

Vietnam's foreign policy and its implications for 'Doi Moi'

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1 Vietnam's international environment

Despite past success, the 1990s are not going to be an easy time for Vietnam to carry out its renovation, called 'doi moi', as the global economy is in a difficult phase. The boom of economic integration has been interrupted by a prolonged worldwide recession, rising nationalism and the threatening signs of a return of international protectionism and inward-looking regionalism. The global recession has not only slowed down industrial growth for most developing countries but has also led to fierce competition for trade, export markets and foreign direct investment.¹ In addition, the group of aid-requiring countries has increased through the collapse of the former East block, the relapse of the African states into fresh poverty as well as the integration of former war-waging countries like Vietnam and Afghanistan into the international community.² The industrial countries as the traditional donors are hit by the recession themselves and so are reluctant to increase their aid volume.³ This leads to an even harder struggle for the limited resources of Official Development Assistance (ODA) and increases the need for developing countries to prove the efficient use of aid and implement a solid economic policy.

As the fight for power in the world has changed from the political-military field to a race for economic and technological power Vietnam needs to improve its external relations and re-integrate into the world community.⁴ This integration is rather difficult as many Western countries have lost interest in Vietnam since its victory in the second Indochina War. Vietnam's chance to change this, is to further succeed on the path of economic development and become interesting as a new 'tiger'. In spite of this lack of interest there is also a kind of rush of some pioneer businessmen towards Asia's last economic frontier which has an important impact in making Vietnam internationally acceptable again. Vietnam's location at the crossroads of important lines of communication and transport, plus the fact that it has the fourth largest population in Asia are advantages not generally available to other developing countries. Vietnam is surrounded by the world's fastest growing economies, such as South Korea, Taiwan and the Association of Southeast Asian Nations (ASEAN), that are competing to lend a hand as Vietnam can offer a comparatively skilled and inexpensive work force and abundant natural resources, things that are more and more in short supply.⁵ The anti-cyclic economic growth of the surrounding region could counterbalance the global downward economic trend as the impact on Asia from the global economy has become smaller in the last decade.⁶

On the other hand the difficult international environment has speeded up the pace of reform and forced Vietnam's leaders to go further on the path of reform

than they had probably intended. The former international isolation has been a 'blessing in disguise' as Vietnam had to focus all its efforts on developing the country by itself and primarily rely on its domestic strength. This forced the Vietnamese government to stay on the path of economic reform and not to slow down half way and hit on the mistake to depend on ODA and foreign direct investment as a short-cut to imaginary prosperity and rapid development. Undoubtedly Vietnam has shown greater success in transforming its economy than other countries with Western help. So far Vietnam has done well in listening to advice, but not necessarily following it.

While the international environment is important, special attention needs to be given to the domestic environment. External assistance seems to play only a limited role for the success of the transformation process compared to the importance of the political, economic and juridical institutional framework and their reforms as well as social unity, traditions and mentality.⁷ In addition Vietnam's renovation is only partly determined by the external environment, but largely a product of domestic developments.

2 Vietnam's domestic environment

Like most socialist countries, Vietnam ruined its economy through a socialist development strategy. Unlike other socialist countries Vietnam's leaders were willing to correct past mistakes and did not postpone reforms until the day of political or economic collapse.⁸ After a period of half-hearted economic reforms in the 1980s, the changes in the past five years have been essential and profound. These changes were not motivated by new insight of the Vietnamese Communist Party (VCP) but out of the necessity to stay ahead of the people's dissatisfaction. The primary objective of the renovation policy is economic development in order "to guarantee a stable livelihood for the people".⁹

Until the late 1980s Vietnam's development strategy focused on centrally planned industrialization in which heavy industry was emphasized, the agricultural sector was neglected and private enterprises eradicated. This strategy was financed by extracting a surplus from the agricultural sector through low state procurement prices for agricultural products. The foreign aid and assistance from the Union of Socialist Soviet Republics (USSR) and the Council for Mutual Economic Aid states were used to subsidize this strategy of centralization, high protection from foreign competition and autarky.¹⁰ The Vietnamese government pursued this neo-Stalinist central planning strategy because "this tendency for many decades has been rooted in a dominating opinion 'that the political independence of the country is depended largely on its economic independence'".¹¹

This inward-oriented development strategy isolated Vietnam from the international world as economic and political relations were limited to the CMEA countries. On the other side this isolation was further enforced by the trade embargo maintained by the United States and its allies. During the 1980s the old development strategy came under increased pressure through a combination of internal and external factors that forced the Vietnamese government to implement reforms to stay in power. The inception of this renovation policy was pri-

marily driven by domestic economic and social pressures as bad harvests, the effects of international isolation and the costs of the occupation of Cambodia led to a serious economic crisis and acute shortage of food in 1985-86.¹² The Party fully recognized that the economic crisis was at least in part due to the failures and shortcomings of the central planning and management system. Ten years of disappointing economic performance, persuaded the Communist Party to undertake reforms at its Sixth National Congress in 1986. These changes had only small effects as they still intended to uphold the old system of socialist management and were undertaken in the framework of the old thinking, due to resistance from within the Party.¹³

After realizing that these measures did not go far enough, the Vietnamese government issued a series of economic reforms including plans for far-reaching changes in economic strategies and policies.¹⁴ These pragmatic reforms aimed at using the limited resources available to a maximum benefit. The 7th Communist Party Congress in 1991, the adoption of a new constitution in 1992 and finally the revision of the law on foreign investment in 1991 and 1993, have shown that Vietnam is determined to further continue on the path of reform and to develop the internal conditions required for this. But many of "the reforms have still the character of declarations of intent, rather than concrete measures. What can be said with some degree of certainty is that there is a process of change, the limits of which are as yet unknown, but which are being tested every day."¹⁵ The key elements of 'doi moi' can be summarized into four points:

- restructuring of the national economy in which the agricultural industry is given the primary position by installing an agriculture 'contract system' with the right to use the land for a long period and greater freedom in decision-making
- replacing of the economic management system with the introduction of a multi-sector economy, liberating all productive forces and bringing into play the role of science and technology
- implementation of an 'open door' policy of expanded foreign relations, with the aim of emerging into the regional and world economy as a full member
- maintain and consolidate political stability.¹⁶

In spite of first successes, the Vietnamese government still faces immense unresolved problems like a population explosion coupled with high unemployment, a poor infrastructure, a virtually bankrupt state enterprise sector, a large budget deficit, critical environmental changes and a decreasing level of education.¹⁷ In addition the transition from a centrally planned to a market economy is a painful process by itself as it creates not only winners but also losers. The distribution of costs and benefits is central for the future success of Vietnam's development. Although the economic liberalization has gone further than it seemed possible a few years ago, Vietnam's leaders continue the reforms in the framework of the old way of thinking and still try to build socialism.¹⁸ There seems to be consensus among the leadership that measures of reform are now vital, both for the success of the economy and in order to stave off any potential challenge to the party's political monopoly.¹⁹ On the other hand there is much controversy about the

timing, scope, speed and sequencing of reforms.²⁰ The combination of a free-market economy with a socialist one-party rule will be a major challenge for development. The contradictions are evident through the constant clash of the socialist dreams with the economic reality. Party dominance may however also prove to be a great asset as it is able to enforce unpopular reform measure and still keep the necessary political stability.²¹ But one should bare in mind that the party is not a monolithic bloc as many centers of power and influence exists.²²

3 Vietnam's foreign policy response

In the foreign policy, equally fundamental reforms have taken place since the mid-1980s. The international isolation to which Vietnam had been condemned and to which it had condemned itself since the communist victory in 1975, and especially since the invasion of Cambodia in 1979, is finally crumbling down. From the late 1970's the so-called 'foundation stones' of Vietnam's foreign policy - the close alliance with the Soviet Union and the 'special relationship' between the three Indochinese countries²³ - were transformed by a combination of domestic, regional and international changes.

Vietnam's foreign policy has been based to a large degree on a close relationship with the Soviet Union and its allies. The Soviet-Chinese rapprochement, the political transformation in Eastern Europe and finally the collapse of the Soviet Union ended the era of the Soviet support in 1991. This deprived the VCP not only of economic aid and political assistance but also of its moral support. The maintenance of the 'special relationship' with Cambodia had to be abandoned as it became too costly in economic, military and political terms. Vietnam was compelled to pull its troops out of Cambodia to avoid an 'empirical overstretch'²⁴ and was forced to search for a diplomatic solution. The 'co-operation in peaceful coexistence' between the former USSR, China and the United States of America (US), the political and economic reforms in the former Soviet Union and in Eastern Europe as well as the economic opening of China also had a great influence in encouraging the VCP to adjust its foreign policy to the international changes and to end its isolation.²⁵

The need to solve the long-standing economic problems have been another reason to search for broader foreign relations.²⁶ For rapid and sustained economic development Vietnam desperately needs a peaceful environment. The requirements of the economic reforms have highlighted the pressing need to gain access to wider sources of investment, capital and know-how from other countries as well as international institutions. Foreign relations are playing a significant role "to overcome difficulties and challenges, strengthen political stability, push back negative phenomena and social injustices and basically get the country out of the present crisis".²⁷

The Vietnamese leaders have accepted that they can not isolate themselves from the world anymore and so they are trying to adapt to the new environment by re-integrating into the international community, but on their own terms. Foreign Minister Nguyen Co Thach expressed this in an interview in January 1989:

International specialization and cooperation has become the economic development law of each country in particular, and of the world economy as a whole. Nowadays, a closed-door policy is suicide, and opening doors is one of the necessary conditions for economic development.²⁸

Vietnam's foreign policy response has been a multi-directional approach "with a wide open foreign policy ... that wishes to befriend all countries in the world community."²⁹ The new principles for its foreign policy have been adopted in Article 14 in the 1992 constitution. Vietnam now "seeks to expand its relations and cooperation with all countries in the world regardless of political and social regime".³⁰ Vietnam's leaders have promoted closer relations with Western states while simultaneously stressing their "constant policy of uniting with the socialist countries".³¹ As they are not willing to give up their ideological orientation towards 'socialism', the traditional ties with the remaining communist countries are still stressed. But the new foreign policy has reduced the degree to which ideological factors play a role.³² This is a significant departure from the past, when Vietnam insisted on the 'solidarity of the socialist countries' and 'the struggle against imperialism'. The Vietnamese leadership has embarked on this new direction of its foreign policy only out of necessity, not as the result of fundamental changes in its world view.³³ With the loss of Soviet support, the Vietnamese government is relying only on diplomatic means to preserve the country's security.³⁴

Vietnam is trying to maximize good relations wherever possible, regardless of ideology. But it is carefully avoiding domination by any one country. For cultural and historical reasons, this is an old, uncomfortable prospect for Vietnam. The history of their entanglements with other powers beginning with the Chinese and ending so far with the Russians have shown that such relations are never enduring and have never brought any long lasting achievements for Vietnam. Therefore some Vietnamese hope to see the year 1990 as the beginning of a period of total independence in their history.³⁵ The main features of Hanoi's 'open door' foreign policy are:

- improve the economic and political global position by multilateralising foreign relations in all fields - politically, economically, culturally, scientifically and technologically
- secure national interests and territorial integrity by avoiding dependence on any country in an economic, political or military sense
- avoid any interference in internal affairs.

The new foreign policy plays a crucial role in realizing the renovation process to help develop the country at a quicker pace and meet the economic goal to double the Gross Domestic Product (GDP) by 2000.³⁶ Therefore Vietnam is following the successful example of its Southeast Asian neighbors by opening up its economy and ending the struggle for autarky. The priority has shifted from political and military strength to economic development. Vietnam has realized that one reason for falling far behind its neighbors economic development was that it had not made "effective use of the possibilities of expanding [Vietnam's] economic

relations with foreign countries".³⁷ The new policy is trying to guide the country to a position where it can increasingly take part in the international division of labor and enlarge its export share in global markets. Consequently the new foreign policy is practically concentrated on those countries that could benefit Vietnam's economy. Vietnam also has to seek new sources of foreign assistance to fill the gap left by the reduction of assistance from the former CMEA states. For this renovation program the following external requirements are necessary and have to be established:

- stable relations with the big economic powers
- favorable export conditions to foreign markets (for example: most-favored nation status)
- long-term external assistance to provide the required capital, know-how and technology.

As mentioned above this will be hard to achieve and will mainly depend on Vietnam's ability to improve its international relations and become an accepted and reliable member of the world community. Only stable international relations can dispel the fears in people's minds of a reversal of Vietnam's reformist path. The foreign policy must also be supported by internal political and economic reforms. Therefore the government is trying to improve conditions for business and investment. Together with the promulgation of the law of foreign investment in 1993, regulations on customs, exit-entry, import-export have been implemented to simplify and improve the economic-relations with foreign countries.³⁸ In addition Vietnam made some structural adjustments to create price and exchange stability, reduced the level of protection by an outward-oriented trade reform and promoted domestic competitiveness through deregulation. Moreover Vietnam is trying to improve its international competitiveness by maximizing the country's comparative advantages and diversifying manufacturing.³⁹ Even though this is still far from sufficient, it is a major step in the right direction and has shown early successes.

4 Vietnam's international relations

Despite the new provisions in the 1992 constitution, Vietnam's true guiding principle remains the pursuit of its national security interests, defined both historically and geostrategically.⁴⁰ The new 'open door' foreign policy is trying to balance potential and actual rivals against one another so that Vietnam can benefit as the middleman:

- the biggest military power and Vietnam's strongest opponent in the region, China, with the strongest military power in world, the United States;
- the strongest economic power, Japan, that is considered as a major danger to Vietnam's economic independence, with Europe, especially France with its big ambitions in Indochina and Germany as the strongest economy in Europe;

- the ASEAN states, as neighbors and natural sphere of influence, with the former close friends of the CMEA states.

The base for this concept is a deeply rooted nationalism, which has developed through a common historical and cultural tradition as well as the centuries long struggle for independence and national identity.⁴¹ This nationalism is one of Vietnam's strengths as several wars have already shown. In recent years it has been a driving and uniting force for the renovation process and an important factor for the constant will to improve the situation. On the other side the danger exists that it may turn into chauvinism and the development of the country may be sacrificed to the irrational motive of nationalism. As a consequence of their past isolation and past experiences, the Vietnamese leadership finds a foreign policy based on power politics more persuasive than abstract invocations of a new world order. Vietnam's leaders are well aware, that the foreign policy is constrained by the external environment. Accordingly the foreign policy is aiming at extending the limits of its action wherever possible and at maximizing its scope for independent action within these limits.

4.1 Relations with the United States of America

US-Vietnamese relations are dominated by the US trade embargo and its aftermath. The US government implemented the 'Trading with the Enemy Act' in 1964 to prohibit trade in goods and services and financial transactions by US citizens with North Vietnam. In 1975 after the Communist victory over the US backed government in Saigon, the embargo was expanded to the entire country. Later the embargo was prolonged as punishment for Vietnam's invasion of Cambodia and the US aversion to support a communist regime. Most western industrialized countries supported the embargo until 1989 but started to relax prohibitions on commercial relations and established aid programs when Vietnam withdrew its troops from Cambodia.⁴² The US government still tried to persuade friendly countries not to invest in Vietnam and stopped them from providing bridge financing for Vietnam to help pay back its overdue International Monetary Fund (IMF) loans.

Washington's efforts shut the doors of all major international financial institutions and were ruthlessly effective in isolating the Vietnamese economy from world capital markets. The result was the blocking of any major capital funds from IMF, World Bank and Asian Development Bank (ADB), some governments and even private banks. The US also enforced the ban on all dollar-denominated trade with Vietnam. Even non-US banks were delayed or stopped in handling dollar payments for Vietnamese firms, which effectively handicapped Vietnam's efforts to increase exports.⁴³ But the ability of the US government to impose its view on its allies was increasingly challenged as many countries recognized the changes in the Vietnamese military, economic and political policy and saw a prosperous Vietnam as a guarantee for stability in the region.⁴⁴ In response to crumbling international support and pressure from frustrated US businesses and non-government organizations, the Bush Administration presented Vietnam in April 1991 with the conditions for the lifting of the embargo and the

normalization of diplomatic relations. The conditions set out 4 phases or a so-called 'road map' for the easing of prohibitions (see Table 1). The lifting of the embargo was linked to several key issues, which include the resolution of 'Missing in Action' (MIA) and 'Prisoner of War' (POW) matters related to the US military involvement in Indochina, and the successful completion of free elections in Cambodia.⁴⁵

Table 1: US Government 'Road Map'

Phase	Conditions for Changes	Changes in the Embargo
I	Signing of Paris Peace Agreement and support its full implementation Cooperation on MIA/POW matters	Lift the travel ban on US citizens to Vietnam
II	Establishment of the United Nations Transitional Administration in Cambodia Further cooperation on MIA/POW matters in Cambodia and Vietnam	Permit US firms to sign contracts to be executed when the embargo is lifted Allow telecommunication links Allow trade in agriculture, medical, and other 'basic human needs' Cooperation on a program to help Vietnam eliminate its arrears in the IMF
III	Six months after successful implementation of Cambodian Peace Agreement, Cambodian forces cantonment completed and demobilization on schedule Substantial progress in resolving MIA/POW matters	Fully lift the trade embargo Limited support for loans from international financial institutions for 'basic human needs' projects Open a diplomatic liaison office in Hanoi
IV	Certification by the UN of free elections in Cambodia Formation of Cambodian National Assembly and drafting of a new constitution Achievement of significant results in resolving MIA/POW matters Demobilization of all Cambodian military forces	Unrestricted support for loans from international financial institutions provided that Vietnam's human rights record meets US. foreign aid law requirements Consider granting the most favored nation trade status Establishment of full diplomatic relations between Vietnam and the US.

After the signing of the Cambodian Peace Accord in October 1991 and the continuing effort of the Vietnamese government to cooperate in MIA/POW matters, the US government finally eased a number of diplomatic and trade restrictions. This included the easing of travel restrictions for US citizens, re-establishment of telecommunications links and trading in medical and agricultural goods that meet 'basic human needs'. In 1992 the relations improved to a degree that former President George Bush eased some aspects of the trade embargo. From December, American firms were allowed to open representative offices in Vietnam, hire staff and sign business contracts that would take effect when the embargo was lifted. A Vietnamese government official was quoted as responding to this announcement: "This is like a father telling his son that he can marry this girl but cannot sleep with her."⁴⁶ This step was seen as the first move in the direction of phase three.

The original time table, which the US government envisaged would take up to two years, was delayed by the US presidential elections and by growing strains arising from the still very emotional MIA/POW subject. With the new Clinton administration in power the overriding concern with domestic policy and the volatile issue of MIA's were the reasons why the Vietnam question was put on the back burner again. President Clinton's political maneuvering room was limited because he avoided serving in the Vietnam War and so was hesitant about moving quickly toward resuming ties while the MIA/POW issue is not answered to the fullest account. Due to increased pressure President Clinton lifted the ban on new lending by the World Bank and the ADB on July 2 1993 and announced that the US would not try to block countries that wanted to pay off Vietnam's US\$ 140 million foreign debt to the IMF.⁴⁷ This decision took "the teeth out of the embargo" and opened the way for US\$ 1,86 billion pledged at the Donor Conference held in Paris in November 1993.⁴⁸ In September 1993 the White House further eased the embargo, ruling that US companies could participate in projects funded by the international organizations such as the ADB and World Bank but would not be allowed to conduct other business.⁴⁹ This move was the minimum move that was reasonably expected as the US provides about 19% of the funds for institutions like the World Bank and ADB. Therefore keeping the embargo completely in force would have meant that American taxpayers would have supported development projects in Vietnam for which American companies would not have been allowed to bid.⁵⁰

The Vietnamese government broke the usual reserve by venting frustration at what Vietnam views as a violation of a basic human right - the right to develop a nation.⁵¹ The Vietnamese Foreign Minister described Mr. Clinton's decision as regrettable and running contrary to the general tendency, but added "the US embargo policy could not deter Vietnam from carrying out its renovation policy as well as its multi-sided and ever expanding relations with other countries."⁶²

Finally the embargo was lifted on February 3 1994 after the US Senate passed a resolution to urge President Clinton to lift the embargo.⁵³ The news attracted surprisingly little attention as the Vietnamese government was aware of the fact that the embargo was far less important than the restoration of full diplomatic ties and the granting of several trade privileges, including 'Most Favored Nation Status' and 'Generalized System of Preferences'.⁵⁴ Even after the lifting of the embargo, a host of laws and regulations still prevent 'normal' economic discourse between the US and Vietnam, which also effect other countries that want to export Vietnamese goods to the US. Given the political climate in the Congress and the parameters President Clinton set forth when he lifted the embargo, normal diplomatic relations with Vietnam are not expected in the foreseeable future. The MIA issue still remains a serious impediment to stronger US-Vietnamese relations as no US interest ranks higher than keeping faith with the families of these missing servicemen.⁵⁵ Vietnam will have to wait until all the questions concerning missing Americans will be answered, before full diplomatic relations will be established.

Hanoi will also have to improve its human rights record as Washington made it clear that "the warmth of relationship depended partly on Vietnam's human

rights performance."⁵⁶ But so far the Vietnamese government has regarded any criticism as interference in internal affairs and has categorically rejected it. Vietnam gave also a cool response to preconditions for normalization. This position must be seen in the international context of an 'ideological battle' between the Western countries, especially the US, and the Asian nations. The Western pressure to use aid and trade as levers to promote political pluralism and individual liberties in countries that put a greater emphasis on stability and social control, coincides with the rapidly rising Asian pride and self-confidence as the region continues an economic surge while Western economies falter. Vietnam is using these differences over values to avoid any discussion about human rights and internal matters.

4.2 Relations with the People's Republic of China

The comment of a Vietnamese official: "The only thing we are sure of is that we have problems with the Chinese" is due to the century old conflict in which China has always tried to dominate or even occupy Vietnam.⁵⁷ On the other hand, most Vietnamese are fascinated by China as shining example and 'big brother' with all its positive and negative effects. Currently Vietnam is especially looking to China to learn from its reform process and has already copied many things. Because of the collapse of the Soviet Union and the absence of relations with the US, Vietnam had little choice but to make peace with China. Another reason was the need to fully concentrate on economic reconstruction and not waste any unnecessary resources in a confrontation with China. Despite territorial disputes and continued mistrust, relations between Beijing and Hanoi gradually improved after the Vietnamese withdrawal from Cambodia. Beijing controlled the pace of rapprochement and treated Vietnam more as a tributary state than a socialist ally. Vietnam operated from a weak position and had little choice but to accept the situation or take the risk of returning to costly hostility. In the end China was able to force Vietnam to fully give up her political hegemony over Indochina, which China had demanded since the invasion in 1979. After the signing of the Cambodian peace agreement Sino-Vietnamese relations were fully normalized within weeks. This was manifested by the visit of the General-Secretary of the Vietnamese Communist Party, Do Moi, and Prime Minister Vo Van Kiet to Beijing in November 1991.⁵⁸

Despite the settlement of the Cambodian conflict, normalization is overshadowed by major problems. The most severe are economic and geostrategic rivalries over the Spratley and Paracel islands and the ill-defined northern borders with illegal cross border trade. The Sino-Vietnamese conflict about territory repeats an ancient dispute. The occupation of the Spratley Islands by Hanoi in 1974 made China demonstrate its displeasure by starting to claim the whole South China Sea as its own territory. These claims were repeated recently using new arguments. "In an internal Chinese document translated by US agencies ... it is clear that China now views the South China Sea in terms reminiscent of an earlier imperial power - Germany. (...) It suggests that the island groups of the South China Sea, some of them lying nearly 1,000 kilometers south of China's Hainan island province, could provide *lebensraum* (sheng cun keng jian - literally,

"survival space") for the Chinese people. ... By *lebensraum* or survival space China apparently means the chance to cash in on the enormous reserves of oil and minerals believed to lie beneath the Spratleys."⁵⁹ In February 1992 the conflict reached a new level when China's National Assembly passed a law on territorial waters claiming all islands including the Spratley Islands in the South China Sea. In May 1992 Beijing signed an agreement with the US Crestone Energy Corp. to explore for oil in an area Hanoi claims part of its southeastern continental shelf. A month later Chinese troops landed on a reef in the Spratleys claimed by Vietnam and established what Beijing termed a "sovereignty post."⁶⁰ Beijing also confirmed that it is building an air strip in the Paracels islands. This military build up has worried Vietnam and other regional countries over its intentions in the South China sea.

Although the intention behind the Chinese harassment of Vietnam is not fully clear, it is obvious that China has no interest in the easing of relations between the United States and Vietnam. The selection of a US company for the oil exploration in the Spratleys seems no accident. The Crestone oil deal can even be seen as an example of a growing US-China alliance as a Japanese journalist suggests: an US government official happened to be present 'by chance' when the exploration agreement was signed between Beijing and Crestone Energy Corp. China's assertiveness in the South China Sea and the Gulf of Tonkin is preventing Hanoi from developing an area that could be a rich source of revenue for the cash-starved Vietnamese economy.⁶¹ In response the Vietnamese government awarded an exploration concession to a consortium led by the American company Mobil in waters just inside China's claims and close to the Crestone block. On the regional level the Spratley Islands dispute reveals a conflict of power between all major Southeast Asian countries as the Philippines, Malaysia, Brunei and Taiwan are also claiming parts of it.

Table 2: The Spratley Islands Dispute⁶²

Country	Size of territory claimed	Grounds of claim	approx. distance to the Spratley islands
China	38% of the South China Sea or 800.000 sqkm	ancient history	500 nm
Taiwan	as above	as above	730 nm
Vietnam	the whole continental shelf	recent history / sea law	230 nm
Philippines	70.150 sqkm North of the 7 40' N	proximity	45 nm
Malaysia	South of the 8 20' N	Continental shelf / proximity	95 nm
Brunei	Louisa Reef	proximity	115 nm

With the collapse of the USSR, the weakening influence of the US and the prosperity of China's economy, China is trying to gain influence and power in Southeast Asia. China not only claims all the islands in the South China Sea, but also openly talks of the need to secure the Malacca Straits, the main shipping route of the Southeast Asian region. China's ambition to project power far beyond its borders is a mutual fear to all Asian countries.⁶³ This power ambition brings the Beijing regime into a direct conflict of interest with Japan which is trying to establish a zone of stability and prosperity in the Southeast Asian region following the Fukuda doctrine. The Spratley Islands conflict is a direct threat to Japan and so puts pressure on Tokyo since the major shipping route from Japan to Europe and the Middle East runs through the South China Sea. It is said that Japanese shipping companies are already preparing their vessels technically to avoid the South China Sea and to ship around the Philippines. The issue is taken very seriously by the Japanese government and Beijing's willingness to use force could give rise to further militarization and rearmament of Japan.⁶⁴

The Vietnamese government is also concerned about the economic power of China. As the Chinese Government has increased its pace of economic reform, Vietnam faces the possibility of falling behind or even being subservient to the Chinese economy. The first signs of this event are the Chinese goods, imported legally and illegally, which are flooding the Vietnamese market and thus harming the growth of local industries.⁶⁵ China and Vietnam are more or less on the same level of economic development and therefore compete for foreign investment, aid and the same export markets. The Vietnamese leadership has realized that fast economic development is essential to counterbalance Beijing's military power, as China is reluctant to accept a strong Vietnam in Southeast Asia. At the moment Vietnam lacks the financial resources to sustain a strong standing army as it has lost the Soviet Union as military guarantor and sponsor. In contrast China has recently stepped up its military forces, especially its naval forces. Hanoi sees this as a clear sign of Beijing's intention to fill the power vacuum created by the reduction of American and Russian forces in the Asian-Pacific region.⁶⁶ While Vietnam is waiting for the day when it has the economic strength to risk an open conflict with China, at the moment there is no other choice than to rely on diplomacy to counterbalance China's expansionist efforts.

4.3 Relations with the Association of Southeast Asian Nations

Vietnam's policy toward the Association of Southeast Asian Nations (ASEAN) has basically not changed since 1976, when unified Vietnam made its first attempt to improve relations. The seeking of friendly relations has remained constant, which is unique in Hanoi's foreign policy. After the conflict with Cambodia broke out and relations with China worsened as result, it was a matter of Vietnamese national security to improve the relationship with ASEAN.⁶⁷ For the last thirteen years this attempt was paralyzed by the Cambodian conflict. The invasion of Cambodia proved ASEAN's worst suspicions about Vietnam's expansive ambitions and the threat of communism that many Southeast Asian countries still feared. In the 1980s Hanoi's attempts to play upon differences within the association failed, because ASEAN retained an impressive unity in opposing

the Vietnamese invasion in Cambodia.⁶⁸ The withdrawal of Vietnamese troops from Cambodia in 1989 softened the ASEAN view of Vietnam as the region's biggest security threat and paved the way for the restoration of diplomatic relations. The ASEAN states now take the view that stability in the region will be improved by reducing the economic gap between prosperous ASEAN and poverty-stricken Indochina and so economic growth will encourage more moderate political attitudes.⁶⁹

Due to this new situation Vietnam has especially concentrated on improving relations with the ASEAN states. One of the main objectives of the Vietnamese government is to integrate Vietnam into ASEAN. A first step in this direction was the signing of the Bali Treaty and the granting of observer status in July 1992. This new status conveys access and prestige in the international community, which Hanoi has used to try to strengthen its hand in dealing with Beijing's muscle-flexing in the South China Sea. This move is mainly aimed at creating a counterbalance to China. Some ASEAN states share this interest as China is seen as a major threat to the vital need to keep peace in the region and especially in the South China Sea.⁷⁰ They also have a common interest in making the three Indochinese countries a future market, because Indochina has both the cheapest labor in the region and abundant natural resources. This is exactly what the ASEAN economies need for their second wave of industrialization. Vice versa Vietnam attempts to participate in the ASEAN economic growth dynamism. Vietnamese policy-makers and technocrats have become increasingly aware of and concerned about Vietnam's lag behind the rapid growth and development of the economies of ASEAN and other Asian countries.⁷¹ Vietnam believes that ASEAN economies are at a stage of development that can be adapted to its own purpose. Technology levels may be appropriate for transfer to Vietnam, while at the same time these countries offer good lessons on how to manage foreign investment inflows and the problems caused by rapid economic growth.⁷² ASEAN states are not so strong themselves as to pose a threat to Vietnam's own economic independence, but they can counterbalance the potentially dominant influence of Japan's economic power.

Vietnamese-ASEAN relations have entered a new phase since the 27th ASEAN summit was held in Bangkok in July 1994. The Bangkok meeting ended with the decision to support Vietnam's full membership. However, the economic gap between Vietnam and the ASEAN states is still extremely large which makes full membership a difficult task. Vietnam is now struggling to implement the necessary steps in order to attain membership at the next ASEAN summit in 1995. Vietnam even faces more problems with the ASEAN Free Trade Area (AFTA), in which Vietnam will sooner or later also have to participate.⁷³ The necessary adjustments will have wide implications on Vietnam's economy. This might force the VCP to speed up the reform process, especially the privatization of state enterprises and the import-export procedures and tariffs.

Some problems and areas of competing interests still exist that might darken further regional cooperation. The uneven nature of Vietnam's and ASEAN's economic advancement and the growing economic competition are potential sources of frictions. The exploitation of certain resources in Vietnam will have an impact on the share of neighboring countries in the international commodity

markets such as Malaysia for palm oil or Thailand for rice.⁷⁴ There is also a fear within ASEAN countries of losing investment especially from Japan to Vietnam, as many products manufactured in ASEAN countries could be produced in Vietnam as well. On the other hand Vietnam is afraid of being exploited and seeing the disparities in the levels of economic advancement widen. Compounded by old and new political differences, such frictions may sustain or reinforce existing cleavages and hamper efforts to promote rapprochement.⁷⁵ Nevertheless Vietnam's relationship with the ASEAN states will continue to weigh heavily among its foreign policies, independent of relationships among the big powers that are projected onto Southeast Asia.

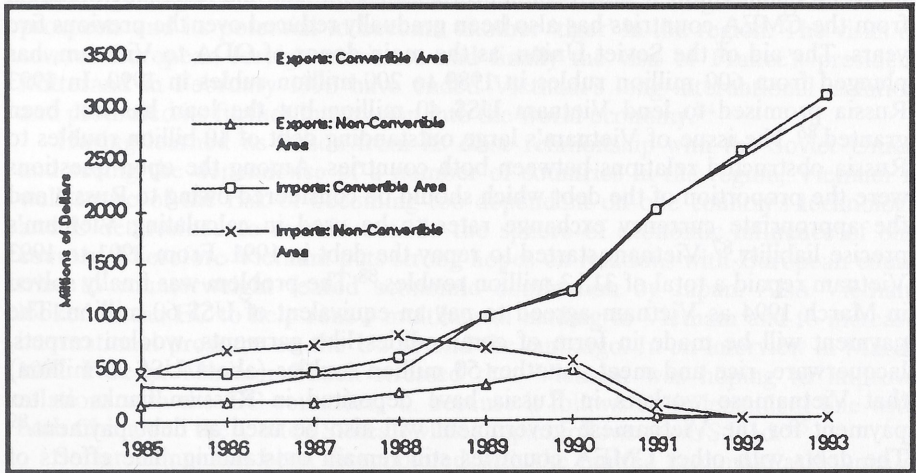
4.4 Relations with the former countries of the CMEA

With the collapse of communism in Eastern Europe and in the former Soviet Union, Vietnam has lost the allies on which it has depended economically, diplomatically and militarily for the last two decades. This development has been of immense concern to Vietnamese leaders, both ideologically and from an economic standpoint. Having signed a treaty of friendship in 1978 with what was then one of the two superpowers, Vietnam now finds itself with no powerful guarantor either for economic or security purposes. Despite mild ideological similarities and a coincidence of security interests, there have always been numerous strains in Vietnam's relationship with the USSR.⁷⁶ But the military relations have always been very close. After 1979 the Soviet Union took over the former US naval base at Cam Ranh Bay, which has an extremely important strategic location and is the only ice-free port the Soviet naval forces can use in the Asian Pacific region. The base was particularly troubling to ASEAN, Japan, the US and China, who viewed the Soviet military build up as a security threat. The Cam Ranh Base provides the means for potential control over vital waterways in the Pacific Ocean, South China Sea and the Indian Ocean, which are deemed indispensable for US trade, Japanese access to its resource supply and ASEAN security.⁷⁷ Even though some reports suggested that the base may be used commercially the Vietnamese-Russian agreement runs until the year 2000.⁷⁸ Russia also made clear that it seeks to maintain its military presence in Vietnam.⁷⁹

One of the largest challenges to Vietnam's reform process is the loss of almost all its traditional markets and financial support from its communist allies. With its entry into CMEA in June 1978, Vietnam became extremely dependent on CMEA in terms of trade, aid, credits and grants. From 1976 to 1990 exports destined for CMEA countries amounted to 53% and imports originating from these countries amounted to 72%. The USSR alone provided 88% of Vietnam's imports and purchased 67% of Vietnam's exports. The trade with Eastern Europe and the former Soviet Union has collapsed with the political crumbling of communism. After 1991 exports to the non-convertible area fell abruptly by over 90%, and imports by over 80%. Vietnam was able to survive this collapse by quickly adapting to the situation and directing its trade to the convertible currency area. This was possible because Vietnam's main export products were

commodities which found a ready world market. In 1991 Vietnam increased its exports to the convertible currency area by 33,1% compared to 1990, and the imports increased by 34,8% compared to 1990.⁸⁰

Table 3: Changing Trading Partners (1985-1993)⁸¹



Reasons for the deterioration of the trade with the CMEA countries were: (1) economic decline of the former Soviet Union, (2) firmer control on the foreign exchange in CIS, (3) application by CIS of import taxes on certain products like garments, (4) falling export profit margins to CIS due to rouble devaluation, (5) conduct of all trade in hard currency. Consequently it is much less attractive to sell to this market and prices obtained in certain cases could not even cover the production costs.⁸² In the CMEA trade prices were relatively fixed by trade accords signed at ministerial level. Within the framework of these accords individual contracts were signed. Quality standards within CMEA were relatively low. Based on these contracts customers were serviced without any requirement for marketing or sales promotion since customers had to accept delivery anyway. The companies that were involved in this kind of trade therefore lacked any marketing or sales orientation which makes dealing with new markets a rather difficult job for them. In the following years both countries concentrated on their internal political and economic affairs. The high level visit of the Russian official Mr. Makharadze, Vice Chairman of the Russian government, in July 1992 led to the signing of a trade accord, aiming for trade between Vietnam and CIS of about US\$ 800-900 million. According to this trade accord Vietnam would sell rice, meat and vegetables and buy steel, gasoline and oil from Russia.⁸³ In November 1993 another trade contract worth US\$ 500 million was signed.⁸⁴ Besides these affords the two-way trade dropped to US\$ 69,8 million in 1992 but sharply rose to over US\$ 300 million in 1993.⁸⁵

Since the beginning of 1994 Vietnam has put more emphasize on resuming the political and economic relations with Russia. High level delegations have been exchanged and plans to work out a technical and legal framework to encourage further economic ties are on the way. So far Vietnam and Russia signed agreements on investment and economic, scientific and technical cooperation. Vietnam has also step up its contacts with East European countries to encourage its former allies into a new economic relationship. The aid Vietnam obtained from the CMEA countries has also been gradually reduced over the previous five years. The aid of the Soviet Union, as the main donor of ODA to Vietnam, has plunged from 600 million rubles in 1989 to 200 million rubles in 1990. In 1993 Russia promised to lend Vietnam US\$ 40 million but the loan has not been granted.⁸⁶ The issue of Vietnam's large outstanding debt of 10 billion roubles to Russia obstructed relations between both countries. Among the open questions were the proportion of the debt which should be considered owing to Russia and the appropriate currency exchange rates to be used in calculating Vietnam's precise liability.⁸⁷ Vietnam started to repay the debt in 1991. From 1991 to 1993 Vietnam repaid a total of 315,3 million roubles.⁸⁸ The problem was finally solved in March 1994 as Vietnam agreed to pay an equivalent of US\$ 60 million. The payment will be made in form of commodities like garments, woolen carpets, lacquerware, rice and meat. Another 50 million roubles (about US\$ 30 million) that Vietnamese workers in Russia have deposited in Russian banks as tax payment for the Vietnamese government will also be used as debt payment.⁸⁹ The debts with other CMEA countries still remain outstanding. The effects of the loss of the CMEA aid has been estimated to be equivalent to around 7% of the Vietnamese GDP.⁹⁰

Exactly how Vietnam was able to manage this situation is still not clear - even various Vietnamese analysts have no satisfying answer to this question. Definitely a major help was the increase in oil production, the successful diversification into Asian markets and orientation towards the West as well as the growing contribution of the private sector to the GDP.⁹¹ But this alone can not explain the miracle. As Adam Fforde concludes, the effects of the collapse of the CMEA were not entirely bad for Vietnam: "... the consequences for the economic liberalization were highly positive, for in 1989 the government got rid of the remnants of central planning within the 'transitional model' that had been in place since 1980-81. This would almost certainly not have happened if the authorities had not been facing the imminent loss of rather high levels of foreign aid, which were concentrated largely upon propping up the state sector."⁹² Another positive point is that Vietnam was forced to give up its close dependence on a small group of countries and started to diversify its relations successfully. The future of Vietnam's relations with the CIS remains uncertain and largely depends on the outcome of the efforts to improve Russia's economy.

4.5 Relations with European Countries

Most European Community (EC) members have long-standing relations with Vietnam, especially the former colonial power France. After Vietnam's invasion of Cambodia relations between Vietnam and the EC worsened and aid programs

were frozen. With the one-sided, complete withdrawal of Vietnamese troops in 1989 and the recognition of Hanoi's progress in introducing economic reforms, the EC slowly adjusted their policy towards Vietnam. In October 1990 the EC finally reestablished diplomatic relations with Vietnam and after 1991 most European countries largely ignored any American pressure to stick to the embargo.⁹³ In 1991 all major EC countries sent high-level delegations to Vietnam, reflecting heightened Western interests in Vietnam's brightening economic prospects and its potential to become another 'tiger' in the region. The visits of several European foreign ministers and finally the visit of France's president Mitterand in February 1993 have ended Vietnam's long international isolation and promoted its further integration into the world economy.⁹⁴

Having learned its lesson from its close relationship with the Soviet Union and seeing the dependence of a number of countries in the region, Vietnam is well aware of the risk of becoming too dependent on one country's technology and is determined to remain outside the sphere of economic influence of one country. Therefore Vietnam puts strong hopes on relations with European countries to counterweight feared economic domination by Japan. Also Vietnam looked to the EC to help renew multilateral lending to Vietnam and to increase international pressure on the US to end the embargo. In an interview in March 1991 Foreign Minister Thach stressed that Vietnam was hoping to improve relations with the EC countries, "... because it follows an independent line with both China and the United States, (while) Japan follows the US lead."⁹⁵

So far Hanoi has been disappointed with the limited economic assistance it has received from various European countries. Because of increased demand for economic assistance in Eastern Europe, the aid from the European countries - on a bilateral as well as on EC level - is so far exceptionally modest. Apart from the European repatriation program which is going to provide about US\$ 127,5 million until the end of 1994 for projects aimed at creating employment opportunities for returning economic asylum-seekers known as 'boat people', only US\$ 18 million have been committed for a program in five key sectors to help Vietnam accustom to a market economy.⁹⁶ On bilateral level only Sweden, Italy and France have committed larger sums of ODA.⁹⁷

Moreover, Vietnamese products still face tight EC import restrictions. Even though these restrictions are applied to most other countries, they particularly hurt Vietnam's exporters who already have difficulties in meeting the extremely strict and rapidly-changing product quality, control norms, packing and other requirements etc.⁹⁸ For example, even the textile quotas for 1993 allowed Vietnam only to export around US\$ 860 million worth of textiles. Keeping in mind that the EC is Vietnam's biggest textile market and textiles are one of the few products with western standards, this means a major restriction for Vietnam's export industry.⁹⁹ In part, the reluctance of the EC to be more generous with Vietnam was due to an unwillingness to radically part company with the US.

Since 1993 the EC stepped up political contacts with Vietnam to avoid losing out on an important market once again. The EC is especially trying to promote trade links. In the years 1986-1990 the total trade between Vietnam and the EC was only about 100,000 million ECU. In 1993 the two-way trade exceeded already more than US\$ 1 billion.¹⁰⁰ The EC has also signed a framework agreement to

boost cooperation in industry, insurance, investment service, science and research in 1994. The signing of the agreement, which was scheduled for May 1993, has been delayed by differences over the wording of a clause on human rights that is included in all EC agreements. The human rights situation in Vietnam is a major concern for several EC countries.¹⁰¹ Through a series of governmental reforms and changes Vietnam improved its questionable record of human rights, although many cases are still unanswered.¹⁰² For Britain, with respect to Hong Kong, and Germany, with respect to former East Germany, there is also the vexed question of the repatriation of Vietnamese who do not qualify as refugees. Since Vietnam agreed in 1989 to accept voluntarily repatriated refugees more than 64,000 people have returned. But there are still more than 47,000 boat people living in camps throughout Southeast Asia plus about 40,000 living in Germany.¹⁰³

4.6 Relations with Japan

Japan plays a major role in Vietnamese foreign policy as one of the world's most powerful economies and as a big regional power. Already in 1986 Vietnam recognized that Japan was one of the few places it could look to for help. The other capitalist target countries named at the 6th Communist Party Congress for the "strengthening and expanding of friendly relations" were Australia, France, Finland and Sweden.¹⁰⁴ After 1975 Japan maintained normal diplomatic relations with Vietnam and tried to seduce Vietnam from its expansionist policy by offers of economic aid. Only after the invasion of Cambodia did Japan decide to suspend its aid. This decision was primarily made as a concession to an increasingly adverse international environment that forced Japan to align with the course of the US, China and ASEAN in strongly condemning the Vietnamese invasion. Japan did not impose a trade embargo on Vietnam and so commercial activities between the two countries always continued but were limited by the absence of government support, the lack of financial assistance and the existence of the US-imposed embargo. Nevertheless, Tokyo tried to maintain as much trade as possible without angering its allies.¹⁰⁵ As a result Japanese companies are well positioned for the future integration of Vietnam into Japan's economic sphere of influence. Japanese companies are trying to take advantage of their cultural, religious and linguistic kinship to Vietnam in establishing a low-cost export base and a strong presence in a market that has enormous profit potential.

After the Cambodian settlement which resulted out of the normalization between the US, the former USSR, Vietnam and China, Japan tried to integrate the war-ravaged Indochina back into the Southeast Asian region and to strengthen the political ties with the Western bloc. Japan's aim is to help establish a politically stable and calculable Vietnam because Vietnam's policy directly affects the stability and prosperity of the whole Asian region. Tokyo also considers a prosperous Vietnam as a useful balance to the growing Chinese economic and military power.¹⁰⁶ Tokyo is also trying to play a more active and independent political role in the region by promoting closer cooperation between ASEAN and Indochina. On January 16 1993, the former Japanese Prime Minister Miyazawa

signaled in his speech in Bangkok that Japan is likely to adopt a more active approach to Vietnam. He called on the ASEAN states to join Japan in the effort to draw a comprehensive plan for the harmonious development of Indochina.¹⁰⁷ In addition, Japan and France led the group of friendly countries which paid off Vietnam's US\$ 140 million debt to the IMF. Japan and France paid back US\$ 50 million of the debt, while other countries like Belgium, Canada, Sweden, Italy and Finland made up the rest. In order to qualify for fresh loans, Vietnam had to discharge the debt, accumulated before its suspension from the IMF in 1984. The elimination of the debt opened the way for long awaited financial aid not only from the IMF but also from other international organizations.¹⁰⁸

Japan was of all industrialized countries the only one that officially followed the American embargo until its end. Even if Tokyo was only paying lip service to the embargo, the Japanese government was not willing to endanger its relationship with the US or other important countries in order to improve relations with Vietnam.¹⁰⁹ Consequently, the Japanese government was overly cautious when it came to helping Vietnam. This disappointing situation for Vietnam was the result of Japanese sensitivity to America's mood and the fear of offending the US by moving too far in forging relations with Vietnam. With the resumption of ODA in November 1992 Japan developed a more independent policy towards Vietnam. After 14 years of interruption the Japanese government granted loan aid of 45,5 billion Yen (about US\$ 380 million) for the fiscal year 1992. In addition, about US\$ 15 million of grant aid were given for emergency relief and the upgrading of the Cho Ray hospital in Ho Chi Minh City, the Hai Ba Trung hospital and the Bach Mai hospital in Hanoi as well as some cultural projects.¹¹⁰ It also gave the business community the green light for active involvement in Vietnam.

Since then, Japanese businesses has expanded rapidly. Official statements tried to suggest that "Japanese companies remained cautious about entering Vietnam whilst the US maintains sanctions."¹¹¹ But Japanese officials and businessmen agree that the recent spurt of interest in Vietnam is reflecting a steady Japanese expansion in Vietnam rather than a post-embargo frenzy. Japan was the largest individual donor of the 23 countries and 17 international institutions that took part in the Paris donor conference in 1993 by pledging 60 billion Yen for the fiscal year 1993 (about US\$ 476 million). For the fiscal year 1993 Japan has also increased its grant aid to US\$ 58 million. A Japanese official was quoted as saying, that "Japan took the leading role because the economic and social development of Vietnam is desirable and necessary, and for the stability and prosperity of the region as a whole."¹¹² Another Japanese official was quoted as saying that "in the future, Japan's aid is likely to be expanded to the level of other Southeast Asian economies, which range from 100 to 150 billion Yen (US\$ 935 million to US\$ 1,4 billion)."¹¹³

Vietnam hopes to receive from Japan not only economic and technological assistance but sees Japan as a possible model for its own development. Hanoi is also grateful that the Japanese government is more readily recognizing the risk that pluralism could create instability which would threaten the progress of economic reform. This recognition comes despite Japan's official announcement of active efforts for promoting democratization.¹¹⁴ Vietnam also has an ingrained fear about being dominated by Japan and having to bow to the economic impera-

tives of Japan. Besides this, a continuing old resentment against Japan still exists in Vietnam due to Japan's military occupation in the second World War during which about 2 million people died of starvation.¹¹⁵

5 Conclusion

Vietnam's new foreign policy has shown initial success. In the region, Vietnam has curtailed its presence and role in Laos, enabled the Paris peace agreement on Cambodia and expanded diplomatic relations with most Asian and European states, especially with ASEAN members and ASEAN as a group. Economic relations with Japan, Taiwan, South Korea and the ASEAN states have expanded rapidly and there has been a marked increase in aid and commercial interest from a number of Western states. These developments have already shown success in enabling Vietnam to achieve a rapid reorientation in its foreign trade that helped to cope with the dramatic downturn in economic assistance from the former Soviet bloc. A key question for the future is whether Vietnam will be able to develop and consolidate a set of stable international relations that can support the continuing process of domestic reform and orderly development. The interrelation between the domestic reforms and the foreign policy will play a significant role.

The successful development of Vietnam's economy must be the base for improved foreign relations as it expands exports, promotes participation in the division of labor and encourages the integration into the world economy. In return, the foreign policy will have to support the economic development by strengthening international co-operation, improving Vietnam's international status and supplying missing capital, technology and know-how. Only if domestic and foreign policies are coordinated in a proper manner and so support one another will the Vietnamese government be able to create a stable and productive domestic environment, the basis for becoming a new 'tiger'. In recent years, the external environment has contributed to the economic hardship of Vietnam but has been a less important barrier to development than the misguided domestic policy. In future the international environment will play a major role for Vietnam's development. Even well conceived and implemented domestic reforms might not be sufficient as they can still fail, if the external environment is too adverse.

Despite initial international successes Vietnam faces some very difficult problems and dilemmas. While the peace agreement on Cambodia has improved Vietnam's international and regional status as well as the climate for Vietnam's foreign relations, the relations with Cambodia remain problematic. The new Cambodian government is voicing strong nationalistic tones and formulated a new foreign policy that is adopting a strong line on territorial disputes with Vietnam.¹¹⁶ If the Cambodian government is not able to maintain domestic stability and speed up the economic recovery, continuing tensions in relations with Cambodia could pose difficult problems for Vietnam. Vietnam faces the challenge of normalization with China from a strategically and militarily weaker position, aggravated by the unsolved conflicts in the South China Sea and at the

Northern border. The development of these potential conflicts will be an important factor for Vietnam's perception of national security and its future foreign policy as well as for maintaining the security of the whole Southeast Asian region.

As Vietnam's prosperity depends more and more on external forces that are beyond its control, Vietnam's leadership is afraid of a 'peaceful evolution' that would overthrow the ruling party.¹¹⁷ The dependence on foreign capital, technology, management and markets makes them vulnerable to external economic domination. The fear of becoming too dependent on other countries, makes the full integration into the world economy suspicious. Vietnam's need to interact closely with the Western and Asian market economies is a severe challenge to the country's inner stability and the party monopoly. Western business practices and ethics that are flooding into Vietnam through foreign direct investment, trade and tourism are likely to bring increased political openness for democratization and human rights. The demands of the West to couple further support with the introduction of greater democracy and expanded human rights might also have its effects.

The transformation process is likely to increase the decentralization of economic power and enhance the structural basis for pluralism and so make the party's predominant position more difficult to maintain and justify. For the VCP, the demands of foreign relations in the 1990s are likely to continue to involve tensions between the economic necessity of wider interactions with market economies, and the political imperatives of endeavoring to maintain its position as the leading and predominant political force in Vietnam. Therefore the legitimacy of VCP is constantly challenged by its own reforms. As a result the leaders in Hanoi are afraid that the 'reverse of the domino theory'¹¹⁸ might take place as the penetration of capitalist economies into Vietnam and other socialist countries is so far advanced that socialist countries fall as dominos to capitalist power. The reaction of the government has been to tighten security to gain firmer control of the people again. The fear of a development similar to Eastern Europe and the former USSR makes the government destroy opposition with an iron hand. On the other hand Vietnam's leaders are well aware that they can not create a second 'Tiananmen massacre' and so they have to take into account the aspirations and views of an ever larger segment of the population. At the seventh national party congress in 1991 the VCP recognized the relationship between economic reform and political stability by endorsing a program of step-by-step reform of the political system.

Vietnam's change in foreign relations and the ending of decades of international isolation pose some complex challenges for the ruling VCP. Officially they continue to profess a socialist identity to avoid losing face and power, but the political collapse of the Soviet Union came as a profound shock to them. Unable to face the thought of losing power, the politburo is trying to freeze time by introducing minimal reforms. Although the meaning of socialism in Vietnam has always been different, the introduction of the 'mixed economy' has dramatically changed its face. Forced by the internal and external environment, the VCP has to find a pragmatic solution to realize a peaceful transition to a market economy, even though they lack the insight, experience and expert knowledge. The quality of the leaders in managing the domestic reforms and foreign relations,

will play a significant role in Vietnam's further development. So far the renovation process has not brought the ultimate leading role of the Party into question. Vietnam's leaders are well aware of the fact that choices and decisions made in the next few years will determine the nature of the next century for themselves and for Vietnam. The rules of the game remain unclear and all attempts to assess the exact nature of the changes have failed so far, as the decision-making in the politburo and its true motives are unpredictable. But the ultimate goal of holding onto power remains constant. The further development of the policy of trying to combine a free-market economy with a rigid one-party rule will decide the future of VCP. This will depend on the party's ability to sustain economic growth and distribute such growth to society at large. The success will be measured by the ability to consolidate democratic political structures and continue market reforms without internal violence. This will mainly depend on the solution of the contradictions which exist between domestic and foreign policy, between economic and ideological priorities. The potential for successful development is clear, but so are the challenges. The conclusions about Vietnam's future depend on whether one takes an optimistic or pessimistic view, whether Doi Moi is the beginning of substantial changes or just a matter of buying time before the final collapse of the system?

Notes:

- 1) UNIDO 1989, pp.12-14 / United Nations 1992, pp.1-4.
- 2) The World Bank has estimated that only these countries have yearly additional requirements of US\$ 10 billion or 19% of the last distributed aid. *Neue Züricher Zeitung* (NZZ), 20.4.1993, p.7.
- 3) *The Wall Street Journal Europe*, 4.6.1993, p.6 / *Süddeutsche Zeitung* (SZ), 3.5.1993, p.21.
- 4) Porter 1990, pp.10-13 / Wah 1991, pp.1-16.
- 5) *Far Eastern Economic Review* (FEER), 24-31.12.1993, p.53.
- 6) NZZ 18./19.4.1993, p.10 / NZZ, 20.4.1993, p.7 / FEER, 24-31.12.1992, pp.52-53.
- 7) Compare the conclusions drawn from the experiences in Middle- and Eastern Europe, in: NZZ, 15.4.1993, p.13.
- 8) Seidel 1992, p.vii.
- 9) Hung, Nguyen Van: "Doi Moi: Vietnam's way to economic renovation", in: Murakami/Nghiép/Hongladarom 1992, p.22.
- 10) Steinberg 1987, pp.372-373.
- 11) Dang 1991, p.12.
- 12) Hung, Nguyen Van: "Doi Moi: Vietnam's way to economic renovation", in: Murakami/Nghiép/Hongladarom 1992, p.20 / Ljunggren 1991, pp.8-9.
- 13) For a detailed description see: Will 1988, pp.8-49.
- 14) Vo 1990, pp.181-187.
- 15) Fforde/de Vylder 1991, p.11.
- 16) Dang 1991, p.2, pp.14-15, pp.17-18.
- 17) Socialist Republic of Vietnam 1993, pp.20-34.
- 18) *Vietnam Courier*, 8-14.5.1994, p.1.
- 19) *Vietnam News*, 30.1.1994, p.1.
- 20) FEER, 9.12.1993, pp.12-13 / *Economist*, 8.1.1994, p.28.
- 21) Seidel 1992, p.3.
- 22) FEER, 22.4.1993, p.70.
- 23) Beresford 1988, p.206 / Williams 1992, pp.59-65.
- 24) Kennedy 1987.
- 25) *Vietnam Commentary*, Jan-Feb 1991, p.4 / *Economic Problems*, Jan-Mar 1992, pp.25-28.
- 26) Evans, Paul: "Vietnam in the changing System of Economic & Security Relations in Eastern Asia", in: Stubbs 1989, pp.

- 27) **Vietnam Courier**, No. 34, August 1992, p.1.
 28) As quoted in: Tri 1990, p.209.
 29) Communist Party of Vietnam 1991, p.43.
 30) Socialist Republic of Vietnam 1992, p.17.
 31) **Vietnam Courier**, No. 34, August 1992, p.3.
 32) Dien 1992, p.3.
 33) **Contemporary Southeast Asia**, Vol.14, No.3, Dec. 1992, p.261.
 34) *Ibid.*, p.257.
 35) Interview, 12 August 1992 in Hanoi.
 36) **FEER**, 27.4.1989, pp.68-73 / **FEER**, 22.4.1993, pp.68-72.
 37) Tri 1990, p.245.
 38) Vo, Dai Luoc: "Some problems of renovating Vietnam's foreign economic policy", in: Forbes/Hull et.al. 1991, p.141.
 39) Vo 1993, pp.13-30.
 40) **Vietnam News**, 26.1.1994, p.1 / **Vietnam Courier**, No. 34, August 1992, p.1.
 41) Beresford 1988, pp.1-2.
 42) Williams 1992, pp.78-83.
 43) Interview with a Banque Nationale de Paris representative on 2.10.1992 in Saigon.
 44) Kojima, Akira: "Post Cold War paradigm of international relations and its implications for Vietnamese foreign economic relations", in: Tho 1990, p.159.
 45) **Indochina Country Report**, No. 2, 1992, pp.13-14.
 46) **Bangkok Post (BP)**, 23.4.1993, p.18.
 47) **FEER**, 15.6.1993, pp.10-11.
 48) **BP**, 15.9.1993, p.16.
 49) **Vietnam Investment Review**, 20-26.9.1993, p.1.
 50) **Straits Times**, 15.9.1993, p.2.
 51) **Vietnam Courier**, 19-25.9.1993, p.4.
 52) **Vietnam Investment Review**, 20-26.9.1993, p.5.
 53) **Vietnam Investment Review**, 31.1-6.2.1994, pp.1-2.
 54) **FEER**, 17.2.1994, pp.14-15.
 55) **BP**, 15.9.1993, p.16 / **FEER**, 14.5.1993, p.72.
 56) Eaton, Raymond: "Post-Embargo Vietnam", **Foreign Correspondents Club of Thailand**, 4.5.1994, p.13-14.
 57) Villiers 1990, p.257.
 58) Yeoung 1992, p.262.
 59) **FEER**, 13 August 1992, p.14.
 60) **FEER**, 24 September 1992, p.22 / **Vietnam Investment Review**, 14-20.9.1992, p.1.
 61) Yeoung 1992, p.264.
 62) Leong 1993, p.11.
 63) **The Economist**, 3.4.1993, p.15 / **Nikkei Weekly**, 17.5.1993, p.24.
 64) **Vietnam Commentary**, No. 26, Mar-April 1992, pp.9-13.
 65) **BP**, 29.10.1992, p.22 / **Vietnam Investment Review**, 14-20.9.1992, p.8.
 66) Yeoung 1992, p.266.
 67) Nakano, Ari: "Southeast Asian Policy of Vietnam", in: Tadashi 1989, p.244.
 68) Williams 1992, p.72.
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 70) **The Nation**, 11.7.1993, p.
 71) **Vietnam News**, 30.1.1994, p.1 / **International Herald Tribune (IHT)**, 12.4.1993, p.2.
 72) **Vietnam Commentary**, No. 24, Nov.-Dec. 1991, p.5.
 73) "Nghien cuu Quoc te", **Hoc Vien Quan He Quoc te**, No. 3 (5) 1994, pp.28-33.
 74) Murakami/Nghiep/Hongladarom 1992, p.24 / **BP**, 23.4.1993, p.17 / **The Economist**, 19.6.1993, pp.61-62.
 75) ASEAN-Vietnam Study Group 1993, p.13.
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 77) Will 1992, pp.1-2.
 78) **Asiaweek**, 24. November 1993, pp.22-23.
 79) **Vietnam Investment Review**, 15-21 November 1993, p.3.
 80) Vo 1992, p.72.
 81) Le 1994.

- 82) **Saigon Newsreader**, 28 July 1992.
 83) **Saigon Newsreader**, 30 July 1992 / **FEER**, 14 April 1992.
 84) **Vietnam Investment Review**, 22-28 November 1993, p.3.
 85) **Vietnam Investment Review**, 11-17 July 1994, p.14.
 86) **Vietnam News**, 13 March 1994, p.3.
 87) **BP**, 1.8.1992.
 88) **Vietnam Investment Review**, 11-17 July 1994, p.14.
 89) **Vietnam Investment Review**, 14-20 March 1994, p.9.
 90) **Indochina Country Report**, No. 1 1992, p.12 / **FEER**, 14 April 1992.
 91) **Indochina Country Report**, No. 1 1992, p.8.
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 94) **NZZ**, 11.2..1993, p.1.
 95) **Straits Times**, 22.3.1991.
 96) **Vietnam Investment Review**, 23-29 May 1994, p.14.
 97) In 1992 Sweden committed US\$ 42 million, Italy US\$ 22 million and France US\$ 21 million. Socialist Republic of Vietnam 1993, p.79.
 98) Murakami/Nghiep/Hongladarom 1992, p.12.
 99) **BP**, 26.10.1992, p.24.
 100) **Vietnam Investment Review**, 23-29 May 1994, p.14.
 101) **Vietnam Investment Review**, 1-7.August 1994, p.4.
 102) Amnesty international 1990, p.1.
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 105) Shiraishi 1990, pp.75-99.
 106) Cronin 1992, pp.68-70 / **FEER: Japan in Asia**, 1991, pp.154-160 / **The Nation**, 21.4.1992.
 107) **FEER**, 28.1.1993, pp.10-11 / **The Nikkei Weekly**, 25.1.1993, p.24 / **The Economist**, 9.1.1993, pp.53-54.
 108) **BP**, 20.8.1993, p.20 / "Inside Indochina", **BP**, 5.10.1993, p.1.
 109) **Kinh te Cau A Thai Binh Duong**, So 1, Thang 12, 1993, pp.19-24.
 110) Figures provided by the Japanese Embassy, December 1993.
 111) **Vietnam Investment Review**, 13-19 December 1993, p.10.
 112) **Vietnam Investment Review**, 15-21 November 1993, p.1.
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