



Annual review stays positive, ODA reaches a record high

The Vietnamese government sat down this month with a plethora of eager overseas development donors. The annual Consultative Group for Vietnam meeting, between the Vietnamese government's leaders and its bilateral and multilateral partners, was held this year in Hanoi. Unsurprisingly, it focused on Vietnam's handling of the economic recession and its needs for the next 12 months.

The overall mood was positive, as the Vietnamese government had announced previously that it estimated economic growth would reach 5.2 per cent for 2009, second only to China's 7 per cent for 2009.

There was much back slapping in the group,

with newly appointed World Bank country director **Victoria Kwakwa** congratulating the government's reaction to the financial crisis: 'Vietnam has avoided a recession in the context of a severe global financial and economic crisis.'

Sean Doyle, the European ambassador, went on to say 'In general, donors are supportive of Vietnam, as we all admire what has been done and respect very much the quality of the work.'

Vietnam's Prime Minister **Nguyen Tan Dung** stressed his thanks for continued support from Vietnam's donors but chose to let long-standing Minister for Planning and Investment **Vo Hong Phuc** do most of the talking during the meeting. Phuc stated that the government would 'closely

cooperate with the donors to make the best disbursement and supervision over the use of ODA in the time to come.'

More carrot

To underline their trust and support, Vietnam's donors gave increased ODA pledges for 2010, promising more than \$8.06 billion in grants and loans for the country. That's an almost \$2 billion increase over 2009's \$6.18 billion.

This continues the annual increases in ODA for Vietnam, though may mark a turning point. Vietnam's GDP per person has already stepped over the \$1,000 per capita mark, making it a middle-income country. Once a country enters middle-income status, access to preferential

loans from the World Bank, Asian Development Bank (ADB), and other groups tends to end. Furthermore, many bilateral donors reduce their ODA contributions to middle-income countries and move funds to less well-off countries.

Figures are unavailable for 2009's actual disbursement of ODA; however, most people in the know estimate disbursement of ODA to be little over 60 per cent of committed figures. Between 2001 and 2005, only US\$7.8 billion of the US\$11.1 billion in aid commitments were disbursed - 70 per cent. During 2009, donors have been pushing the government to speed up project implementation and ODA spending after continued delays in disbursement. >>>

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The June mid-term Consultative Group meeting saw considerably more criticism of the Vietnamese government than this month's. In June, donors were quick to raise their concerns about the low rate of ODA disbursement, estimating that only \$1.4 billion of the \$5.1 billion in loan commitments available at the time had been disbursed. Ten projects valued at over \$1 billion had disbursed only 14 per cent of the funds available.

During the June meeting, Victoria Kwakwa was more outspoken, stating, 'Both sides recognise that one way [economic] stimulus can happen is to speed up disbursement of resources provided domestically and externally.'

Less stick

The truth is that Vietnam's administration has not grown or developed its capacity to the degree needed to keep up with the country's increase in ODA. As a result it is often overwhelmed by the procedures and timelines placed on it by the government and donors, leading to considerable underspending of ODA.

At the same time, while ODA commitments may look impressive, they are only a small part of Vietnam's economy. This year's \$8 billion in commitments account for only 8 per cent of overall GDP for the year.

Where ODA has been important is in supplying additional foreign exchange reserves. Vietnam's foreign currency reserves were reported by the World Bank to have declined by 30 per cent from the end of 2008 to August 2009, from \$23 billion to \$16.5 billion.

Jonathan Pincus, dean of the Fulbright Economics Teaching Program in Ho Chi Minh City and previously the country economist for the United Nations in Vietnam, underlined this recently: 'Development aid has never been very important to Vietnam. Poverty has fallen because of policy changes that allowed companies and individuals to take advantage of market opportunities. Development aid has helped build needed infrastructure and has provided balance of payments support. But it was never decisive.'

Centrally, the prime minister and the government remain frustrated at the low rates of disbursement, and as a result access to valuable foreign exchange, which could cancel out the overall decline in foreign currency receipts due to export reductions. Donors are unwilling to reduce the tendering and procurement procedures necessary for ODA as they do not want to fuel corruption and see low efficiency, especially in infrastructure.

Overall, donors and the government are in a lose-lose situation. Donors need to see money move into Vietnam to ensure continued presence and funding for future years, as well as for individuals to develop their careers within donor organisations. The government needs to access this source of foreign currency but is unable to speed up the process and raise the capacity of local officials.

ODA and corruption

Both sides are wary of lessening control over ODA, seeking to avoid a further corruption scandal such as PMU18 in 2006 and PCI in 2008.

PMU18 is one of several program management

units for infrastructure implementation in the Ministry of Transport. Its executive director at the time, **Bui Tien Dung**, is estimated to have embezzled almost \$1.8 million from the unit. Dung and more than 200 colleagues at the Ministry of Transport had been found to have built a large football gambling ring within the Ministry using embezzled funds.

If this was not embarrassment enough, PMU18 was the Ministry of Transport unit entrusted with implementing ODA-funded infrastructure projects. The fallout from this scandal was considerable; the tentacles of suspicion touched many throughout the government, including vice-ministers, and eventually led to the resignation of the minister for transport at the time, **Dao Dinh Binh**.

Bui Tien Dung was later sentenced to 13 years for corruption and attempts to bribe key officials and prosecutors involved in the case.

The scandal was reported widely by the press and many thought that it had ushered in a new era of press freedom. The government was apparently happy for the press to continue to report on the case and its wide implications.

Eventually, the negative publicity became too much, however, and the government instigated a cooling down period. This was followed by the arrest, trial, and imprisonment of two journalists whom the government found to have reported wrongly on the case.

A quiet affair

This month's Consultative Group meeting also lacked the controversy of 2008's December >>>

meeting, at which the Japanese ambassador to Vietnam, **Mitsuo Sakaba**, publicly criticised the government for its handling of a scandal involving Ho Chi Minh City officials and a Japanese company.

The **Pacific Consultants International (PCI)** case was uncovered by reporters in Japan in November 2008 and led to several Japanese company officials being arrested. The Vietnamese government initially refused to allow Japanese police any access to the case within Vietnam and were criticised for being slow to investigate the Ho Chin Minh City officials involved.

As a result, at the 2008 Consultative Group meeting Japan suspended all new aid to Vietnam for three months. This was a slap in the face for the Vietnamese government and a strong stance from the normally diplomatic Japanese.

Despite this hiccough, relations were soon back on track. Japan reinstated its ODA package to Vietnam in April 2009 after the Vietnamese government demonstrated its willingness to prosecute Ho Chi Minh City officials implicated in the PCI scandal.

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The Vietnamese arrested the former deputy director of Ho Chi Minh City's Department of Transport, **Huynh Ngoc Si**, for his part in receiving bribes from Japanese representatives of PCI in Ho Chi Minh City. Relations were further smoothed over with a visit from **Crown Prince Naruhito**, as well as senior official visits to Japan from the Vietnamese government.

ODA from Japan was again increased in August 2009, when the Japanese government gave a further \$500 million to Vietnam to support its stimulus package.

Final act

The show goes on, and the 2010 ODA figures show a considerable ramping up of aid by several donors, possibly in a final act before Vietnam establishes itself as a middle-income country and is no longer eligible to receive preferential loans and grants.

The increases from some bilateral donors come as a surprise, as many have been forced to cut their global aid budgets due to the recession and falling GDP at home.

Most surprising is the 50 per cent increase by the World Bank, from \$1.66 billion in 2009 to \$2.49 billion in 2010. Japan has increased its contribution to \$1.64 billion from \$1.1 billion and ADB has committed \$1.47 billion.

Australia continues to see Vietnam as a key focal point for its ODA. This is unsurprising given its large Vietnamese population and its recognition of Asia in general and Vietnam in particular as key trading partners for the future. >>>

Table 1: Consultative Group, 2009 and 2010 pledges

	2009 (US\$ MILLION)	2010 (US\$ MILLION)	2010 AS % OF 2009
Bilateral donors	2,596.60	3295.35	126.91
Australia	67.32	98.58	146.43
Canada	29.45	26.46	89.85
Japan	1,170.17	1,640.00	140.15
Korea	268.70	270.00	100.48
New Zealand	7.40	8.10	109.46
Norway	10.00	10.00	100.00
Switzerland	21.50	21.43	99.67
Thailand	0.45	0.28	62.22
United States	128.12	138.18	107.85
European Union	893.49	1,082.32	121.13
Austria	5.86	123.57	2,108.70
Belgium	78.52	26.37	33.58
Czech Republic	3.05	2.00	65.57
Denmark	63.70	67.90	106.59
Finland	46.63	49.58	106.33
France	280.96	378.26	134.63
Germany	186.00	137.89	74.13
Hungary	0.50	30.37	6,074.00
Ireland	25.09	19.59	78.08
Italy	3.37	17.33	514.24
Luxembourg	12.70	12.96	102.05
Netherlands	30.49	31.65	103.80
Spain	60.98	81.38	133.45
Sweden	21.30	20.62	96.81
United Kingdom	74.34	82.85	111.45
Multilaterals	3,338.24	4,518.52	135.36
ADB	1,566.50	1,479.00	94.41
EC	13.98	331.92	2,374.25
UN agencies	97.76	209.60	214.40
World Bank	1,660.00	2,498.00	150.48
INGOs	250.00	250.00	100.00
Total	6,184.84	8,063.87	130.38

With declines in exports and foreign direct investment and, as a result, of foreign exchange receipts, the Vietnamese government will have to look long and hard at how it can speed up ODA disbursement in order to access this source of foreign exchange.

FDI problems

Vietnam had attracted \$19.6 billion in foreign direct investment by the end of November 2009 and the Ministry of Planning and Investment (MPI), which oversees FDI, estimates the figure will hit \$25 billion by the end of the year once several FDI projects in the pipeline are approved.

So far \$14.656 billion is newly registered capital and \$5 billion is expanded capital by existing companies. However, the government estimates that only \$9-10 billion will be disbursed in 2009.

This marks a 25 per cent increase over the FDI goal set by the MPI during the year but still shows a 66 per cent decline from 2008. That was an exceptional year, with Vietnam attracting a record \$71.1 billion as it reaped the rewards of joining the World Trade Organization in 2007 and increasing its global profile with several large business and diplomatic visits by its leaders.

The flood of money into Vietnam in 2007 and 2008 also drove the stock market and rental prices up across Vietnam and is partly blamed for pushing inflation in 2008 to record highs.

Quantity over quality

Many consider that the FDI attracted in recent years has not been of a productive nature and has been mostly speculative, as foreign

companies use high investment promises to gain access to prime real estate.

Certainly when looking at the largest FDI projects licensed in 2008, we see a strong leaning toward tourism and real estate projects. Six of the largest 10 FDI projects were in this area in 2008. These six were valued at \$14.94 billion.

FDI figures for 2009 were given a boost in the last few months by some similarly unproductive investments. Three projects alone in real estate and tourism were valued at \$7.8 billion. This includes a \$4.15 billion 'eco-tourism' complex in the central province of Quang Nam by two US companies, **Tano Capital LLC** and **Global C&D Inc.**

A second project by Malaysia's **Berjaya Land Bhd**, valued at \$2 billion, aims to develop an urban area in Dong Nai province and is the province's largest FDI project.

The third project is the first phase of a 'creative city' by US group **Galileo Investment** in the central province of Phu Yen, valued at \$1.68 billion. The whole project is valued at \$11.4 billion over 25 years.

Meanwhile, Vietnam is struggling to ensure that more productive investors actually disburse FDI funds and establish operations in Vietnam. Malaysia's **Lion Group** received a licence in 2008 for Vietnam's largest foreign-invested project at the time, a \$9.8 billion steel production plant in Ninh Thuan province. However, Lion Group has asked the provincial authorities to delay the project due to the economic recession. Their choice of partner, the cash-strapped

Vietnam ship-building group **Vinashin**, may also be a factor in the delays.

Vietnam desperately needs to build up its steel manufacturing capability. It licensed two large steel projects in 2008, Lion Group's in Ninh Thuan and Taiwan's **Formosa Steel** in Ha Tinh, valued at \$7.8 billion. Vietnam has imported \$4,903 billion in steel so far in 2009, an increase of 16 per cent compared to 2008.

The Vietnamese government began to show sign of using the recession to weed out non-disbursing FDI projects this year. Centrally the government recognised that many foreign investors were seeking approval for projects simply to gain access to land. This was crowding out more productive and financially viable foreign investors.

The weeding has proved difficult, especially as most foreign investment decisions are now made at provincial levels except when the investment is over a certain amount or is in an area considered sensitive or in the national interest by the government.

As a result, many provincial leaders have been happy to approve ever more elaborate and complex projects in order to boost their profiles and careers.



POLITICS & SOCIETY

Saying no to networking

After searching out and arresting several internet bloggers in September (*Vietnam Focus*, September 2009), this month the Vietnamese government has taken a further step toward limiting its citizens' access to controversial sites.

It removed access to popular networking site **Facebook**. It is unclear why Facebook was put in the same category as **Human Rights Watch** and several overseas anti-Communist Vietnamese sites. The Vietnamese government denies that it has instructed internet service providers to shut down access to the site, though it continues to be inaccessible.

The government has taken a dim view of bloggers who use their sites to make political statements or to garner support around social issues. The Vietnamese government considers blogs to be subject to the same rules and censorship as the print press. Deputy Minister for Information and Communications **Do Quy Doan** has stated in the past that 'a blog is a personal news page. If a blogger uses it for general news like the press, he is breaking the law and will be punished.'

As a result, bloggers such as **Nguyen Ngoc Nhu Quynh** and others have been arrested for making political statements. Quynh was arrested in September for criticising government handling of a proposed bauxite mine in the Central Highlands of Vietnam as well as China's >>>

increased business and investment role in the country (*Vietnam Focus*, June, September 2009).

During the height of the bauxite debate in April and March of this year, several Facebook group pages appeared on the subject, with a sizable membership from both Vietnam and overseas Vietnamese communities. Many of the comments and discussions were highly critical of the government's approach to the bauxite issue and to Chinese investment in bauxite and in Vietnam in general.

The block may be a heavy-handed approach to dampen debate and also influence by outside forces. Vietnam appears to be following the example of big brother China, which has been blocking Facebook for more than a year.

Following big brother

Many Facebook users, both ex-pat and Vietnamese, were quick to circulate alternative routes to access the networking site, and most regular users are able to continue to use the site in some form.

Vietnam has some 20 million internet users, 25 per cent of the population. They tend to be young and computer literate, if only in using online games and Yahoo chat. The block may have brought some users to the Facebook site to see what the government was worried about; it has certainly not stopped the more politically aware from using the internet and Facebook to get their message across.

When the Chinese government implemented a partial block to Facebook in 2008, the site



DO QUY DOAN

boasted over 1 million Chinese members. After the block, membership fell to 14,000 as surfers chose to jump to alternative and government-endorsed sites rather than attempt to get over the barrier to access. This may also be the case in Vietnam over the long term.

The Vietnamese Communist Party is increasingly worried about the influence of the West and what it calls 'peaceful evolution' forces that aim to slowly and quietly move Vietnam away from a Communist government to more pluralistic and democratic government. It sees websites and other media such as Facebook as one of these forces, used by outsiders to make Vietnamese citizens more critical of the government and in turn the party.

As the 11th Party Congress approaches in 2011, and there will no doubt be a continuation of a clampdown on press freedoms, debate, and citizens' access to critical information. The party and government have already begun putting in place regulations to ensure that debate is restricted, such as the controversial Decision 97, which limited policy criticism to government agencies (see *Vietnam Focus*, October 2009).

This has recently been followed by an amendment to regulations governing the operations of international non-government organisations (INGOs) that stops them from participating in policy work or debate. There are currently over 700 INGOs in Vietnam, with an annual budget collectively of \$250 million. The central government and provincial governments are often very wary of INGOs and see some as the tool of anti-Communist groups outside the country.

The truth is a little less exciting.

Buy Vietnamese, bye to the rest

Following the government's patriotic 'Buy Vietnamese' campaign of the last few months, the press has increasingly shown its xenophobic side. The Vietnamese press has been growing more critical of foreign influence, blaming it for damaging national culture, encouraging unneeded imports, and having a role in some of country's economic woes.

The press has increasingly pointed the finger at foreign companies for importing a range of goods that are affecting Vietnam's balance of payments and hindering the development of domestic producers.

The press has also increasingly criticised the use of English within Vietnam in business, advertising, and education and has also begun to question the growth of international schools and their teaching of Vietnamese culture, history, and language.

More and more middle-class Vietnamese parents are turning their backs on state education and have been moving towards international schools. This both brings status - as a demonstration of wealth - and acknowledges that the Vietnamese education system is increasingly failing children.

The frequency of criticism is not new in Vietnam. Periodically, often at a times of crisis or approaching the party conference, the Vietnamese government tries to rally nationalistic spirit and quell dissent by reminding everyone of the dangers of outside influences on Vietnamese culture.

The press has also been highly critical of the growing use of the English language in business and advertising and of the current trend among Vietnam's youth to take English, Japanese, or Korean nicknames - a common practice in Singapore and Hong Kong.

This month's media finger pointing is very much in line with Communist Party worries about degrading standards within Vietnamese society and greater influence from outsiders.

Batten down the hatches

The government stepped in this month to restrict what it considers non-essential imports. The prime minister is reported to have instructed the Ministry of Industry and Trade to coordinate the clampdown.

Up to November 2009, Vietnam had imported \$61.7 billion, a decline of 17.8 per cent compared to 2008, and had exported goods worth \$51.3 billion, a decline of 11.6 per cent >>>

Table 2: Vietnam exports, January–November 2009

	US\$ BILLION	% CHANGE FROM 2008
Textile	8.178	-1.1
Crude oil	5.769	-41.7
Seafood	3.928	-6.2
Shoes and sandals	3.572	-15.9
Valuable stones and metals	2.704	+264.0
Rice	2.555	-5.8
Electronics, computers	2.508	1.1
Wood and wood products	2.271	-11.1
Machinery tools and spare parts	1.760	2.3
Coffee	1.507	-17.4
Coal	1.174	-11.3
Rubber	1.018	-32.4
Subtotal	36.944	
Other exports	14.362	
Total	51.306	-11.6

Source: Vietnam General Statistics Office

from 2008. Vietnam's trade balance remains in the red by some \$10 billion, though down on 2008's trade deficit (see Tables 2 and 3).

It is hard to see how Vietnam can reduce its trade deficit further. With the country's accession and commitments to the World Trade Organization, the range of tools it might have used have now gone. Vietnam is scheduled to make all tariff adjustments under its WTO commitments by 2013.

Vietnam also has numerous tariff reduction commitments under the ASEAN Free Trade Agreement (AFTA) and may be further committed if ASEAN agrees to move the region to a zero tariff trading block, as recently discussed.

Lending cuts

The government has asked the banking industry to stop lending to companies and individuals for luxury imports and is also ending its subsidised interest stimulus package at the

Table 3: Vietnam imports, January–November 2009

	US\$ BILLION	% CHANGE
Petroleum	5.758	-45.3
Steel	4.903	-24.4
Fabrics	3.821	-6.9
Electronics, computers, spare parts	3.513	+3.2
Automobiles (complete and for assembly)	2.630	-3.6
Plastic in primary form	2.552	-7.4
Raw materials for textile, shoes, and sandals	1.739	-20.8
Cattle feed and supplies	1.616	-0.2
Chemicals	1.457	-11.9
Other metals	1.449	-13.4
Chemical products	1.394	-6.6
Fertiliser	1.215	-15.0
Sub-total	32.047	
Other imports	29.676	
Total	61.723	-17.8

Source: Vietnam General Statistics Office

end of December. The measures may at least reduce some non-essential imports such as luxury vehicles. Pre-assembled auto imports up to November 2009 reached over \$1 billion, an increase of 5.8 per cent on 2008. Not bad for a country in recession.

However, when you look elsewhere there seems to be little room for reductions in imports, as much of what is imported is required for exports, business development, and construction.

The largest import to Vietnam remains petroleum, even though the country's first refinery came online in February 2009. This is followed by steel, which is used in the construction and shipbuilding industries for the most part, and then fabric for the garments industry.

Pham Chi Lan, one of Vietnam's leading economists, recently stated that 'Vietnam's production structure has not much changed >>>

2009: Politics & society

January A letter from **General Giap**, one of Vietnam's founding fathers, is published calling on the government to tread carefully in developing bauxite in the Central Highlands.

April Catholic and Buddhist groups join the debate on bauxite mining and criticise the proposed Central Highlands development.

June Leading Lawyer **Le Cong Dinh** and four others are arrested under Article 88 for colluding against the state.

September Controversial Decision 97 is brought in, restricting research and criticism of government policy.

Several bloggers are arrested for publishing articles criticising the government's policy on bauxite mining and Chinese investment.

November Hanoi begins blocking access to several additional sites, including Facebook.

over the last few years. Vietnamese exporters still rely far too heavily on imported intermediate goods. Vietnam has yet to develop its supporting industries adequately and relies heavily on imported machinery and parts for manufacturing.'

In effect, Vietnam remains a primary resource exporter and at best an assembler of exported goods.

INTERNATIONAL AFFAIRS

South China Sea debate continues

Some 150 scholars from across Asia and Europe converged on Hanoi this month to discuss the sensitive subject of sovereignty of the South China Sea, or the East Sea, as Vietnam likes it to be known.

The two-day conference saw presentations and discussion from scholars from Australia, Russia, Sweden, Indonesia, Malaysia, Taiwan, China, and of course Vietnam. Much of the debate focused on China's disputed claim over the majority of the sea and the two major island chains, the Spratlys and the Paracels.

The meeting, organised by the Vietnam diplomatic academy, was seen by many as an attempt by Vietnam to internationalise the debate on the sovereignty of the islands and South China Sea, in recognition that despite increased bilateral discussions with Beijing, Vietnam will be unable to address the issue or fight off its larger neighbour alone.

Though the meeting was among maritime experts and institutes from across the region, no government representatives attended, making the results of the meeting guiding rather than binding. However, Vietnam may see the meeting as a strong first step in building ASEAN and international consensus on the issue and further eroding China's claims.

All but two participants, those from China,

dismissed China's broad claims over the South China Sea and especially the much-used map illustrating China's claims to the area.

No basis for claim

Chinese scholar **Ji Quoxing** claimed China based its claim on an historical connection to the area. The point was rejected by all others at the conference.

Vietnam is increasingly using a more sophisticated approach to countering China's claim and in turn boosting its own claim to all or part of the South China Sea. Scholars and the press point to the 1982 United Nations Convention on the Law of the Sea (UNCLOS), which sets out a framework for maritime claims and disputes.

Any nation making a maritime claim under the United Nations convention must (1) make the claim public, (2) exercise sovereignty over the area efficiently, continuously, and peacefully for a long period, and (3) have the claim recognised by the countries involved. The Vietnamese government has continuously asserted that China has not been able to meet these criteria.

Vietnam argues that China has never exercised effective sovereignty over the South China Sea since it asserted its claim in 1947. Equally, the claim is clouded in confusion, given the extent of the area. Finally, no country in the region recognises any part of China's claim.

A number of scholars at the conference pointed to China's inconsistency in claiming much of the South China Sea. Professor **Ramses Amer** of Stockholm University underlined the feeling of the meeting by saying that the U-shaped line

used by China to illustrate its claims across the sea doesn't have legal status in international law.

Diplomatic bridges

While China's claim was coming under fire in Hanoi, Beijing chose to address the issue and relations with Vietnam in a more diplomatic manner, possibly hoping to distract the Vietnamese population from the findings and toward the more positive image China wishes to display.

In a first step to address tensions and develop greater ties and cooperation in the South China Sea, two Chinese warships, the *Cheng Hai* and the *Chao Yang*, docked in Vietnam's northern port city of Haiphong before heading for joint patrols of the Beibu Gulf.

In a further move to improve relations, China's ambassador to Vietnam, **Sun Guoquang**, gave an overtly positive and uncontroversial 90-minute interview on Vietnamese television in which he underlined China's desire to continue to boost economic relations with Vietnam.

While the interview touched on some delicate issues, such as negative press articles about Vietnam in China and the land border agreement between the two countries, it was notable for its avoidance of the three issues central to Sino-Vietnamese relations in 2009.

No mention was made of China's claims to the South China Sea other than China's banning of fishing around the Paracel Islands, or of Chinese investment in Vietnamese bauxite, or of the use of Chinese labour by Chinese firms in Vietnam. All three issues have dominated public debate in the last 12 months.

Keep your friends close

Despite these diplomatic attempts to show a positive side to Sino-Vietnamese relations, things soon got back to frosty normality.

Vietnam reacted angrily this month when the Hainan provincial authorities established village committees on the Paracel Islands.

Vietnam Foreign Ministry spokeswoman **Nguyen Phuong Nga** stated that 'Vietnam protests against this decision as it infringes upon Vietnam's territorial sovereignty.'

Interestingly, Vietnam had made a similar move in April when the provincial city of Danang appointed **Dang Cong Ngu** as governor of the Paracels despite the islands being under Chinese control. The Chinese Foreign Ministry called the move 'illegal and invalid' at the time.

International agreement?

While other countries in Asia making claim to parts of the South China Sea appear ready to undertake international arbitration, or have submitted joint agreements to the United Nations, China continues to duck this approach.

China's avoidance of such international approaches is understandable given the

shakiness of its case as well as the other territorial claims it has in the region. China remains in dispute with Japan and Taiwan over East China Sea claims.

China has pursued bilateral diplomacy rather than a multilateral or international resolution, hoping that its size and the general trade imbalance with most Asian countries will enable the status quo to be kept. If other Asian countries combine to try to force China to settle the dispute through international courts or the United Nations, China recognises that any resolution could in turn have an impact on its East China Sea claims and give more weight to Taiwan and Japan in this dispute.

As a result, China is happier to do nothing but cast a large naval shadow across the South China Sea and ensure that other parties are split. The conference in Hanoi this month may worry the Chinese, considering the consensus against their claims, but it remains an academic forum, not a diplomatic one.

Any move to have a similar discussion at a government level is sure to meet with Chinese disapproval.

However, multilateral negotiations even through ASEAN are unlikely. The ASEAN countries are unable to agree on even small disputes, never mind their combined dealings with China.

Professor **Carlye Thayer** of the Australian Defence Force Academy underlined China's distrust of multilateral discussions at Hanoi's workshop on the South China Sea by stating that 'China has recently told the 10-member

2009: South China Sea

January Philippines Congress debates a resolution claiming part of the Spratly Islands.

February BP announces it is pulling out of two exploration blocks in disputed waters.

April Vietnam is reported to have purchased six diesel-electric kilo-class fast attack submarines from Russia.

The Philippines resolution on the Spratlys is passed.

May Vietnam and Malaysia make a joint submission to the United Nations to extend their maritime territories.

June China bans all fishing around the Spratly and Paracel Islands and arrests several Vietnamese fishermen.

September China develops its first naval air force in a bid to boost its defences in the South China Sea.

November Hanoi hosts an international conference on the South China Sea and sovereignty.

Association of Southeast Asian Nations that they should get their act together first before approaching China for discussions on the South China Sea. Some ASEAN states point out that getting consensus among the ASEAN 10 states would be difficult and that a unified bloc would only create friction in dealing with China.'

Military white paper

The Ministry of Defence released a white paper this month detailing Vietnam's defensive focus for the future and the budget. While Vietnam has periodically released military white papers - three since 1998 - this is the first to provide budget details.

In 2008, the defence budget was \$1.46 billion: 1.8 per cent of GDP.

When asked at the launch of the white paper about the tension in the South China Sea, Deputy Minister of Defence **Lieutenant General Nguyen Chi Vinh** replied, 'This is a matter of concern to the Vietnamese national defence but the complications over the East Sea will not lead to conflicts.'

General Vinh avoided press questions regarding Vietnam's rumoured purchase of six diesel-electric kilo-class submarines from Russia in April, though he stated that Vietnam would continue to buy arms from a range of countries, including Russia.

President meets Pope

Vietnamese President **Nguyen Minh Triet** visited Italy, Spain, and Slovakia this month meeting with **Pope Benedict XVI** in Rome. Vietnam has some 5.6 million Catholics, a legacy from French occupation. The Catholic Church has seen a revival over the last few years and congregation numbers are rising across Vietnam. >>>



Though the Church is recognised and approved by the Vietnamese government and the Communist Party, the government remains wary of the Church's growing influence over its flock. This influence has been increasingly apparent in recent years as the government and the Church have engaged in numerous disputes over access to land confiscated by the Communist government when it came to power in 1954.

These disputes came to a head in the autumn of 2008 when several large prayer vigils were held in central locations in Hanoi on land claimed by the Church. The largest protests occurred close to Hanoi's St. Joseph's Cathedral, around a large villa and grounds that prior to 1954 were home to the Archbishop of Hanoi. Over the course of a weekend, thousands held a prayer vigil that was met by an equally impressive police presence, many dressed in riot gear.

As a result of the Hanoi demonstrations, eight Catholics identified as leaders were arrested and subsequently given light sentences for their part in organising the demonstrations.

Archbishop **Joseph Ngo Quang Kiet** was not charged at the time but was subjected to both official and media criticism for his role in the demonstrations.

The chairman of Hanoi's People Committee, **Nguyen The Thao**, has been strongly critical of the Archbishop over the last year, stating in October 2008, 'A number of priests, led by Archbishop Joseph Ngo Quang Kiet, took advantage of parishioners' beliefs and their own low awareness of the law to instigate unrest, intentionally breaking the law and acting contrary to

the interests of both the nation and the Church.'

Catholic balancing act

The Vietnamese government has been treading very warily over the issues despite deploying a significant police presence at the time. It has accepted that it must give greater religious freedoms to its citizens despite the party's ideological mistrust of religion. A large proportion of the population wants to practise some form of religion, and as the country makes greater steps towards integration and a bigger role in the international community it cannot be seen to be oppressing that right.

Vietnam has only recently been removed from the US religious rights watch.

However, land remains a sensitive issue and the Church and others once owned a large part of Hanoi and areas of Vietnam, including churches, hospitals, and schools. Even a small concession could therefore bring about multiple other claims and disputes, from both the Church and other groups. This is especially the case in the south, where several multinational businesses were located before the end of the war in 1975.

Furthermore, the government does not want to be seen to be backing down to any group in Vietnam, no matter what, and is conscious of the power of the Church to organise. This makes the Catholic Church a powerful and, in the eyes of the government, potentially dangerous force that should be controlled at all costs.

The Vietnamese will hope that the meeting with Pope Benedict XVI will bring some form of joint understanding and that he in turn can instruct

2009: International affairs

March Japan and Vietnam's relations normalised after ODA is suspended in December 2008.

Prime Minister **Nguyen Tan Dung** visits Kuwait, Qatar, and the United Arab Emirates.

July Vietnam Airlines announces a joint venture with **Cambodian Aviation Administration**.

August Party Secretary **Nong Duc Manh** visits New Zealand and Australia.

Japan increases ODA to Vietnam.

September President **Nguyen Minh Triet** attends the 64th session of the UN General Assembly.

State Bank governor **Nguyen Van Giau** addresses the IMF in Geneva.

October The American embassy criticises the Vietnamese government's human rights record.

November President Triet meets **Pope Benedict XVI**.

December Vietnam becomes chair of ASEAN taking over from Thailand.

the Church in Vietnam to take a more diplomatic and constructive approach in disputes with the state. However, the meeting may be overshadowed by the well-timed resignation of Hanoi's Archbishop Joseph Ngo Quang Kiet.

ECONOMY & ENERGY

When is devaluation not devaluation?

The State Bank moved this month to 'devalue' the dong for the second time this year, after a month of stressing that there would be no devaluation. The shift came after a month of increasing dollar demand and an apparent shortage in the market that led to black market rates of VND20,000/\$1, compared to the official rate of VND17,000/\$1.

The State Bank moved the band on the dong to VND18,500/\$1 but at the same time decreased the trading band from 5 to 3 per cent.

In reality, no one was surprised by the devaluation. Many saw it as late in coming considering the November black market decline and increases in the consumer price index.

The government was also reported this month to have instructed Vietnam's leading exporters, **PetroVietnam** and **Vinacomin**, to immediately sell foreign exchange they earn from their exports. Oil and coal exports earn Vietnam \$6.943 billion. The government has asked the two SOEs to immediately sell foreign exchange to the State Bank in order to further ease the government's currency problems.

The increase in the bank interest base rate from 7 to 8 per cent did take many by surprise, and Vietnam marked itself out as the first Asian country to increase lending rates in an atmosphere where most countries want to >>>

encourage borrowing and spending to get through the recession.

The government also announced that its interest rate subsidy stimulus package would end on schedule at the end of December and would not continue for the rumoured three more months, as many had expected.

In all, the government is trying both to rein in bank lending and inflation and to deal with dong weakness and make exports more attractive. The move may also have a positive effect in bringing down imports by making them more expensive.

No other countries in the region have followed Vietnam's lead, but then its economy seems to stand alone. **Benedict Bingham**, IMF senior resident representative for Vietnam, highlighted this in a recent interview stating, 'Vietnam's position is different [from other countries' in the region] with the largest current account deficit and low reserves.'

Benedict also warned that devaluation might not be the best move for Vietnam, especially as the dollar itself was declining. Rather, the Vietnamese government needed to boost confidence in the dong as well move toward great de-dollarisation of the economy.

Almost immediately, the Ho Chi Minh City and Hanoi stock exchanges went into decline after their meteoric rise of 2009, as credit was closed off for many who had previously been borrowing to purchase shares.

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The return of inflation?

As Vietnam approaches the Lunar New Year in February, or Tet, consumer prices often accelerate as families across Vietnam stock up on food and drink for the celebrations.

In Vietnam, as in China, Tet is a five-day holiday during which most people try to return to their hometowns to celebrate with family and friends. In many ways, it is like an extended Christmas, and considerable amounts of food and drink are consumed.

Traditionally, businesses and individuals try to finalise all payments and clear all debts before the end of the lunar year in order to start the following year with a clean sheet. This leads to greater demand for money from banks as well as an increase in money in circulation.

The state and the private sector also give out annual bonuses in the weeks before Tet - often considerable amounts. Until recently, private enterprises were required by law to give one month's extra salary to employees as a Tet bonus. Though this is no longer required, the majority of firms continue to pay considerable Tet bonuses. This bonus is often used as a means to ensure that staff stay with a firm throughout the year.

Prime Minister **Nguyen Tan Dung** has asked all ministries to ensure that prices remain stable in the run-up to Tet. However, with all the money in circulation and the spending across the country by citizens, businesses, and, of course, the state, that seems unlikely.



Vietnam's got car trouble

The Ministry of Industry and Trade (MOIT) has again raised the possibility of Vietnam developing a 'strategic' car line to take on its ASEAN neighbours.

The Vietnamese government has been frustrated for several years over the process of developing a home-grown car despite having set a number of goals for local content for cars assembled. It has been unable to break the 30 per cent mark for content.

The MOIT plan has come in for considerable criticism, especially as the type of car proposed is unique to the ASEAN region. It would have six to nine seats and a low engine capacity. **Michael Pease**, director general of **Ford Vietnam**, said it would make greater financial sense to invest in an existing production line and in a proven car line already in operation in the country.

An MOIT official underlined the thinking behind the move as an attempt by the government to

address increased automobile imports with a domestically produced alternative. The move is an old-fashioned import substitution move, which many Vietnamese analysts claim could be a folly unless managed carefully, draining resources from the state while being unsustainable in the long term.

State-owned firms slacking

The National Assembly and the **Vietnamese Inspection Agency (SIA)** both attacked non-performing and loss-making state-owned enterprises (SOE) this month going as far as to say they were neither pulling their weight in the economy nor were they transparent in their operations.

The SIA has said it will step up its random audits of state-owned enterprises and groups.

Vinashin has come in for particular attention and public attack in the last month. **Tran Duc Luong**, SIA's deputy director, reported that the agency would pay particular attention to Vinashin's many non-core business investments and >>>

2009: Economy & energy

February Dung Quat refinery comes on line after 21 years of planning and four years of construction.

BP announces it is pulling out of its two Vietnamese blocks. Many think Chinese pressure is behind the move.

March The government announces a \$9 loan package for business.

The government revises its 6.5 per cent growth target to 5 per cent.

April PetroVietnam signs a number of oil exploration deals in Latin America following the prime minister's visit to the region.

Talisman Energy announces an expansion of operations in Vietnam.

May The Ministry of Industry and Trade steps in to disputes between **EVN, PetroVietnam,** and **Vinacom** over pricing agreements for electricity.

June PetroVietnam announces the appointment of a new CEO, **Phung Dinh Thuc**, 55.

August The government announces that EVN is to be broken into five independent corporations.

Premier Oil Plc buys out **Delek Energy Systems'** block interests in Vietnam.

September Dung Quat refinery is forced to stop operations for four weeks due to technical problems.

October The issue of the viability of mining for coal in the Red River Delta heats up.

November The National Assembly approves the government's nuclear power development plan.

use of state capital: 'Our inspections will find out the real situation at Vinashin.'

SIA undertook inspections of state telecom provider **Vietnam Post and Telecoms** group (VNPT) and **Electricity Vietnam (EVN)**, though results have not yet been released.

The National Assembly was particularly scathing in its attack of state-owned corporations. **Nguyen Dang Vang**, National Assembly representative from Binh Dinh province, voiced what many were feeling: 'Capital invested in state-owned enterprises was proportionally much greater than the profits and jobs they could be

creating in comparison to the private sector.'

State-owned enterprises are estimated to account for 60 per cent of outstanding loans in the banking system and 70 per cent of foreign debts, though they contribute only 40 per cent of Vietnam's GDP.

Many think the state-owned enterprises have developed too quickly in recent years and have broadened their business interests too widely, leaving the government's ability to monitor them lagging somewhat. Other think that despite several years of equitisation, many state-owned companies, mergers, and

bankruptcies still occur though do very little.

Nguyen Dinh Xuan, a representative from Tay Ninh province, asserted that many companies were 'dead already. They just don't file for bankruptcy.'

More SOE equitisation

Equitisation remains the Vietnam government's preferred term for the privatisation of its numerous state-owned enterprises. Some 1,500 SOEs remain unequitised despite a strong move to equitise over the last decade. Since 1992, 4,000 SOEs have been equitised.

The government has announced that it will push for further equitisation of SOEs: 1,000 of the remaining 1,500 are to be equitised by 2015. It also announced that it would be reducing state ownership in many already equitised SOEs. **Pham Viet Muon**, the vice chair of the National Steering Committee for Enterprise Development, announced that the government's holding in many companies would be dropped from 55 per cent to 22 per cent.

Muon confirmed that some of Vietnam's largest SOEs would also be equitised in 2010. Among them will be the **Vietnam Paper Corporation** (Vinapaco), **Vinaphone**, **Mobifone**, **BDIV**, **Vinas-steel**, and **Petrolimex Corporation**, Vietnam's leading petroleum importer.

Mobifone and Vinaphone's equitisations have been in the pipeline for more than four years now. With the government shortage of foreign currency and the budget and balance of payments deficit, a strategic fire sale of many of its key SOEs may be on the cards.

Who gets bond funds?

More rumours circulated this month about the recipient of Vietnam's first sovereign bond in four years. The government said little more than confirming that the energy industry would be the beneficiary from the issuance of a further \$1 billion bond.

It is clear that the main reason for the sale is no longer access to capital but to gain access to a further source foreign exchange. Deputy Prime Minister Nguyen **Sinh Hung** stated that 'the bond sale will help our local currency to some extent, since the proceeds will be US dollars and part will be converted into dong to spend domestically, so it will increase supply of foreign exchange.'

However, he declined to say if **PetroVietnam** or **EVN**, Vietnam's loss-making and inefficient electricity supplier, would receive the bond's funds. It is clear that **Vinashin** will not be the beneficiary, especially as it unsuccessfully invested the funds from Vietnam's first bond launch in 2005.

Pertamina to invest

Indonesian state-owned energy company **PT Pertamina** announced this month that it would use part of the funds from a \$1 billion bond sale to finance expansion of oil exploration in Vietnam and Iraq.

It will use the funds to develop the 10-11.1 offshore block, in partnership with **PetroVietnam** and Malaysia's **Carigali**.

Thaksin troubles

The fallout continued this month over exiled and fugitive Thai ex-prime minister **Thaksin Shinawatra's** November arrival in Cambodia. As Thaksin took up his role as economic adviser to the Cambodian government, Thailand recalled its ambassador and strongly criticised Cambodia and Prime Minister **Hun Sen** for accepting Thaksin into the country.

Thailand immediately issued an extradition request, which was rejected by the Cambodians.

One unfortunate victim of the Thaksin affair is **Sivarak Chotipong**, a Thai air traffic controller in Phnom Penh who was working for a Thai company operating the **Cambodian Air Traffic Service**. Sivarak has been convicted on spying charges this month after he passed the flight details of Thaksin's inbound flight to Cambodia to Thai diplomats in Phnom Penh.

Sivarak was sentenced to seven years this year under Cambodia's spying laws, and Thaksin was asked to step in on the Thai's behalf. Sivarak was subsequently pardoned by Cambodian King **Norodom Sihamoni**.

Taking over

In a further move it was reported that the Cambodian government had taken over the operations of the Cambodian Air Traffic Service from the Thai company licensed to operate the system through a 32-year concession under a build, cooperate, and transfer arrangement. >>>

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After the arrest of Sivarak, all Thai staff were removed from the operations of Cambodia's international airport and a senior civil aviation official was appointed to oversee operations temporarily.

It was also later confirmed that Prime Minister Hun Sen's daughter would be purchasing shares in the Cambodian Air Traffic Service.

Nationalism only for those in charge

It seems while **Hun Sen** and his **Cambodian People's Party** (CPP) are happy to criticise neighbours such as Thailand and do whatever they can to irritate them by jumping on the nationalistic bandwagon, this behaviour is acceptable only for the leading party and its head.

After opposition leader **Sam Rainsy** of the **Sam Rainsy Party** removed border markings and threw them back into Vietnam in protest at Vietnamese encroachment on Cambodian territory, he was stripped of his parliamentary immunity by the government and charged with

misconduct for encouraging villagers to follow his lead.

Vietnam and Cambodia are in the process of a long negotiation on finalising their border demarcation.

This is the third time this year that the Cambodian parliament has stripped opposition members of their parliamentary immunity. Hun Sen's CPP holds a 73 per cent majority in the Cambodian lower house and seems happy to use its majority to attack and intimidate the opposition.

The Sam Rainsy Party spokesperson **Yim Sovann** said the government had again acted unlawfully. 'The government wants to silence the opposition when it is helping the people,' he told reporters. 'These people are losing land day by day because of the border demarcation. This is an injustice and a big step backwards for democracy in Cambodia.'

This is not the first time Rainsy has had his parliamentary immunity stripped. In 2005 he was forced to flee Cambodia when he had his immunity stripped for accusing the CPP and **Funicinpec** of corruption when they formed a

coalition government. Rainsy went on to accuse Prime Minister Hun Sen of being involved in political murders in the country.

Rainsy was sentenced to 18 months in absentia in 2005 but was pardoned by **King Norodom Sihamoni** in 2006, apparently at Hun Sen's request.

The Sam Rainsy Party is now the largest party in opposition. It has 26 seats, or 21 per cent of the lower house.

The other major political parties are the **National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia** (Funicinpec), the **Norodom Ranariddh Party** (NRP), and the **Human Rights Party** (HRP). All have a small number of seats.

25th Southeast Asian games

Laos is hosting Asia's largest sporting event this month, the 25th Southeast Asian Games. More than 4,860 athletes are due to take part in the event from 11 countries.

There has been considerable doubt whether the tiny landlocked nation would be up to the challenge. In fact, much of the work and all of the financing has come from China. The Laos government received a \$80 million loan from the Chinese to build the sporting venues for the games, most of which were built by Chinese companies using Chinese labour.

In return, it is rumoured that China has received preferential treatment for its businesses as well as access to its choice of land. Much of Laos's northeastern border with China is inhabited not by Laotians but by Chinese migrants running businesses or farms or employed by Chinese concerns in the region. There are estimated to be 30,000 Chinese workers in Laos.

Although the Laos government appears happy to continue to take Chinese money and labourers, there have been rumours of discontent among Laos citizens (see *Vietnam Focus*, September 2009) The government has to a degree been trying to balance Chinese influence with Thai and Vietnamese investors. Vietnam remains the largest foreign investor in the country, though China may soon overtake Vietnam despite the latter's desire to remain influential.

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