



The Economic Implications of Vietnam's Recent Leadership Shifts

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The political landscape in Vietnam has currently been experiencing a series of high-profile resignations. In 2023, Nguyen Xuan Phuc, the former president of Vietnam, resigned from his office due to charges of "violations and wrongdoing" by the officials under his supervision.¹ Vo Van Thuong's appointment as his successor then took place after a month. After over a year in office, Vo Van Thuong resigned officially on March 20th, 2024, following the allegations of "shortcomings" and "violations by the Communist Party of Vietnam (CPV)."²

There are speculations that the "shortcomings," which lack specific details, are likely connected to Vietnam's ongoing anti-bribery campaign, known as "Blazing Furnace," led by the influential and long-serving chief, Nguyen Phu Trong. Under Trong's leadership, pervasive corruption is considered the greatest threat to CPV's legitimacy. The 13th National Congress adopted a resolution outlining the party's ambitious objectives to enhance its credibility. These objectives aim to commemorate the 100th anniversary of independence and propel Vietnam toward the status of a developed, high-income industrialized nation by 2045.

¹ Reuters, "Vietnam President Nguyen Xuan Phuc quits amid Communist Party corruption crackdown," *CNN*, January 17, 2023, accessed March 22, 2024, <https://edition.cnn.com/2023/01/17/asia/vietnam-president-nguyen-xuan-phuc-resign-communicist-party-crackdown-intl-hnk/index.html>.

² Reuters, "Vietnam's President Resigns, Raising Questions Over Stability," *CNN*, March 20, 2024, accessed March 25, 2024, <https://edition.cnn.com/2024/03/20/asia/vietnam-president-vo-van-thuong-resignation-intl-hnk/index.html>

With Thuong's resignation, this marks the beginning of a new phase of political uncertainty in Vietnam. Since the 13th National Congress in 2021, several high-ranking officials have faced dismissal and proclamation of corruption and deliberate wrongdoings, including four Politburo members (Vo Van Thoung and his predecessor, Nguyen Xuan Phuc), a deputy prime minister, ministers, diplomats, and over 539 party members.

This shift in leadership may not strongly affect the political stability of Vietnam. The communist state has no paramount rule and is officially led by four pillars: the party secretary, the president, the prime minister, and the speaker of the house.³ Le Hong Hiep from the Vietnamese Studies Program at Singapore's ISEAS-Yusof Ishak Institute said that this purge could pave the way for cleaner and more capable leaders to rise.⁴

However, this shift in leadership raises a question about the potential impacts on the growing Vietnamese economy.

Vietnam, viewed as a vital regional player in the growing US-China trade rivalry and an Asian shining star, has witnessed significant developments.⁵ It is widely recognized as a top choice for investment due to various factors including its geographical position, affordable and skilled workforce, material supply, infrastructure, legal framework, tax incentives, and political stability.

Events such as the US-China trade war and the outbreak of COVID-19 originating in China have further accelerated the trend of foreign investors, especially those in the semiconductor industry, shifting their focus towards Vietnam. A survey by the American Chamber of Commerce in Guangzhou revealed that Chinese companies are losing market share to their Asian counterparts, with Vietnam being a prominent player. It is reported that Vietnam's exports to the US have witnessed a significant increase, with a 23% rise in the first quarters of 2020 compared to the same

³ Jonathan Head, "Vietnam: President Vo Van Thuong resigns after a year in office," *BBC*, March 21, 2024, accessed March 24, 2024, <https://www.bbc.com/news/world-asia-68622794>.

⁴ Hiep, Le Hong. 20 March 2024. "Two Presidents Ousted in One Year: What Lies Ahead for Vietnam's Political Outlook?" *Fulcrum*. Available at <https://fulcrum.sg/two-presidents-ousted-in-one-year-what-lies-ahead-for-vietnams-political-outlook/>

⁵ Jonathan Head, "Vietnam: Leaked Communist Party document warns of 'hostile forces,'" *BBC*, March 1, 2024, accessed March 24, 2024, <https://www.bbc.com/news/world-asia-68443392>

period in 2019. Specifically, electronic exports from Vietnam have seen a remarkable 26% growth.⁶

Considering that the socio-political situation is what makes Vietnam attractive to foreign investment, the abrupt departure of two presidents in less than a year and the ongoing anti-bribery campaign has caused worries among investors.

Foreign investors and diplomats accused the campaign of slowing down the government's decision-making process. Primarily, the campaign targets illegal fees and other costs enforced on domestic businesses. For example, in October 2023, the People's Court in Binh Duong Province launched a court-hearing trial against 17 defendants, including several former leaders from the Binh Duong Department of Labours, the Economic Zone Authority, and the Binh Duong Industrial Zone, for allegedly participating in the illegal issuance of over 2,800 work permits for foreigners in Vietnam.⁷ This can result in public officials becoming reluctant to fulfill their responsibilities, thus slower onerous bureaucratic procedures.

Also, Vietnam's foreign relations, investments, and potential high-level bilateral exchanges may be postponed until there is greater stability. For example, the visit of King Willem-Alexander and Queen Maxima of the Netherlands to Vietnam, scheduled for the 19th to the 22nd of March, has been postponed due to Thuong's resignation.⁸ The diplomatic tour was expected to be part of a trade mission to encourage more Dutch investors and politicians who are aiming to forge deals with Vietnam, particularly in the sectors of aviation and green farming.

The impact of these developments is reflected in the stock market, specifically on the Ho Chi Minh City stock exchange. Following President Thuong's resignation, there was a noticeable decline of nearly 3% in the stock market. Bloomberg reported that on March 18th, 2024, a significant volume of stocks, amounting to 1.74 billion shares, were traded. This surge in trading activity was driven

⁶ Tim McDonald, "Vietnam economy is Asia's shining star during Covid," *BBC*, November 19, 2020, accessed March 24, 2024, <https://www.bbc.com/news/business-54997796>.

⁷ Ha Thanh and Son Ba, "17 Stand Trial for Allegedly Issuing Illegal Work Permits to Foreigners in Vietnam," *Tuoi Tre News*, October 10, 2023, accessed March 25, 2024, <https://tuoitrenews.vn/news/society/20231010/17-stand-trial-for-allegedly-issuing-illegal-work-permits-to-foreigners-in-vietnam/76083.html>.

⁸ Hiep, Le Hong, "Two Presidents Ousted in One Year: What Lies Ahead for Vietnam's Political Outlook?"

by the speculation surrounding Thuong's resignation. Consequently, the benchmark VN index experienced a drop for the fourth consecutive session on March 19th. This decline has resulted in the 10% decline of the stock market for this year. Moreover, foreign investors' net sales also saw a decrease of \$80 million in the first two days of the week, according to Mirae Asset Securities, a reputable broker.⁹ These factors contributed to a slip in the economic growth of Vietnamese exports, which recorded a growth rate of 5.05% in 2023 compared to a higher rate of 8% in 2022.¹⁰

The next National Congress is not scheduled until 2026, and the resignation of the youthful President Thong has brought a contest for a new party leader. Hence, Vietnam's previously prized political stability is now facing a turbulent period characterized by political infighting and tribalism within the CPV.

In conclusion, Vietnam's attractiveness as a regional player has been fueled by its political stability; however, the shift in its political leadership has raised concerns for investors. With a decline in stock market performance, potentially slower government spending, and an upcoming contest for a new party leader, Vietnam's investors will need to navigate and adapt to the country's new political realities, which may present challenges but also opportunities in the future.

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⁹"International Integration Drives Vietnam's Economic Growth," *Reuters*, January 21, 2024, accessed March 25, 2024, https://vietnamlawmagazine.vn/international-integration-drives-vietnams-economic-growth-71164.html?utm_source=link.gov.vn#source=link.gov.vn.

¹⁰ Ibid.

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