 5 October 2015, pending signing
14. Regional Comprehensive Economic Partnership (RCEP)	Negotiating

Source: Author's compilation.

Vietnam's deeper integration into the global economy, however, will pose significant challenges for its domestic companies, which need to improve their competitiveness in order to survive the invasion of foreign multinational corporations once trade barriers are gradually lowered or eliminated along the way. In this regard, both private and state-owned businesses were still struggling in 2015. For example, in the first ten months of 2015, 7,641 Vietnamese businesses went into bankruptcy, while the number of businesses halting their operations due to difficulties increased 23.8 per cent over the same period for 2014 to reach 60,164.¹¹ Meanwhile, the reform of the state-owned enterprises (SOEs) continued to see slow progress despite the government's efforts to accelerate the process. For example, in the first six months of 2015, only sixty-one SOEs were equitized against the annual target of 289.¹² However, in anticipation of the TPP, which requires Vietnam's SOEs to operate on market principles and to be stripped of subsidies and protection, the government has imposed harsher measures to accelerate the process, such as "naming and shaming" SOEs which are slow in equitization, or disciplining SOEs managers who are resistant to the policy.¹³ By the end of the year the SOE reform was accelerated, with more enterprises rushing to meet their equitization deadline. In November, however, a report on SOE's staggering foreign debt of VND380 trillion (US\$17 billion)¹⁴ added a further pessimistic tone to the overall grim picture of Vietnam's state-owned sector.

Although the condition of SOEs was worrying, it was the health of the banking system that posed the most serious challenge to Vietnam's economic policy makers. Following the economic slowdown since 2008, especially the collapse of the property market in 2012, non-performing loans in Vietnam's banking system rose to as high as 17.2 per cent. In May 2015, the State Bank of Vietnam (SBV) announced that non-performing loans had decreased to 3.15 per cent, but it should be noted that the reduction mainly resulted from the transfer of bad debts from commercial banks to the state-owned Vietnam Asset Management Company.

Efforts to remove the massive bad debts also exposed serious weaknesses in Vietnam's banking system, such as cross ownership, fraud, illegal banking practices and weak supervisory mechanisms. In order to create a leaner and healthier banking system, the SBV has tried to reduce the number of domestic commercial banks through state-sponsored merger and acquisition deals between stronger and weaker banks. In 2015, five mergers were arranged by the SBV,¹⁵ bringing the number of Vietnam's commercial banks down from forty-two to thirty-four. By October 2015, three other banks that were technically bankrupt were also nationalized by the SBV.¹⁶

In order to re-establish discipline within the banking sector, the Vietnamese authorities also continued their crackdown on illegal banking practices throughout the year. In July 2015, for example, the police arrested senior board members and executives of GP Bank and Vietnam Construction Bank to investigate alleged fraud and serious violations of banking regulations. The arrests were part of a larger campaign to suppress illegal banking practices, which so far has led to the investigation and prosecution of senior bankers from ACB, OceanBank, Agribank and Vietinbank. The campaign is likely to continue in 2016 as efforts to clean up bad debts will likely expose more violations in other banks. Although these efforts are encouraging, they may have come too late, as the banking system as well as the whole economy has suffered considerable damage. Given the extensive nature of these violations, the credibility of the government and its leaders in managing the economy has also been called into question.

Enduring problems within the SOEs and banking system highlighted the difficulties Vietnam encountered in implementing its economic restructuring programme. Launched in 2012, the programme sought to reform public investment, SOEs and the banking sector towards greater efficiency and competitiveness, and to enhance the economy's strength and resilience in the long run.¹⁷ However, the slow progress of reforms in these sectors shows that Vietnam still has a long way to go to get back to its pre-2008 high-growth trajectory. The conclusion of the TPP negotiations in October may offer some glimmer of hope, but whether meaningful change will be adopted at the CPV's Twelfth Congress and how such change would be implemented by the new leadership will perhaps determine Vietnam's economic prospects in the coming years.

Foreign Policy and Strategic Posture: Dealing with the China Challenge

As Vietnam entered 2015, memories of the 2014 oil rig crisis with China were still fresh.¹⁸ Consideration of the crisis provides some insight into the developments in Vietnam's foreign policy and strategic posture in 2015.

The oil rig crisis was indeed a wake-up call for the Vietnamese leadership regarding the China threat, as well as Vietnam's vulnerabilities in the South China Sea. Following the incident, China's construction of massive artificial islands on seven features in the Spratlys further deepened Vietnam's negative perception of China's strategic intentions. These developments naturally fostered a sense of urgency on the part of Vietnam to deepen its ties with other likeminded countries

to counter China's assertiveness in the South China Sea. Therefore, in 2015, while trying to repair ties with Beijing, Vietnam focused its diplomatic efforts on strengthening relations with the United States, Japan, India, Russia and some ASEAN countries.

The most important event in Vietnam's diplomatic calendar in 2015 was probably the official visit by CPV General Secretary Nguyen Phu Trong to the United States in July. Both sides praised the visit as a "historic" landmark in bilateral relations, as it was the first time Washington had received a CPV General Secretary. The visit manifested a higher level of mutual trust between the two former enemies when both sides reiterated in their joint statement that they would respect "each other's political systems".¹⁹ During the visit, Vietnam also granted a licence for the establishment of the Fulbright University Vietnam, which reportedly would adopt an American curriculum and enjoy a greater level of autonomy than its Vietnamese counterparts. In a related development, during his first-ever visit to the United States in March 2015, Minister of Public Security Tran Dai Quang also confirmed that Vietnam would allow the U.S. Peace Corps²⁰ to operate in the country.²¹ The enhanced mutual trust was particularly meaningful for bilateral ties given the fact that certain segments within the Vietnamese leadership had long maintained a lingering suspicion of a U.S. scheme to undermine Communist Party rule through "peaceful evolution" by facilitating closer U.S. ties with Vietnam.

Nevertheless, the strongest indication of growing mutual trust between Vietnam and the United States was the gradual expansion and deepening of military cooperation. The framework for bilateral military cooperation was first set up when the two sides concluded a memorandum of understanding (MOU) on defence relations in 2011. The MOU provides for joint activities, such as an exchange of visits by high-ranking defence officials, and cooperation in maritime security, search and rescue, peacekeeping operations, humanitarian assistance and disaster relief.²² In 2013 the United States pledged to provide US\$18 million for Vietnam to purchase patrol vessels, and in October 2014 Washington decided to partially lift its ban on the sale of lethal weapons to the country.

In 2015, bilateral defence cooperation was further stepped up as the two sides announced a "Joint Vision Statement" during U.S. Defence Secretary Ashton Carter's visit in June. The statement pledged to expand defence trade, including possible co-production, and bilateral collaboration on maritime security.²³ In November, the White House announced that it had lifted "the ban on sales of maritime-related lethal capabilities to allow development of Vietnam's maritime capacity and encourage interoperability with other regional forces". In the same

announcement, the United States also indicated that it would increase its maritime assistance programme for Vietnam to US\$19.6 million in FY2015/16; help Vietnam “bolster its maritime Intelligence, Surveillance, and Reconnaissance (ISR) and command and control” within the country’s maritime agencies; and expand bilateral training and exercises, focusing on disaster relief and humanitarian issues.²⁴

In a sense, Vietnam’s efforts to strengthen relations with the United States reflected Hanoi’s concern about China’s growing assertiveness in the South China Sea. Nevertheless, while trying to resist Beijing’s expansion into its maritime domains, Hanoi also wishes to maintain a stable and peaceful relationship with its northern neighbour, especially after bilateral ties seriously deteriorated due to the 2014 oil rig crisis. In 2015 these efforts were reciprocated by Beijing and resulted in the exchange of two high-ranking visits, one by CPV General Secretary Nguyen Phu Trong to Beijing in April, and the other by Chinese President Xi Jinping to Hanoi in November. During the visits, while trying to address South China Sea tensions, the two sides also emphasized economic cooperation. For example, during Trong’s visit to Beijing, they agreed to establish two working groups on infrastructure development and financial cooperation. Meanwhile, during Xi’s return visit to Hanoi, the two sides signed an agreement to jointly develop tourism at Ban Gioc waterfall on their shared land border, and another one to study the feasibility of a railway project connecting Lao Cai–Hanoi–Hai Phong in northern Vietnam, which could be aligned with China’s “One Belt, One Road” initiative. China also decided to provide Vietnam with a US\$300 million concessional loan for the construction of the Mong Cai–Van Don highway, and an additional US\$250 million preferential loan for the Cat Linh–Ha Dong urban railway project.²⁵ In addition, China also pledged to provide 1 billion yuan (US\$157.43 million) in aid for Vietnam over five years to build schools and hospitals, the biggest grant that China has provided Vietnam in decades.

Apparently, China’s friendly and generous offers reflected Beijing’s wish to mend its relations with Hanoi, especially after there were signs that the latter was seeking a rapprochement with Washington. Nevertheless, such gestures might not be viewed by the Vietnamese leadership as Beijing’s sincere intentions. For example, in a lecture delivered during his visit to Singapore right after friendly meetings with Vietnamese counterparts, Xi once again asserted that the islands in the South China Sea “have been China’s territory since ancient times”.²⁶ This unchanged rhetoric, coupled with China’s incessant assertiveness in the South China Sea, caused Vietnam to seek deepened ties with not just the United States but also other major regional powers and likeminded countries to improve its strategic position vis-à-vis Beijing.

For example, during CPV General Secretary Nguyen Phu Trong's official visit to Japan in September, Vietnam secured not only considerable economic assistance, including the provision of 100 billion yen (US\$831 million) in official development assistance for infrastructure development, but also enhanced strategic cooperation with Tokyo. Specifically, in their joint statement, the two sides expressed their concerns over the reclamation and construction activities on islands and reefs in the Spratlys, and emphasized the need for strict compliance with the 1982 United Nations Convention on the Law of the Sea (UNCLOS) and the Declaration on the Conduct of Parties in the South China Sea (DOC).²⁷ Japan also pledged to provide Vietnam with 200 million yen (US\$1.6 million) in non-refundable aid to buy Japanese patrol ships in FY2015/16. This was on top of Japan's earlier pledge to provide Vietnam with six patrol vessels as part of a 500 million yen (US\$4 million) aid package in 2014. In addition, the two sides also signed an MOU to establish a partnership between the Vietnam Coast Guard and the Japan Coast Guard.²⁸ A few months later, during Japanese Defence Minister Gen Nakatani's visit to Hanoi in November, Vietnam agreed to invite a Japanese warship to visit its naval facilities at Cam Ranh Bay in 2016. The two countries also planned to hold their first ever joint naval exercise.²⁹ Commenting on these decisions, an unidentified government official pointed out that enhancing Japan's presence at Cam Ranh would "help deter Chinese military activity in the South China Sea".³⁰

In 2015 Vietnam's ties with other important partners also witnessed improvements. In April, Russian Prime Minister Dmitry Medvedev visited Vietnam and, the following month, Vietnam signed an FTA with the Russian-led Eurasian Economic Union. In May, during his visit to India, Defence Minister Phung Quang Thanh and his Indian counterpart Manohar Parrikar issued a Joint Vision Statement on bilateral defence cooperation up to 2020, signed an MOU on defence cooperation and oversaw the signing of another MOU on bilateral coastguard cooperation.³¹ In 2015 Vietnam also entered into two new strategic partnerships with Malaysia (in August) and with the Philippines (in November), bringing the total number of the country's strategic partners to fifteen.

Developments in Vietnam's foreign policy in 2015 show that dealing with China and the South China Sea disputes remain a priority for the country. As analysed in the first section, the CPV's Twelfth National Congress will highlight the disputes as a challenge to the country's national security, and put forward measures to deal with it. That said, major changes in the country's foreign policy will be unlikely, and Vietnam's current strategic trajectory will largely be maintained. As such, although Vietnam will not seek formal military alliances with other powers

to counter China, it is likely to continue making efforts to forge closer ties with regional powers and likeminded partners, especially in defence and security cooperation, if China's assertiveness in the South China Sea does not abate.

Conclusion

In 2015 Vietnam continued to face considerable political, economic and foreign policy challenges. Politically, preparing for the upcoming CPV's Twelfth National Congress was the most arduous task. In particular, outlining the country's future path and crafting a strong and credible leadership to oversee future reforms were key challenges for the party. Meanwhile, despite signs of improvement, the economy continued to face major obstacles, especially in reforming SOEs and strengthening the private sector. The risks stemming from vulnerabilities in the banking system should not be underestimated. In terms of foreign policy, dealing with China and the South China Sea disputes continued to dominate the country's diplomatic agenda, especially after China transformed the balance of power in the South China Sea by completing massive artificial islands there.

Against this backdrop, Vietnam is likely to face another challenging year in 2016. Nevertheless, there are glimmers of hope for positive changes that may help the country successfully navigate these difficulties. The policy objectives set out in the CPV's draft political report for its Twelfth National Congress, for example, reflects the party's deep awareness of the challenges, as well as its wish to undertake further initiatives to overcome them. At the same time, the government's recent efforts to accelerate reforms in the SOE and banking sectors, as well as its strong determination to pursue deeper international economic integration, give rise to hopes that the country may well be on track to overcome its economic woes. With regard to foreign policy, as the South China Sea disputes will not be settled any time soon, they will remain a challenge for the country for years to come. However, Vietnam's patient efforts to maintain a peaceful and stable relationship with Beijing while quietly strengthening its own national capabilities and deepening ties with other partners may eventually pay off, placing the country in a better position to manage its relations with China as well as tensions in the South China Sea.

Notes

1. CPV, *Dự thảo Báo cáo chính trị của Ban Chấp hành Trung ương Đảng khoá XI tại Đại hội đại biểu toàn quốc lần thứ XII của Đảng* [Draft political report of the eleventh Central Committee to the Party's Twelfth National Congress], 15 September

- 2015 <<http://laodong.com.vn/chinh-tri/du-thao-bao-cao-chinh-tri-cua-ban-chap-hanh-trung-uong-dang-khoa-xi-tai-dai-hoi-dai-bieu-toan-quoc-lan-thu-xii-cua-dang-376284.bld>>.
2. In November 2014, Dung's performance in the second confidence vote conducted by the National Assembly also improved remarkably.
 3. "61 bí thư tỉnh, thành phố nhiệm kỳ 2015–2020" [61 new provincial and municipal party secretaries, 2015–2020 term], *Zing News*, n.d. <<http://news.zing.vn/61-bi-thu-tinh-thanh-nhiem-ky-20152020-post596015.html>>.
 4. Most notable are (i) Nguyen Ba Canh, 32, son of the late Head of CPV Internal Affairs Commission Nguyen Ba Thanh, elected into Da Nang party committee; (ii) Nguyen Minh Triet, 25, son of Prime Minister Nguyen Tan Dung, elected into Binh Dinh party committee; (iii) Le Phuoc Hoai Bao, 30, son of Quang Nam party secretary Le Phuoc Thanh, appointed director of the province's Department of Planning and Investment; (iv) Huynh Thanh Phong, 30, son of Hau Giang party secretary Huynh Minh Chac, appointed director of the province's Department of Industry and Trade; (v) Le Truong Hai Hieu, 34, son of Ho Chi Minh City party secretary and Politburo member Le Thanh Hai, appointed chairman of People's Committee of District Twelve.
 5. See for example, Carlyle A. Thayer, "Vietnam Is Changing... And So Is the Balance of Power in Asia", *The Diplomat*, 2 October 2015 <<http://thediplomat.com/2015/10/vietnam-is-changing-and-so-is-the-balance-of-power-in-asia/>>.
 6. Ministry of Finance, *Kinh tế-xã hội 9 tháng đầu năm: Kinh tế đạt tốc độ tăng trưởng cao* [Socio-economic conditions in the first nine months: The economy enjoys high growth rate], 12 October 2015 <http://www.mof.gov.vn/portal/page/portal/mof_vn/ttsk/3312584?pers_id=2177092&item_id=185590335&p_details=1>.
 7. Vietnam Customs, *Tình hình xuất khẩu, nhập khẩu hàng hóa của Việt Nam tháng 10 và 10 tháng năm 2015* [Vietnam's export–import performance in October and the first ten months of 2015], 19 November 2015 <<http://www.customs.gov.vn/Lists/ThongKeHaiQuan/ViewDetails.aspx>>.
 8. Foreign Investment Agency, *Tình hình đầu tư nước ngoài 10 tháng năm 2015* [Foreign investment in the first ten months of 2015], 29 October 2015 <<http://fia.mpi.gov.vn/tinbai/3935/Tinh-hinh-dau-tu-nuoc-ngoai-10-thang-nam-2015>>.
 9. "Fresh Samsung Investment Good Sign for Vietnamese Electronics", *Nikkei Asian Review*, 20 August 2015 <<http://asia.nikkei.com/magazine/20150820-STICKER-SHOCK/Business/Fresh-Samsung-investment-good-sign-for-Vietnamese-electronics>>.
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