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## Vietnam Party Chief Amasses Power as Economic Sway Rises

John Boudreau



*The Old Guard Retakes Control in Vietnam*

Vietnam's new leadership is starting to take shape after days of behind-the-scenes sparring at a Communist Party congress, with the biggest beneficiary the party's chief, potentially signaling a more cautious approach to economic reform.

General Secretary Nguyen Phu Trong outmaneuvered reformist Prime Minister Nguyen Tan Dung and was picked for five years in the powerful post. While Trong is expected to prioritize growth, when Dung retires this year at the end of his maximum two terms he may take his zeal for reform with him.

With his large influence within the party and extensive network, Trong, 71, will probably frame the political agenda around protecting the party as the center of power. Even as he and other party stalwarts have embraced free-trade pacts, none of the presumptive leaders have shown as much drive to overhaul the economy and bloated state-owned companies as Dung did.

"They all agree there must be reforms of the state-owned enterprises," said Le Hong Hiep, a visiting fellow at the Institute of Southeast Asian Studies in Singapore. "But they may be afraid to go too fast. Mr. Trong may not want to run the risk of reforms that could undermine the rule of the party."

As part of the leadership changes, Minister of Public Security Tran Dai Quang was nominated to be the next president. Deputy premier Nguyen Xuan Phuc, not known for bold initiatives, is on course to replace Dung.

In a speech at the close of the congress, Trong said the party needs to increase unity and vowed to protect the country's sovereignty. During a press briefing afterward, he said the party must curb corruption and waste.

The new leadership seeks to "comprehensively increase reforms, accelerate economic growth at a sustainable pace and strive to make Vietnam a modern and industrial country that improves its citizens lives," he said.

The party's 2016-2020 economic blueprint adopted at the congress calls for the creation of "favorable conditions" to support private companies. It also urges faster privatization of state enterprises and resolving bad debt. Several leaders, including Trong, have warned that Vietnam is at risk of falling behind regional peers. Average growth in 2011 through 2015 was 5.9 percent, lower than the 6.5 percent-to-7 percent target set by the government.

## **Trade Pact**

State-owned companies use almost 50 percent of Vietnam's public investment and tap 60 percent of the country's bank loans, while contributing to just a third of gross domestic product, according to government data.

Trade agreements like the 12-nation Trans-Pacific Partnership "will necessitate" changes to ensure private companies and state-owned enterprises operate on a level playing field, said Fred Burke, managing partner at Baker & McKenzie (Vietnam) Ltd, a law firm.

Phuc, a protege of the late Nguyen Ba Thanh, the former chairman of the Danang People's Committee known for transparency and fighting corruption, is seen as an "honest broker, a roll-up-your-sleeves-get-things-done kind of person," Burke said. As deputy premier Phuc, who comes from the central province of Quang Nam, oversaw a three-year project to streamline government bureaucracy, he said.

"He may not have a Harvard business degree but he can get the right people in the same room," Burke said.

## **Party Delegates**

Trong received more than 80 percent of votes from party delegates to be a member of the central committee, a precursor to being re-elected as general secretary. Dung, at least indirectly, could continue to influence state affairs because his loyalists were elected to the committee, including his son, Nguyen Thanh Nghi.

Not everything went well under Dung's stewardship, Trinh Nguyen, a Hong Kong-based senior economist for emerging Asia at Natixis SA., said in a Jan. 26 research note. "Mismanagement of state assets resulted in boom-and-bust cycles, dragging down the competitiveness of domestic firms and the country," she wrote.

## **Diplomatic Matters**

With Dung leaving the political stage, top leaders may not be as savvy on international affairs, at least initially, said Nguyen Viet Ha, Vietnam Managing Director for Bower Group Asia, a consultancy that advises foreign investors.

"From what I know about Phuc, he's more of a domestic affairs person," she said. "That can be a challenge for foreign investors or foreign companies in Vietnam who are trying to work with him."

Vietnam will probably continue to balance its desire for closer ties with major powers such as the U.S. to counter China's assertive actions in the disputed South China Sea while maintaining a relatively positive relationship with its large Communist neighbor and main trading partner.

## **Important Partner**

Before Trong's visit to the U.S. to meet with President Barack Obama last year, Trong said in written answers to questions from Bloomberg that Vietnam would prioritize ties with the U.S. "as one of the most important partners in our foreign policy."

Frictions rose this month after Chinese planes landed on a new airstrip on reclaimed islands in the Spratly islands chain, triggering protests from Vietnam. Vietnam said Jan. 19 it had demanded that China remove an oil rig it has parked in disputed waters.

"There is a very strong consensus among the party leadership regarding how to deal with China," Hiep said. "They agree Vietnam must work with other countries to constrain Chinese ambitions."

The departure of Dung could usher in a new generation of leaders for a country that needs fresh viewpoints," said Bower Group's Ha.

"With a new team in place, there will be challenges," Ha said. "There will also be new energy and a new mindset in place that will make the country grow to a new level."

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