

DIPLOMACY; A Trade Pact Is Unlikely to Change Vietnam's Medieval Ways: [Home Edition]

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ABSTRACT (ABSTRACT)

President Bill Clinton will visit Vietnam later this month, becoming the first American leader to set foot in Hanoi. For the Vietnamese government, the visit will offer a rare and welcome moment in the spotlight, a brief sense that Vietnam is once again a strategically important nation courted by the world's superpower. But the attention will be fleeting and the rewards few. There will be little financial aid forthcoming and certainly not any reparations for the war. Disgruntled investors will not view the country in a new light. Vietnam can realistically expect little more than a slight bump in tourism spending from the imperial-sized entourage that accompanies the president.

The cargo-cult mentality has re-emerged since July, when Vietnam and the United States signed a bilateral trade agreement. When ratified by Congress, the pact will reduce tariffs on most Vietnamese goods from around 40% to less than 3%. It opens up the U.S. market to Vietnamese-manufactured goods and crops like coffee. It should boost Vietnamese clothing exports to the U.S. about tenfold in the first year. In return, Vietnam has agreed to open its economy and become more transparent and fair in the way it treats investors. It is hoped by many Vietnamese and foreign investors alike that the agreement will nudge the government to revitalize reforms that have been dormant since the mid-1990s.

At the heart of this resistance is the fear of losing power. Vietnam was deeply shaken by the collapse of communism, which it still blames more on the United States than any intrinsic flaws in the system. More recently, the ouster of President Suharto of Indonesia in the midst of that country's economic meltdown has made the leadership in Hanoi sensitive to opening their economy any more than necessary. There are concerns about the impact of new technology on a country that denies its people freedom of expression and worship. Vietnamese often say the government never jumps until the water is lapping at its neck, and the current policy paralysis mirrors earlier long stretches during which Hanoi waited until its economy was teetering on the edge of collapse before taking any steps to improve it. The bilateral trade pact might give Vietnam a sense of direction for reforms, but it won't solve its deeper political and economic problems.

FULL TEXT

President Bill Clinton will visit Vietnam later this month, becoming the first American leader to set foot in Hanoi. For the Vietnamese government, the visit will offer a rare and welcome moment in the spotlight, a brief sense that Vietnam is once again a strategically important nation courted by the world's superpower. But the attention will be fleeting and the rewards few. There will be little financial aid forthcoming and certainly not any reparations for the war. Disgruntled investors will not view the country in a new light. Vietnam can realistically expect little more than a slight bump in tourism spending from the imperial-sized entourage that accompanies the president.

Clinton's visit certainly carries some symbolic weight. It's another step toward putting to rest some of the bitterness that lingered so long after the war. America, generous always in victory, was petulant in defeat and has taken too long to mend its ties with Vietnam. Hanoi views the United States with a mix of awe, envy and mistrust. It covets

investment and technology but remains so anxious about Washington's intentions that its official press publishes near-nostalgic Cold War broadsides that imagine the CIA is still capable of overthrowing governments.

The United States retains a glint of missionary zeal when it comes to Vietnam. There is a belief that either through trade, education and engagement or through threats and sanctions, the United States can get the Vietnamese to follow the true course to democracy and respect for human rights. But the United States can't help Vietnam's economy nearly as much as Hanoi thinks, and Washington has little real hope of influencing political change in the Communist Party.

For decades, Vietnam blamed its many woes on the U.S. trade embargo, which was lifted in 1994. It was a convenient scapegoat for the horrible economic mismanagement that plunged the country into famine in the 1980s. But it also created a "cargo cult" mind-set that once the Americans returned, the country would prosper. When U.S. firms held a trade show just after the embargo ended, more than 100,000 Hanoians thronged the exhibition just to admire American products.

Unfortunately, most Vietnamese could only afford to look. U.S. firms soon found that Vietnam's real market for its expensive products was tiny, and many pulled out. Those that stayed found themselves mummified in red tape or bilked by local partners who couldn't see beyond their next well-padded paycheck. Low wages were offset by the enormous costs of obtaining permits for every aspect of every business: This is a country, after all, in which you need a license to sing in a bar. When deals with Vietnamese went sour, investors found themselves jailed or hounded out of the country.

When the Asian crisis hit in 1997, foreign investment almost dried up. In 1999, the government approved projects worth about \$600 million. Three years earlier, the figure had been more than \$8 billion, although little of the money ever reached the country. By the end of the decade, the one foreign company prospering in Hanoi was the home-removal firm that shipped executives out. Exports to Vietnam were no more impressive than investments. Last year, they reached about \$300 million, about what America sells to Japan from Monday to Wednesday each week.

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Nearly half of Vietnam's economic output comes from state companies. Few if any of these firms make any profits, but they absorb most available credit, land and other resources. State banks have enormous outstanding loans to these companies that will never be repaid; indeed, the banking system is a huge time bomb. The Communist Party looks on the private sector with Leninist disdain and, given its zero-sum view of power, only tolerates it as long as companies do not get too big. The managers of state companies have muscled their way into top political posts. Many are on the party's powerful Central Committee that selects the leadership and approves policies.

These managers see the trade bill as a threat to their cosseted businesses and to their personal wealth, which in most cases is just skimmed off the state. They have thrived in an opaque business environment and will not want to see it clarified under foreign pressure. Resistance to the agreement will be intense and hard to check. Vietnamese officials are masters at creating obstacles, normally as a means of extracting bribes, and will doubtless come up with

an array of pitfalls filled with sharpened stakes to test U.S. resolve.

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What's needed are radical changes to a moribund political system that stifles initiative and encourages endemic corruption. The 2% of the population who belong to the Communist Party rule over the remaining 78 million people with a heavy hand and little sense of the common good. Current policies have enriched a small urban elite but keep most people earning less than a dollar a day. Rural taxes are onerous: In some areas, corrupt officials levy medieval-sounding tariffs on windows and slaughtered animals. The trade agreement may put some pressure on state enterprises to reform, but it won't get the Communist Party's foot off the neck of the farmers or the private sector.

Halfway through next year, Communist Party delegates will meet in Hanoi for their 9th Congress. Party leaders will decide the nation's leadership and what direction to go. Ahead of these events every five years, speculation builds over whether reformers or conservatives will hold sway. These labels are misleading, as officials seem to move easily between bouts of dogmatism and moments of free-market pragmatism. What is important to them is control, and they will not relinquish it easily.

Illustration

Caption: PHOTO: Communist propaganda and capitalism aren't mixing well in Vietnam.; PHOTOGRAPHER: Agence France-Presse

Credit: Robert Templer is Southeast Asia editor for Strategic Intelligence and author of "Shadows and Wind: A View of Modern Vietnam."

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