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Where is Vietnam heading under leadership of new General Secretary To Lam?

Continuation of Bamboo Diplomacy and progress in economic reforms anticipated – no need to worry

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Summary

- On July 19, 2024, Ngyuen Phuc Trong, who had been serving as the General Secretary of the Communist Party of Vietnam for 13 years, passed away. Vietnam's President To Lam succeeded Trong as the new General Secretary on August 3, 2024. Overseas investors may worry regarding the transition of power in terms of the possibility of its causing economic and political unrest. However, the author considers such worries to be unnecessary. Rather, under the leadership of Lam, Vietnam is expected to continue carrying on economic reform, and to become a more favorable nation with a good business environment under which overseas companies can enter and do business. It is unlikely that Vietnam will face political instability of the sort that could cause foreign capital inflows to be impeded, as in Thailand, Malaysia, and Myanmar.
- Under Trong's administration, Vietnam not only saw a continuous increase in foreign direct investment, but also experienced a rise in the share of exports in its GDP. The fact that Vietnam has become a country that achieves growth through both domestic demand and foreign demand proves Trong's achievements. However, it should also be noted that there are economic issues which Trong was not able to completely solve. Ongoing reforms are in need to address these remaining issues, such as inefficient management of state-owned enterprises, military business, innovation, and the shortage of electricity.
- Under Lam's administration, Vietnam is expected to proceed with economic reform, continue Bamboo Diplomacy to maintain good international relations, and enjoy a stable domestic political environment.

Contents

Former General Secretary Trong passes away; Lam appointed General Secretary	3
Under the leadership of Trong, Vietnam achieved high growth driven by both domestic and foreign demand	3
The economy also faces structural challenges, highlighting the need for General Secretary Lam to accelerate economic reforms.....	5
(1) Continuation of state-owned enterprise reform.....	5
(2) Separation of military from business	6
(3) Industrial advancement through progress in innovation	7
(4) Infrastructure development: addressing power shortages	8
Expectations Regarding General Secretary Lam's Political and Diplomatic Skills	8
Politics: The North-South factional conflict has eased, leading to greater political stability	8
Diplomacy: Vietnam is expected to continue its bamboo diplomacy, tactfully balancing between the US and China	9

Former General Secretary Trong passes away; Lam appointed General Secretary

On July 19, 2024, Vietnam's former General Secretary Nguyen Phu Trong passed away. On the same day, President To Lam assumed the position of acting General Secretary, and later was officially appointed the General Secretary on August 8, 2024. It is a rare case for a person to hold both the position of the General Secretary, which ranks first, and President, which ranks second in Vietnam's "Four Pillars" (tứ trụ). Although the new president Luong Cuong took office on October 21, 2024 so that Vietnam reverted to collective leadership, the power of Lam stayed the largest in the four pillars.

Lam was born in 1957 in Hung Yen province (right next to Hanoi) under the Democratic Republic of Vietnam and is now 67 years old. After joining the Communist Party of Vietnam, he accumulated experience in the public security department. Since 2016, Lam was appointed as the Minister of Public Security, and he then was selected by Trong as the executor of the "Blazing Furnance" (đốt lò) anti-corruption campaign, which directly led to the resignation of two former presidents, Nguyen Xuan Phuc and Vo Van Thuong. This earned him deep trust from Trong, so that on May 20, 2024, Lam was appointed by the National Assembly as President. His promotion from the Minister of Public Security to head of state took only 8 years, an astonishingly fast pace.

Oversea investors may worry regarding the transition of power in terms of the possibility of its causing economic and political unrest. Afterall, this has happened in many Southeast Asian nations. However, the author believes that there is no need to worry. Rather, under the leadership of Lam, Vietnam is expected to continue carrying out economic reform and become a more favorable nation with a good business environment under which oversea companies can enter and do business. It is unlikely that Vietnam will face political instability of the sort that could cause foreign capital inflows to be impeded, as in Thailand, Malaysia, and Myanmar.

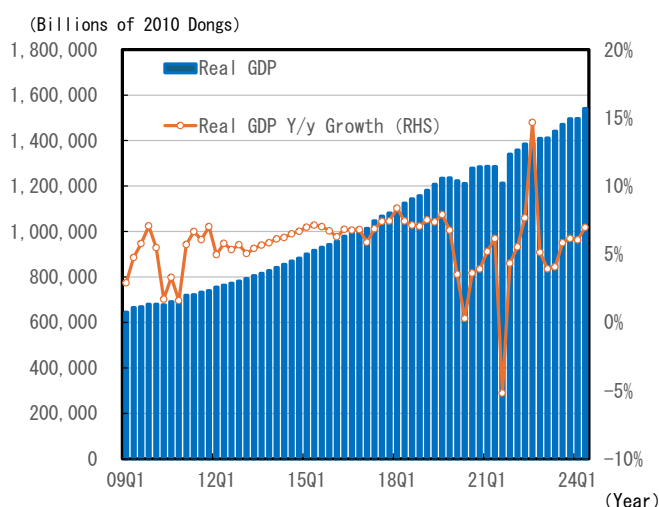
Under the leadership of Trong, Vietnam achieved high growth driven by both domestic and foreign demand

The Vietnamese economy has overcome the negative influence of Covid-19, and has been continuously recovering at a steady pace. Chart 1 shows Vietnam's real GDP level, GDP y/y growth rate, and the breakdown of GDP. It can be seen that Vietnam has successfully overcome the temporarily low growth rate during Covid-19, and the economy has returned to its growth rate before the pandemic. Also, regarding the contribution to GDP, in addition to the large contribution of consumption expenditures, the share of net exports as a portion of GDP has been increasing rapidly in recent years thanks to the strengthening of supply chains. In other words, high growth has been achieved through both growth in domestic and foreign demand.

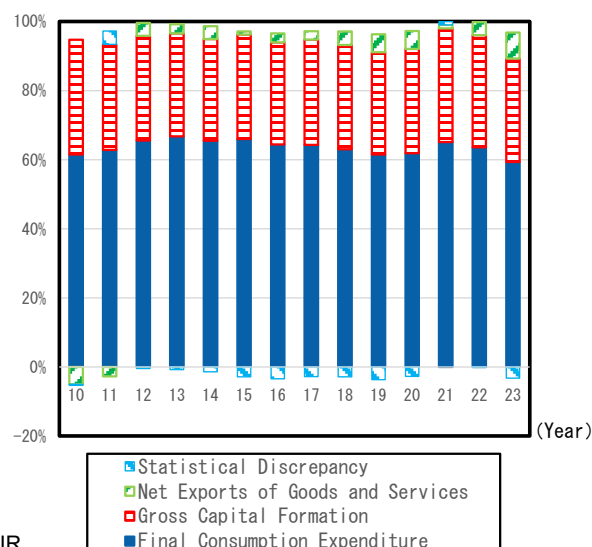
Vietnam Real GDP, Real GDP Y/y Growth, and Breakdown of Real GDP

Chart 1

Vietnam Real GDP and Real GDP Y/y Growth



Breakdown of Real GDP



Source: General Statistics Office of Vietnam, Haver Analytics; compiled by DIR.

It was the former General Secretary Trong that led Vietnam all the way through a time of change. In his administration, Trong not only developed relationships with China and Russia, but also developed relationships with the US, Japan, Australia and Korea to a “Strategic” Level. Trong called his foreign policy Bamboo Diplomacy, signifying that Vietnam should act like the bamboo plant, with firm roots, a strong body, and flexible branches, being able to exert soft but firm foreign policy amidst fierce global competition among the world’s great powers, to be friends with everybody while firmly protecting national interests. This policy received appreciation around the world.

At the same time, he initiated the “Blazing Furnace” anti-corruption campaign. As a result, Vietnam’s rating on the Corruption Perceptions Index¹ rose significantly from 123rd place among 176 countries in 2012 to 83rd place among 180 countries in 2023.

Vietnam’s economy has changed significantly over the past 13 years. Before Trong took office as General Secretary, Vietnam had been suffering from a double-digit increase in CPI, a real estate bubble, bad loans, and many other problems that distorted the economy. However, following the government’s “Resolution 11” in February 2011, right after Trong took office, the Vietnamese economy underwent a major transformation by adopting an economic policy which focuses on stable growth rather than high growth. Since then, despite the Covid-19 pandemic and the Ukraine crisis, double-digit inflation ceased. Moreover, Vietnam’s export structure has shifted its focus from primary commodities and labor-intensive products to higher value-added industrial products. In recent years, not only has mobile phone assembly progressed, but construction of back-end semiconductor production facilities has also advanced, fostering the development of supporting industries.

Former General Secretary Trong, who has made three major political achievements in diplomacy, anti-corruption efforts, and the economic sphere, is widely respected by the Vietnamese people and is referred to as “Bac” (bác, an honorific term meaning “uncle” or “elder”). This title represents the highest level of respect, and previously, only President Ho Chi Minh, the founding father of Vietnam, was called “Bac Ho.” The fact that Former General Secretary Trong is now called “Bac Nguyen” reflects the high regard in which the people truly respect and appreciate his “Burning Furnace” campaign, Bamboo Diplomacy, and contributions to economic development, placing him near Ho Chi Minh’s standing. Consequently,

¹ Published by Transparency International. The higher the rank, the less corrupt a nation is.

the economic policies that Trong advanced, including the acceptance of foreign investment and development of a market economy, are also expected to remain unchanged.

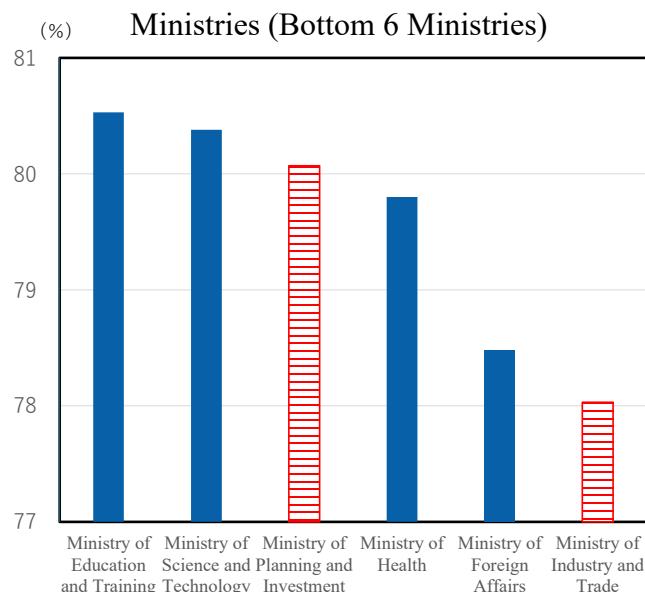
The economy also faces structural challenges, highlighting the need for General Secretary Lam to accelerate economic reforms

Given the achievements of Trong, expectations for the new General Secretary Lam are likely very high. However, structural challenges remain in the economic sector, and it is hoped that Lam will further accelerate economic reforms to address these issues.

Chart 2 is released by Vietnam's Ministry of Home Affairs and compiled by DIR, showing public satisfaction regarding the quality of policy implementation and public satisfaction with various government departments (bottom six departments). This reveals that satisfaction with economic development policies ranks the lowest among government-implemented policies. Similarly, the Ministry of Industry and Trade, the main department responsible for economic policy, ranks the lowest in satisfaction among the government's 17 departments, while the Ministry of Planning and Investment, responsible for investment, ranks 14th—both departments receiving low evaluations.

Satisfaction in the Quality of Policy Implementation and Government Ministries **Chart 2**
Satisfaction in the Quality of Policy Implementation Satisfaction in Government Ministries (Bottom 6 Ministries)

Satisfaction Ranking	Policy
1	Stability, Safety
2	Social Securities
3	Education
4	Health and Medication
5	Electricity
6	Water
7	Administrative Reform
8	Transportation
9	Economic Development



Source: Vietnam's Ministry of Home Affairs, 2023 Satisfaction Index of Public Administrative Services (SIPAS Index), Public Administrative Reform Index (PAR Index); compiled by DIR.

While the Vietnamese economy remains robust, public dissatisfaction with the economy suggests the presence of structural issues. Lam currently faces four main structural challenges as described below.

(1) Continuation of state-owned enterprise reform

Vietnam launched its Doi Moi economic reform towards a market economy in 1986 but avoided large-scale privatization or dismantling of state-owned enterprises (SOEs). As a result, as of 2016, there were 1,276 fully state-owned enterprises², many of which were large companies critical to the economy. However, inefficiency and lack of competitiveness within SOEs became problematic, emerging as a challenge for the Vietnamese economy. Momentum for SOE reform grew after 2016, and in May 2017, the 12th Party Central Committee adopted “Resolution 12”, outlining a policy for SOE restructuring.

² General Statistics Office of Vietnam, “Statistical Yearbook of Vietnam 2017” (“Niên Giám Thống Kê 2017”) p.285 (June 29, 2018)

This resolution directed SOEs to focus on sectors vital to national interests, such as defense and security. Consequently, the number of SOEs dropped to 676 by the end of 2023³. Furthermore, a policy decision was made to halt the establishment of new SOEs after 2030.

At the same time, private enterprises have been growing rapidly. The share of private sector output in GDP rose significantly, from 38.6% in 2016 to 45.0% in 2023. In terms of employment, while SOEs once accounted for the majority, private enterprises now employ 85.0% of the workforce⁴. According to the International Monetary Fund's (IMF) World Economic Outlook from July 2024, Vietnam's GDP growth rate is projected to reach 5.8% in 2024 and accelerate further to 6.5% in 2025, with SOE reforms and the prosperity of the private sector expected to be major contributors to this growth.

At an August 2024 meeting of the Vietnam Association of Small and Medium Enterprises, Secretary General Lam reaffirmed his strong support for small and medium enterprises (SMEs) and private enterprises. He emphasized that “large domestic and international corporations emerge from small and medium-sized enterprises. Vietnam needs a robust private SME sector for economic growth, development, and the safeguarding of national defense and security.”⁵ This stance clearly indicates a commitment to preventing a return to an economy dominated by large SOEs. Lam, who has already made strides in combating corruption within SOEs, is expected to continue advancing Vietnam's market economy through SOE reform and fostering private sector dynamism.

(2) Separation of military from business

The People's Army of Vietnam began commercial activities in the 1960s and has gradually expanded its scale since then. For example, Viettel, the largest telecommunications company in Vietnam, is managed by the People's Army. Viettel's operating revenue in 2023 was 172.5 trillion dong (approximately 7 billion USD), equivalent to 1.5% of Vietnam's GDP⁶. Additionally, Saigon New Port in Ho Chi Minh City holds a top 25 container port share globally, generating revenue of 71 trillion dong (approximately 2.88 billion USD). On the other hand, there are issues of market monopoly and corruption involving businesses managed by the army, and the close relationship between the military and business has been increasingly viewed as a problem. For instance, in April 2022, five generals of the Vietnam Coast Guard (VCG) were arrested on corruption charges. Since military activities are treated as confidential, it becomes difficult to detect and address corrupt practices. These corrupt practices may adversely affect not only business but also national security and military morale.

Lam is committed to resolving this issue. Coming from a public security background, he has built extensive networks within the police and military and is seen as having a strong capability of executing anti-corruption measures. Lam has experience in addressing corruption issues within the military, including leading the ousting of Nguyen Van Son, commander of the Coast Guard. Furthermore, although there are both northern and southern factions within the People's Army of Vietnam, Lam is trusted by both factions, making it easier for him to gain broad support when implementing reform measures.

On August 19, 2024, shortly after Lam's appointment, the official publication of Vietnam's Ministry of National Defense, *National Defense Magazine*, released an unusual article criticizing the management of military enterprises. It pointed out the confusion in the business management of the People's Army,

³ Vietnam.VN, “Prime Minister: State-owned enterprises must link with private individuals to create value chains” (March 3, 2024)

⁴ Việt Nam News, “Private sector contributes 45% of GDP” (April 15, 2024)

⁵ Vietnamese Government Electronic News (Báo Điện tử Chính phủ), “General Secretary and President To Lam meets with the Vietnam Association of Small and Medium Enterprises” (“Tổng Bí thư, Chủ tịch nước Tô Lâm gặp mặt Hiệp hội Doanh nghiệp nhỏ và vừa Việt Nam”) (August 22, 2024), translated by the author

⁶ Viettel “2023 - Viettel grows impressively, reaps achievements, continues to set high goals in 2024” (January 12, 2024)

stating, "Some enterprises managed by the military have not clarified the functions of ownership and operation, and their implementation is chaotic." The article emphasized the need to "build an effective corporate governance framework based on OECD governance principles, ensuring openness, transparency, and fairness of interests for stakeholders involved in military enterprises" (translation by the author). It has been rare for *National Defense Magazine* to discuss business management, suggesting that Lam, the newly appointed General Secretary, may intend to advance reforms in military business management. However, given the newly appointed President Cuong in October 2024, who has a military background and has held key military positions such as Director of the General Department of Politics and Director of the Secretariat, there might be some uncertainty regarding military reforms.

(3) Industrial advancement through progress in innovation

One of the reasons Vietnam has been able to develop rapidly in recent years is the shift of manufacturing from China. The relocation of production bases to Vietnam by multinational companies adopting the China Plus One strategy⁷ has invigorated the Vietnamese economy. However, up until now, investments have been primarily in labor-intensive industries focused on assembly, attracted by low wages. Moving forward, Vietnam needs to focus on innovation to develop its ecosystem to attract investments in higher value-added manufacturing industries.

Chart 3 shows Vietnam's position in the Global Innovation Index. The index, published annually by the World Intellectual Property Organization (WIPO), evaluates the innovation capabilities of countries worldwide. In 2024, Vietnam ranked 44th in this index, having risen from 76th place in 2013. Among the 37 countries in the lower-middle-income group, Vietnam ranks second following India. Although Vietnam's ranking temporarily declined due to the impact of the COVID-19 pandemic, it has been rising again since 2022.



Furthermore, in 2021, the Vietnamese government launched a national innovation program aiming to more than double the labor productivity of companies that participate in the program by 2030. To promote innovation in AI and semiconductors, the Vietnamese government, in collaboration with the US company Meta Group, launched the "Vietnam Innovation Challenge 2024." Global companies such as Panasonic, Yamaha Motor, Bosch, General Electric (GE), HP, and Piaggio have also established research and development (R&D) centers in Vietnam. After taking office, Secretary-General Lam

⁷ A management strategy that avoids the risks of concentrating overseas bases in China, primarily in manufacturing, by diversifying and investing in countries and regions outside of China.

delivered a speech on innovation on Vietnam's National Day, September 2, 2024, emphasizing the importance of "creating new driving forces for development with new advanced and modern production technologies and modes, and comprehensively reforming."⁸ Through such innovations, if industrial advancement progresses, it could become a new driving force for growth in the Vietnamese economy.

(4) Infrastructure development: addressing power shortages

In May 2023, Vietnam faced a severe power shortage. The fundamental cause of the power shortage is the decline in power supply capacity. In Vietnam, thermal power accounts for 40% and hydropower for 30%, with these two energy sources making up the majority. During summer when rainfall becomes scarce, reliance on thermal power tends to increase, but the aging thermal power infrastructure, delays in the delivery of imported coal, and malfunctions at power plants have led to a decrease in supply capacity.

Production at factories was also affected, and in 2023, Foxconn, one of the world's largest electronics contract manufacturing companies, was requested by the government to reduce power consumption at its Vietnam factory by about 30%.

To address these issues, the Ministry of Industry and Trade of Vietnam announced the following measures: 1. Increasing electricity imports from China and Laos, 2. Establishing an emergency power generation system using diesel, and 3. Developing new power generation facilities. As a result, the power generation volume in the first quarter of 2024 recovered to +11.4% compared to the same period of the previous year. Additionally, according to Prime Minister Pham Minh Chinh, electricity transmission lines are expected to be expanded by May 2024, doubling the transmission capacity from the southern region to the northern region.

While increasing electricity imports and strengthening existing transmission infrastructure, Vietnam is promoting large-scale power projects aiming to diversify its power sources, actively working on sustainable power sources such as hydropower and wind power. A national strategy on climate change has also been announced, aiming to terminate the use of coal by 2040⁹.

At the same time, M&A activities related to energy are also active. Traditionally, there have been many M&A deals in the financial and real estate sectors in Vietnam, but energy-related M&A accounted for 20% of the total in 2023. For example, Thailand's RATCH Group acquired Ecowin Energy Corporation, which operates wind power in Ben Tre Province. The participation of foreign capital in Vietnam's renewable energy projects is a positive factor in solving the power shortage issue, and it is expected that overseas experience will also have a favorable impact on improving Vietnam's power situation.

Expectations Regarding General Secretary Lam's Political and Diplomatic Skills

Politics: The North-South factional conflict has eased, leading to greater political stability

Vietnam has a long-term conflict between the North and South, with factions within the Communist Party of Vietnam as well. During the tenure of former General Secretary Trong, the Northern faction

⁸ Vietnam Labor and Capital News (Lao động thủ đô), "Digital transformation - a key driver for developing productive forces and perfect production relations to lead the country into a new era" ("Chuyển đổi số - động lực quan trọng phát triển lực lượng sản xuất, hoàn thiện quan hệ sản xuất đưa đất nước bước vào kỷ nguyên mới") (September 2, 2024), translated by the author

⁹ Climate Strategies, "Just Transitions and Coal Power Phase Out in Vietnam" (March 2023)

held the main power, and the arrest of high-ranking officials such as Dinh La Thang (former Minister of Transport and Ho Chi Minh City Party Secretary) from the Southern faction intensified dissatisfaction among some Southern members, escalating the conflict between the North and South factions. However, with Lam's appointment as General Secretary, there is a possibility that the conflict between the North and South factions could ease. Although Secretary-General Lam is from the North, as a major promoter of the "Blazing Furnace" campaign, he managed to oust fellow Northern members such as Vuong Dinh Hue (former Chairman of the National Assembly), Vo Van Thuong (former President), and Truong Thi Mai (former Head of the Central Organization Commission), thereby gaining power within the Northern faction while also securing support from the Southern faction. Given Lam's achievements, the easing of factional conflicts and the stabilization of the domestic political environment could potentially create a favorable foundation for economic development.

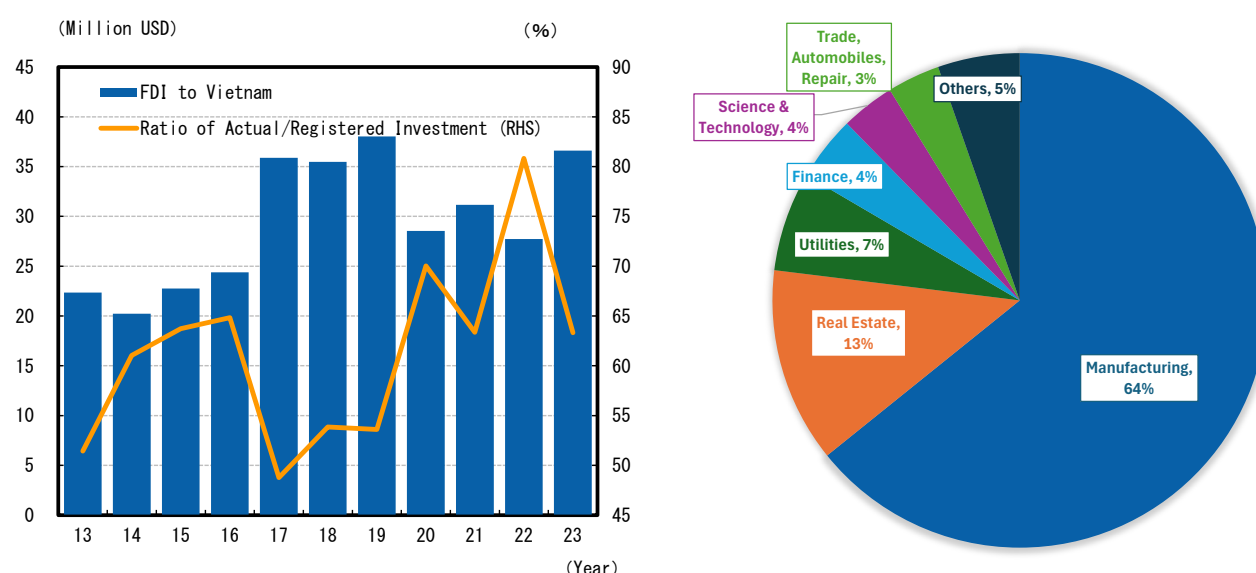
Diplomacy: Vietnam is expected to continue its bamboo diplomacy, tactfully balancing between the US and China

Bamboo diplomacy, a political legacy of former Secretary-General Trong, has brought significant benefits to Vietnam. Leaders from the United States, China, and Russia have visited Vietnam, and companies from these countries have made substantial investments, promoting the diversification of Vietnam's supply chain. Chart 4 shows (1) the amount of foreign direct investment (FDI) in Vietnam, (2) the ratio of the actual investment amount implemented in Vietnam to the investment registration amount reported by foreign companies to the Vietnamese government, and (3) the breakdown of foreign direct investment in Vietnam by industry in 2023. It can be seen that the amount of foreign investment in Vietnam has been continuously increasing, except during the COVID-19 pandemic, and the proportion of companies actually implementing investments is also on the rise. Moreover, investment in the manufacturing sector is overwhelmingly high, accounting for 64% of the total.

Foreign Direct Investment Amount in Vietnam, Ratio of Actual Investment to Registered Investment, and Industry Breakdown of Investment for 2023 Chart 4

Foreign Direct Investment Amount in Vietnam
Ratio of Actual Investment to Registered Investment

Industry Breakdown of Investment for 2023



Source: General Statistics Office of Vietnam, Vietnam's Ministry of Planning and Investment, Haver Analytics; compiled by DIR.

Both the shift in manufacturing from China and supply chain diversification strengthened Vietnam's international competitiveness. For example, while acquiring resources such as natural gas from Russia, Vietnam has been careful not to undermine the interests of Western countries and has placed importance on relations with the United States and others western nations. Lam, being from a police background,

was perceived to have relatively less knowledge of diplomacy. However, he understands the economic benefits that bamboo diplomacy brings to Vietnam, and it is highly likely that he will continue this diplomatic approach as the successor to Trong.

The first country he visited after taking office was China, and some may view this visit as Vietnam leaning towards China. Considering the possibility of Trump returning as US President, it could be argued that Lam is trying to strengthen relations with China in preparation for increased diplomatic uncertainty between the US and Vietnam. However, this actually does not mean that Vietnam prioritizes its relationship with China over the US. In Vietnamese diplomacy, there is a traditional rule that the General Secretary visits China before going to the US. All of Lam's predecessors, including former Secretary Trong, Manh, and Phieu, followed this traditional rule by visiting China before the US or only visiting China, so visiting China first indicates that Lam is adhering to the traditional diplomatic stance. Additionally, Lam attended the United Nations General Assembly in New York in September, where he met with US President Biden. During the meeting Lam stated that "Vietnam will continue to firmly implement an independent, self-reliant, multilateral, and diversified foreign policy."¹⁰ This demonstrates Vietnam's intention to maintain good relations with both the US and China.

Vietnam, maintaining good relations with both the US and China, holds an advantage in the multipolar world economy. Even if US - China tensions worsen, businesses in Vietnam may continue to gain benefits from both countries. Under the leadership of General Secretary Lam, Vietnam could become an excellent "China Plus One" option in the world where US - China tensions are escalating.

¹⁰ Nikkei Asia "Biden meets Vietnam's To Lam to counter China and Russia" (September 28, 2024)