



## There's Wood Enough Within\*: Trong's Corruption Crackdown and Implications for Doing Business in Vietnam

On 23 October 2018, Vietnam's National Assembly elected Communist Party General Secretary Nguyen Phu Trong as the country's President with 99.8% of the vote from the Assembly members. Trong succeeds former President Tran Dai Quang, who died from serious illness in September. Now spearheading a wide-sweeping corruption crackdown, the 74-year-old Trong is expected to hold the additional position until the 13th Party Congress, which is scheduled for 2021.

### The Need for Retroactive Due Diligence

Although this event may appear just to be a symbolic reshuffle, this power consolidation may have a significant impact on business deals that have previously been concluded with the help of political connections. Investors would be well-advised to consider conducting retroactive due diligence on such deals. Business operations and commercial contracts of foreign companies in Vietnam could be jeopardized if their Vietnamese partners have been caught in the purge for taking a particular political ally or being too slow to respond to inherent risks related to the anti-corruption campaign, including loss of political protection and changes in what is perceived as accepted business practices. Anti-corruption efforts also raise questions about the outlook of projects that were previously approved by or closely connected to the crackdown's targets, many of which involved foreign investors.

### Consolidation of the Power Structure

Although the position of President has so far been largely ceremonial in Vietnam, the fact that General Secretary Trong was elected with 99.8% of the vote from the National Assembly members is a significant statement about Trong's power. He is the first Vietnamese leader to

hold the two positions at the same time since the founding President Ho Chi Minh in 1960. As head of state, Trong will serve as the commander in chief of the military. He can also make a recommendation to the National Assembly to appoint, suspend or revoke the prime minister, ministers and judges of the People's Supreme Court.

Since late 2016, there have been discussions at the top levels of the Communist Party of Vietnam ("CPV") about merging similar positions in the CPV and Vietnamese government. The state government intends for the possible merger - including combining the Secretary General and President positions - to consolidate decision-making between the two branches. If implemented, the merger may make Trong a man of absolute power as the top figure of a highly concentrated power system. In a sense, Trong may become the Xi Jinping of Vietnam. Although Vietnam has a single-party system, the government and the communist party are ultimately separate entities despite the overlap between them. Therefore, Trong's simultaneous appointment as both General Secretary and President has triggered legitimate concerns about party leaders' intrusion into state affairs, which in turn may stifle Vietnam's business environment.

\*Nguyen Phu Trong often uses the term "hot furnace" as a metaphor for the anti-corruption campaign in Vietnam.

It is also likely that the anticipated merger will have implications for the business environment in Vietnam. One purpose of the merger is to improve governance and make local government more efficient. However, without an effective mechanism to control power, it is likely that the high level of concentrated authority will make the system even more cumbersome and bureaucratic. As a result, the business environment may be constrained instead of facilitated. Another challenge is that socio-economic decisions that have always been made by the government, such as public spending and development investments, might be switched to being determined by the CPV itself.

While it is still unclear what the merger is going to look like, Vietnam analysts are debating whether the “streamlined” administrative system will mean more CPV control over the press and media, similar to what happened with the cabinet reshuffle in China early this year. In fact, there have been signs that enhancing control of the CPV over press and media are expected in the short and medium terms given Trong’s conservative stance in human rights issues, particularly freedom of speech and information. On 15 June 2018, Vietnamese legislators passed the Law on Cyber Security. The new law tightens control over foreign internet and technology companies operating in the country.

## Corruption Crackdown

Since Trong became Secretary General in 2016, Vietnam has seen its toughest corruption crackdown in years aimed at both central and local state officials as well as executive leaders of state-owned companies. Similar to the anti-corruption campaign in China, the corruption crackdown in Vietnam centers on the top strategic sectors of the economy. With his consolidated power, Trong will likely strengthen his anti-corruption campaign to reinforce his influence over different factions within the CPV and ultimately the Politburo.

It is worth noting that, although the targets come from different backgrounds and sectors, so far most of the crackdown’s targets are close allies with former prime minister Nguyen Tan Dung. Although Dung’s tenure saw progressive international integration efforts with Vietnam’s accession to the WTO, it also left behind soaring public debt and budget deficits, mostly due to corruption in state-owned enterprises. Since the commencement of his second term as General Secretary, Trong has vigorously consolidated his power via the corruption crackdown against Dung’s protégés. The political landscape in Vietnam is heavily governed by group interests rather than ideology, so Vietnam observers tend to view anti-corruption efforts by Trong

as strongly driven by intra-party competition instead of reforms.

While analysts say that the anti-corruption drive could provide a boost for the economy in the long-run, there are plenty of short-term risks that investors need to anticipate. High-level graft and state intervention have shaken up a number of industries, especially the banking, real estate, and oil and gas sectors. Weak corporate governance and the vital role of political connections to business success are the main reasons that these sectors are susceptible to graft. So far, more than 50 former bank directors and businessmen have been tried and one was sentenced to death for embezzlement and abuse of power. In real estate, multiple former officials of Danang and Ho Chi Minh City are under investigation for land management violations, including wrongful approval of commercial use and abuse of power to appropriate property. As for the oil and gas industry, Vietnam’s top prosecution body on 23 March 2018 called for 18–19 years of imprisonment for Dinh La Thang, former chairman of state-run oil and gas giant PetroVietnam for economic mismanagement, including wrongful project approvals.

Most recently, in July the crackdown spread to MobiFone, one of the biggest state-owned telecommunications providers in Vietnam. On 22 October 2018, MobiFone’s former chairman and former information minister was dismissed from the post and lost his position as member of the 11th Party Central Committee. In November, two other former MobiFone executives were arrested. The investigation arose out of MobiFone’s acquisition of the Vietnam-based private multimedia company AVG in 2016, a deal that was later canceled earlier this year. In addition, MobiFone’s initial public offering has been put on hold for another six months due to operational issues related to the canceled deal.

## What Now?

The aftermath of the voided MobiFone acquisition shows that an investment may prove vulnerable to politics even years after it was made. More broadly, the net effect of the CPV consolidation of power and the anti-corruption drive may be a sense of uncertainty that could lower investor confidence in Vietnam’s business climate. While personal links are vital to business success in Vietnam, no one can know for sure whether the Vietnamese partners they are working with will still be here tomorrow. With transparency absent from these political developments, it is challenging to guess not only what might come next, but also when.

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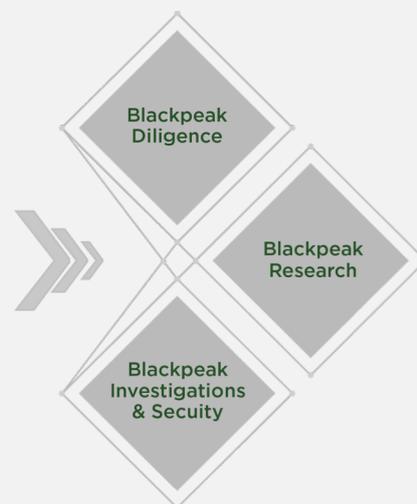
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