

## Hanoi Pain

Thursday 9 October 2008, by [MITTON Roger](#) (Date first published: 7 October 2008).

**Divisions within Vietnam's ruling Communist Party have widened in the wake of the nation's continued economic downturn, threatening the nation's long term political stability.**

The party's key Central Committee last week held an emergency meeting in an attempt to bolster the fight against rampaging inflation, continued labour unrest and a widening trade deficit.

It is no secret that conflicting views about the root cause of Vietnam's precipitous economic malaise, and about how best to tackle it, have spread through the party's ranks from the topmost leaders in the Politburo down to the rank and file grassroots in the provinces. Party leaders themselves remain divided between those who continue to back Prime Minister Nguyen Tan Dung's expansionist high-growth policies and a widening group around Party General Secretary Nong Duc Manh who favour consolidation and slower, more sustainable growth rates.

Intertwined with these economic ideological differences are longstanding personal grievances over Dung's accelerated promotion of technocrats and fellow southerners to the exclusion of other senior figures, notably from the nation's central region. Compounding the splits are the lacklustre anti-corruption campaign, personally led by the PM, as well as recent crackdowns on journalists and members of the Catholic Church.

Party insiders and diplomatic sources say that there is growing speculation that if the splits become more severe, they may precipitate a leadership crisis in the near future.

Last week's plenum in Hanoi, an unprecedented third meeting this year of all 160 members of the party's central executive committee, was hurriedly called to try to stave off public bloodletting and concentrate minds on the economic crisis that has begun to threaten social stability and party control.

Traditionally, the party holds only two annual meetings of the committee, but following this year's first plenum in January, a second was hurriedly called in July to try to decide what to do about the economic collapse. Now comes a third in October.

Professor Carlyle Thayer, a Vietnam expert at the Australian Defence Force Academy, said: "*A third plenum signals that something very significant is being discussed.*"

Officially, the talk at the three-day conclave centered almost entirely on socio-economic matters and in particular on how to prevent the already depressed economy from sinking further as a result of the financial turmoil in the United States.

Nguyen Tran Bat, chairman of the Investconsult Group, one of Vietnam's largest business advisory companies, commented: "*This plenum was very important because it focused on how to deal with inflation and how to react to the downturn in the US market.*"

But this is nothing new, at both previous plenums this year, party leaders essentially discussed exactly the same topics, each time with rising alarm and trepidation – and with increased backbiting among themselves over who was, or was not, proposing the right course of action.

At the last meet, Central Committee members, who were losing patience with the government as inflation soared to nearly 30 per cent, gave the Politburo responsibility for oversight of the economy until the end of this year. The 14-member Politburo is the party's topmost body. And this decision to take away control of the economy from Dung's government was a highly portentous move that has effectively sidetracked the cabinet and the PM's economic team.

There was little Dung and his cohorts could do about it since they remain a minority in the Politburo, where supporters of the more cautionary, consolidationist party boss Nong Duc Manh dominate.

The July meet was not necessarily a signal of lack of faith in the relatively new PM, but it was an indication that many Central Committee members remain unconvinced that he is the right man to run the country during these troubled times. And the fact that they called yet another crisis meeting last week clearly indicates that they are still not convinced.

Indeed, just a day before the plenum convened, PM Dung reiterated his standard tocsin about how ministries and financial bodies must give priority to controlling inflation, stabilising the macro-economy, ensuring social security and maintaining suitable growth.

His words have had little notable impact, but he continues to push for a robust growth rate of around 7 per cent this year, which many feel is unattainable.

But it is at least more realistic than his government's original goal of 9 per cent. The Asian Development Bank and other institutions are now forecasting a figure of around 5 per cent.

And at last week's plenum, the party wisely couched its own forecast in very general terms, stating that *"the growth rate should be kept at an appropriate and sustainable level."* Gone for the foreseeable future are those 8 per cent rates that Vietnam registered over the past decade.

Dung also instructed economic ministries and agencies, particularly the State Bank of Vietnam, to pay attention to fluctuations in global and US financial markets so that Vietnam can take remedial measures to ensure the viability of the country's banking system. According to Dung, who was briefly – and rather inauspiciously – once head of the central bank himself, the US financial crisis has not had a significant impact upon Vietnam's economy, so far.

However, while he cautioned that Vietnam must remain on guard, his words were still seen as rather too complacent. Soundings in the business community suggest that there is an overwhelming sense that the US downturn will seriously affect Vietnam's already swooning economy.

Nguyen Tran Bat said: *"Obviously, the US downturn will affect the party's social and economic objectives and it may be necessary to readjust our long term targets."*

The US market is vital for many of Vietnam's exports, notably textiles, seafood, footwear, furniture and many low-end goods. And it was Manh rather than Dung who stressed the need for a new and greater urgency to push exports while concurrently controlling imports to try to reduce the burgeoning trade deficit.

Furthermore, there will be fewer remittances from hard-hit overseas Vietnamese (Viet Kieu) in the US, Europe and Australia. And there is sure to be less follow-through on many promises of US investment.

Dung's cautious optimism contrasted with party boss Manh's opening remarks at the plenum the following day. Their language may have been polite and on the surface the words not too dissimilar, but underneath the contrast was stark.

Manh noted that despite export growth and investment promises, there are still major shortfalls and weaknesses, including surging inflation, a ballooning trade deficit and continued labour unrest. In other words, the mass

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