

## Vietnam in 2014

### *Uncertainty and Opportunity in the Wake of the HS-981 Crisis*

#### ABSTRACT

The May 2014 entry of a Chinese deep-water oil rig into Vietnamese waters deeply shocked Vietnam. This yearend article chronicles the impact of the controversial action on (1) power struggles among elite politicians, (2) alterations in foreign policy orientation, and (3) popular opinion regarding economic reforms and emerging inequality.

**KEYWORDS:** Vietnam, China, oil rig, HS-981, elite politics, TPP

#### INTRODUCTION

On May 2, 2014, the Chinese deep-water oil rig *Haiyang Shiyou 981* (HS-981) entered Vietnam's 200-nautical-mile Exclusive Economic Zone (EEZ) to drill for hydrocarbons. More than 100 other Chinese vessels and two fighter jets accompanied the rig over the next two months to protect it from approaching Vietnamese vessels. This was the first time China had drilled inside the EEZ of another country and, in doing so, it violated the 1982 U.N. Convention on the Law of the Sea (UNCLOS); the 2002 ASEAN (Association of Southeast Asian Nations)-China Declaration of Conduct in the South China Sea; and, according to Vietnamese officials, several bilateral agreements between high-level leaders of the two nations.

For the international media, the incident was a new escalation in China's territorial campaign in the South China Sea. For Vietnamese watchers, the import was even greater as it shook up Vietnam's domestic, foreign, and economic policy. As a consequence of Hanoi reassessing its relations with Beijing over the next few months, students of Vietnam garnered illuminating

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insights into (1) new divisions and power struggles within domestic politics; (2) a reshuffling of foreign policy; and (3) deep wells of frustration with Vietnam's stalled economic reforms and emerging inequality, as well as changes in economic policy resulting from foreign policy reorientation.

### IN THE WAKE OF THE HS-981 OIL RIG CRISIS

As things stood, 2014 was going to be the last year for getting actual policy work done prior to the 2016 National Party Congress. In Vietnamese political cycles, policy-making is typically slower and more cautious in the year before a Congress, as actors refrain from risky stances, and in the year after, as the new leadership settles in.<sup>1</sup> As a result, the great bulk of policy-making and reform activity tends to take place in the two intermediate years. Following the pattern, Prime Minister Nguyễn Tân Dũng began the new year with an upbeat prime ministerial address that vowed for economic reinvention and emphasized institutional reform, the rule of law, democracy, and popular sovereignty.<sup>2</sup> His words were followed by a surprising decision in April 2014 to equitize<sup>3</sup> four of the highest-profile and most successful state-owned enterprises (SOEs) in the country, including Vietnam Airlines, Mobiphone (the second largest mobile phone network), Vinatex (the garment and textile conglomerate), and Vinalines (the state shipping company). The emphasis on proactive change and incremental reform suggested a clear shift from the string of SOE bankruptcy scandals that have overshadowed the prime minister's term, as well as the parliamentary confidence vote that nearly removed him from office in 2013.

The arrival of the Chinese oil rig, however, gave a jolt to Vietnam's political environment. Apart from holding an initial press conference, Vietnam's top leaders appeared slow to respond. Notably, the Ninth Plenum of the Central Committee (May 8–14, 2014) came and went without any official mention of the Chinese rig. One reason for the hesitation might have been shock. After all, a number of Vietnamese analysts had hinted at the beginning

1. Edmund Malesky, Anh Tran, and Paul Schuler, "Vietnam 2010: Familiar Patterns and New Developments Ahead of the 11th Vietnam Communist Party Congress," *Southeast Asian Affairs* (2011), Institute for Southeast Asian Studies, Singapore, pp. 339–63.

2. Nguyễn Tân Dũng, "PM Dũng's New Year's Message," 2014, <<http://thutuong.chinhphu.vn:2012/Home/PM-Dungs-New-Year-Message/20141/2274.vgp>>.

3. Partial privatization with sale of shares to the private market with two distinctions: shares are sold first to employees of the SOE, and the state maintains a stake in the company.

of 2014 that Sino-Viet relations were improving dramatically.<sup>4</sup> Or possibly, the leaders were cautiously waiting for events to unfold further. Regardless of the reason, their hesitation contrasted starkly with the Vietnamese public, who used social media to express outrage and vent frustration at the Chinese action. Groups of well-known bloggers and prominent intellectuals posted online petitions and calls for protest, which not only condemned the Chinese rig but also rebuked the Vietnamese leadership for steering Vietnam into the current crisis and withholding important information from the public.

These groups organized public demonstrations in Hanoi and Ho Chi Minh City for the morning of May 11. Initially, authorities tolerated and in certain instances supported these peaceful demonstrations. However, events took a shocking turn when riots and looting broke out two days later in Binh Duong; Dong Nai; and, one day later, Ha Tinh Provinces. Riots in Binh Duong Province alone were reported to have damaged more than 300 factories and burned a few to the ground, although only 14 of the plants were mainland Chinese owned or operated. Those belonging to Taiwanese, South Koreans, and Singaporeans, three of the four largest foreign investors in Vietnam, were disproportionately targeted. In Ha Tinh, the riots began with a brawl between Vietnamese and Chinese workers at the Taiwanese Formosa-Ha Tinh steel production plant, resulting in the death of at least one Chinese national. The numbers participating in the riots were reported to be in the tens of thousands.<sup>5</sup>

While most attacked investors were able to restart operations relatively quickly—and the damaged Vietnam-Singapore Industrial Park in Binh Duong got right to work repairing infrastructure and enrolling tenants—the riots spawned a palpable fear. Vietnamese top officials met with the business associations and diplomatic missions of the affected countries to work out country-specific compensation packages. But a larger question remained: would investors from these countries feel secure about continuing their operations in Vietnam, and what would Vietnam do to promote a more secure arrangement

4. Carlyle A. Thayer, "Vietnam in 2013: Domestic Contestation and Foreign Policy Success," *Southeast Asian Affairs* (2014), pp. 333–73.

5. Patrick Boehler, "Just 14 Factories Targeted in Vietnam's Anti-China Protests Belonged to Mainland Chinese," *South China Morning Post*, May 19, 2014, <<http://www.scmp.com/news/asia/article/1515912/few-factories-hit-vietnams-anti-china-riots-were-mainland-chinese-owned>>; Nga Pham, "Factories Burnt in Vietnam-China Row," BBC News, May 14, 2014, <<http://www.bbc.com/news/world-asia-27403857>>, accessed February 9, 2015.

going forward? In a 2013 survey, foreign investors had asserted that the key strength of Vietnam relative to its competitors was political stability.<sup>6</sup> The attacks called this into question, and Vietnamese officials have since been working diligently to assure investors that riots will not recur.

The reasons for the riots are unclear. Their scope, in number and extent of property damage, was nearly unprecedented in the postwar era. While overflowing nationalism and latent worker frustrations were important, these do not fully explain the more concrete causes of the riots or their organization. Both state and non-state media reported mysterious groups of Vietnamese agitators rallying crowds, breaking through factory gates on motorcycles, and inciting violence and looting among workers at all three sites. The level of organization observed among these groups (including use of maps, walkie-talkie radios, flags, T-shirts, and banners) and the reportedly sluggish response from domestic security fuelled rumors of Chinese interference and government complicity in seeding these riots.

Whatever the actual causes, state authorities halted any further signs of mass demonstrations and shifted their attention to mending relations with Vietnam's foreign investors and mobilizing wider international support. Then, on July 15, 2014, China unilaterally withdrew the oil rig one full month ahead of schedule. Amid claims that the rig's work had been "done" and concern over an incoming super-typhoon, the rig departed as suddenly and mysteriously as it had arrived. Nonetheless, the series of events left permanent marks on Vietnam in 2014.

## DOMESTIC POLITICS

After a difficult year in 2013, Prime Minister Dũng emerged from the HS-981 crisis as an emboldened leader. He was the first in the ruling troika to speak out officially about the Chinese rig. At the 24th ASEAN Summit in Nay Pyi Taw, Myanmar, on May 11, he vowed to find a peaceful resolution of the crisis while defending Vietnam's right to protect its sovereign waters. After the riots, he sent text messages to Vietnamese mobile users encouraging their patriotism but warning against their being "lured into unruly behavior." At the high-level Shangri-La regional security dialogue in Singapore in late May,

6. Edmund Malesky, "The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development. Final Report" (2014), Vietnam Chamber of Commerce and Industry and US-AID, Hanoi, Vietnam, pp. 45–50.

he ramped up discussion on pursuing international legal action against China.<sup>7</sup>

Nonetheless, despite the bold rhetoric, no legal action followed. Rather, once the oil rig was withdrawn, the Hanoi leadership shifted focus to mending relations with Beijing and preserving the status quo. The sudden turnaround led to speculation that the prime minister had been blocked by a conservative wing of the Politburo led by Communist Party of Vietnam General Secretary Nguyễn Phú Trọng. Such accounts are extremely difficult to verify, however, amid the highly secretive decision-making of Party elites. What was more plain to the eye was the leadership's unity in its stance vis-à-vis the Vietnamese public.

More clearly than divisions within the Politburo, the oil rig crisis highlighted a growing gap between state leadership and the wider Vietnamese society. The leadership's difficulty in resolving the rig dispute and its harsh response to domestic protests seemed only to stoke further discontent. After the crackdown on demonstrations, critical commentary continued as even more petitions, open letters, and collective statements were posted online. This surge in critical commentary culminated with an Open Letter by 61 Party members in late July, which called for Vietnam to “leave off from the mistaken path of socialism and make a definite change towards democracy and the people, most importantly in transforming the political system from totalitarianism to democracy in a decisive but stable way” (Para 6).<sup>8</sup> While some observers saw this letter as a sign of further internal party division, it is more accurate to say it reflected the growing division between state and society. Among the signers, more than half had signed at least three other similarly controversial petitions targeting state legitimacy in the past five

7. With the oil rig crisis, domestic pressure increased for international legal action against China on the South China Sea dispute. Notably, the renowned intellectual-activist Nguyễn Quang A wrote an open letter to the Hanoi government pressing for international legal action against China, which collected 3,700 signatures online. Nguyễn Quang A and Lê Trung Tĩnh, “Thư Yêu Cầu Khởi Kiến Trung Quốc Ra Tòa Án Quốc Tế” [Letter demanding to sue China in the International Court], *Bauxite Việt Nam*, May 15, 2014, <<http://anonymouse.org/cgi-bin/anon-www.cgi/http://www.box-itvn.net/bai/26324>>.

8. “Thư Ngỏ Gửi BCH Trung Ương và Toàn Thể Đảng Viên Đảng CSVN” [Open letter sent to the Central Committee and all members of the Communist Party of Vietnam], *BA SÁM*, July 29, 2014, <<http://anhbasam.wordpress.com/2014/07/29/thu-ngo-gui-bch-trung-uong-va-toan-the-dang-vien-dang-csvn/>>.

years. Nearly half had also signed the petition by 72 intellectuals on constitutional reforms in 2013.<sup>9</sup>

However, while Vietnam's domestic politics has become more dynamic in recent years, it has not necessarily become more open or liberal. Coercive measures remain an important part of the state's toolbox. While important political prisoner Cù Huy Hà Vũ was released in April 2014 and prominent blogger Điều Cày (Nguyễn Văn Hải) in October, their releases were quickly followed by arrests of prominent bloggers Anh Ba Sàm (Nguyễn Hữu Vinh) in May and Quê Choa (Nguyễn Quang Lập) and Hồng Lê Thọ in December on charges of "abusing" democratic freedoms. The new arrests also spawned more online petitions and calls by diverse Vietnamese groups for the bloggers' release. As these groups become increasingly vocal and assertive in the political sphere, a chief concern going forward is increasing polarization between state and society.

## FOREIGN POLICY

In the reform era, Vietnam has managed a comprehensive multilateral diplomacy with China, the U.S., Europe, and Russia, as well as regional powers India and Japan. Some diplomats have referred to this as the "Swinging Policy" (Chính sách ngoại giao đu dây) to illustrate the careful and constant rebalancing.

It would be incorrect to conclude that the crisis led to improved relations between Vietnam and the U.S., which were clearly on an upswing anyway, with President Trương Tấn Sang visiting the White House in 2013. In separate trips in December, John Kerry, the U.S. secretary of state, and Admiral Timothy J. Keating visited Vietnam to discuss high level cooperation on trade and civilian-nuclear power. And it cannot be forgotten that McDonald's, the iconic American brand, opened its first store in Ho Chi Minh City in February 2014. Henry Nguyễn, a successful Vietnamese-American venture capitalist (and the son-in-law of Prime Minister Dũng) was hired as the developmental licensee.

The HS-981 crisis did appear to generate urgent activity to unlock some diplomatic sticking points. In an unprecedented move on May 21, Vietnamese Foreign Minister Phạm Bình Minh called Kerry to discuss tensions. Minh

9. Calculations are by authors, using a database compiled by Dr. Morris-Jung.

suggested coordination around concrete measures to develop a comprehensive partnership. The phone call was followed by an official visit by the foreign minister to the U.S. in early October. Progress appears to have been made, most directly in military affairs. Since 2009, Vietnam has been pressing for the lifting of the U.S. arms embargo, but it has faced American reluctance for fear that Vietnamese officials could use newly acquired weapons for domestic coercion of the public. HS-981 demonstrated Vietnam's legitimate need for maritime surveillance and response, and the U.S. acceded to the sale of some lethal equipment and weapons for maritime defense purposes.

Vietnam also sought to improve its balancing act by improving relations with regional powers Japan and India. Hanoi signed strategic partnerships with them in 2006 and 2007, respectively, but it sought to bolster these relationships after HS-981. Dũng's visit to India in late October 2014 was aimed at lessening Vietnam's economic dependence on China, specifically in the purchase of raw materials used for manufacturing, and perhaps in opening up possibilities for oil exploration in Vietnamese-claimed waters. India extended a \$100 million credit line for defense procurement. Japan, already Vietnam's most important foreign investor, sought to improve relations during the crisis by providing six maritime vessels and training to Vietnam's Coast Guard (a package worth an estimated \$500 million).

While the Vietnam-China relationship took an extraordinary hit from the summer conflagration, it was not irreparably severed. Chinese State Councillor Yang Jiechi appeared to inflame discussions further during a much anticipated visit to Hanoi in July, when he accused the Vietnamese of "hyping up" the incident. Subsequently, Vietnamese Defense Minister Phùng Quang Thanh downplayed the summer's run-in as a minor disagreement "between brothers."<sup>10</sup> More concretely, a high level military delegation of 13 Vietnamese generals visited Beijing on October 16–18, followed by the announcement of a direct hotline to avoid spiraling escalation.

## ECONOMIC POLICY

The potential diplomatic rift with China raised immediate questions about Vietnam's economic dependence on its powerful northern neighbor. Indeed,

10. Meanwhile, Politburo member Lê Hồng Anh recently agreed in talks with Chinese President Xi Jinping that both sides would "avoid actions that might complicate and expand the disputes," using language that some saw as aimed at the U.S.

a high-level research group was formed to advise Vietnamese leaders about the costs of altering the economic relationship with China. For some, the tremendous size of two-way trade was reason to placate Chinese demands. For others, however, the oil rig was a golden opportunity to revitalize economic reforms precisely to avoid further dependence on China.

As Vietnamese officials considered international legal measures in May, Chinese officials directed Chinese SOEs to reduce or discontinue operations in Vietnam. This dovetailed with Chinese travel advisories and the decisions of private Chinese businesses to hold off expansion during the insecurity pummeling the Vietnamese economy. Prior to the crisis, China had rapidly grown to become Vietnam's largest trading partner, with about \$50 billion in bilateral activity, the export surplus favoring China by \$23.7 billion. In addition, China was the sixth-largest investor by number of projects and 14th largest by total capital (about \$14.7 billion) invested, respectively. While analysts have pointed out increasing exports from Vietnam to Western outlets after Vietnam's entry into the World Trade Organization (WTO) in 2007,<sup>11</sup> the China connection remains salient. China is a critical supplier of manufacturing and construction inputs to Vietnamese businesses (particularly yarns and polyester fabrics) as well as affordable non-durables for Vietnam's consumers.

Retail trade with China dipped noticeably in the second half of 2014, and Vietnamese hotels reported significant declines in occupancy rates. In June, arrivals from the Chinese mainland fell by about 30% and those from Hong Kong by 72%, compared to May. Major Hong Kong airlines canceled flights, and Vietnamese hotels in resort destinations popular with Chinese reported significant occupancy declines.

While all Vietnamese actors expressed strong patriotism amid the crisis, the prime minister's references to Western trade agreements in speeches regarding China<sup>12</sup> led many reform-oriented economists to spot a silver lining. Committing to these agreements, particularly the Trans-Pacific Partnership (TPP), would mean acceleration of Vietnam's ongoing economic reforms, including SOE reform. SOEs, while accounting for declining shares of gross domestic product (GDP) (32.6%), industrial output (16.4%), and

11. John Lee, "Reforms Will Decide Vietnam's Ability to Resist Economic Dominance by China," ISEAS, *Perspective*, no. 34, June 2, 2014, pp. 1-14.

12. Most noticeably, at the Vietnam Business Forum in June 5, 2014, <<http://thutuong.chinhphu.vn:2012/Home/PMs-remarks-at-2014-midterm-business-forum/20146/2465.vgp>>.



labor (about 11%) in 2013, have a prominent voice in policy-making that allows them to maintain vital positions atop the economy. Indeed, 31% of private businesses cite biases *toward* SOEs (in allocation of land, capital, and government contracting) as a major obstacle to their operations.<sup>13</sup> TPP is a comprehensive, multilateral economic agreement initiated by the U.S. that involves a dozen other countries. One of its main elements centers around barriers to trade and investment posed by implicit national subsidies to SOEs. An important negotiation feature is a pre-commitment that there will be no phase-in or opt-out clauses. Thus, there is hope that the need to escape dependence on China may indirectly spark a new period of economic reform in Vietnam.

## CONCLUSION

The year 2014 began with great optimism and prospects for incremental political and economic reform in Vietnam. The HS-981 oil rig crisis only lasted a couple of months, but it shook up the incremental improvements Vietnam observers were watching for between Party Congress years. In the wake of the rig removal, the country was left in great uncertainty as the Vietnamese leadership struggled to meet a number of challenges: balancing a complicated multilateral diplomacy, battling with political gridlock, reigniting economic growth, and managing an increasingly critical and expressive populace. Along with the worries, however, new opportunities could be unleashed by growing pressures for an expanded set of economic and foreign policy choices for decision-makers.

13. Malesky, "The Vietnam Provincial Competitiveness Index," p. 7.