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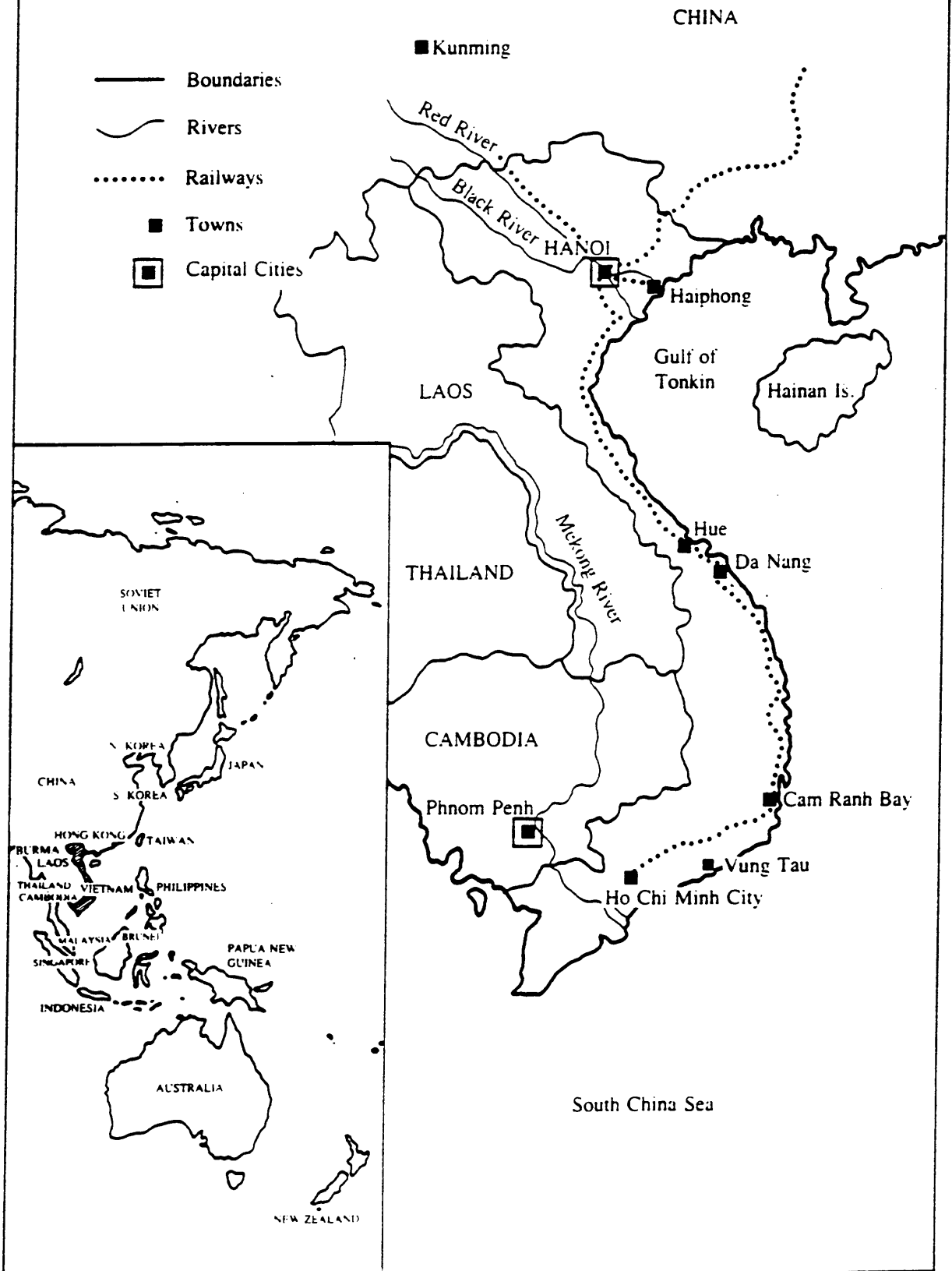
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All errors of judgement are my own.

INTRODUCTION

More than five years have passed since Vietnam introduced its first comprehensive laws on foreign investment in December 1988. This action exposed the country to the impact of market economies as the old Comecon connections collapsed. Since then, a growing number of foreign investors have applied for licences and established operations in the country as governments formed ties with Hanoi, and Vietnam gradually emerged from its economic isolation: European, Hong Kong and Taiwanese investors arrived first, followed later by Singaporeans, whose government only officially permitted trading relationships after December 1991. Other ASEAN member countries and South Korea followed. The Japanese, who continued to support - albeit increasingly reluctantly - the US-inspired isolationist policy for longer than their neighbours came later. Finally, US companies were allowed to enter the market in February 1994, when Washington DC at last lifted the trade embargo imposed on Vietnam nineteen years earlier.

Externally imposed isolation from the West had obliged Vietnam to develop in ways very different from those of its Asian neighbours, who either had benefited from substantial American aid in the aftermath of war (Japan, Korea) or had achieved much of their growth through exports to the United States. The trade embargo for many years prevented Vietnam from acquiring the best industrial technology and equipment for the funds available. It has been forced to rely on second or third best alternatives and to develop costly local production of spare parts normally purchasable overseas. Nor has Vietnam had access to the structural loans and aid from international financial institutions that have helped other countries to develop their economy and infrastructure. This need became even more acute following the withdrawal of the former Soviet Union's patronage in 1989. Multilateral funding became available to Vietnam in earnest only in 1994 - and is now presenting a major challenge to the authorities' abilities to administer the large sums promised.

The process of transition from a centrally planned to a market economy is still incomplete. Major strides have been made in developing sound economic policies - GDP growth of 8% in 1993 exceeded the 5.2% inflation rate for the very first time - and in introducing the institutional and judicial changes necessary to meet the demands of the market-based system. The government has carefully established friendly relations with many countries including those which had formerly expressed strong aversion to the regime, and will soon become a member of ASEAN. Vietnamese companies have diversified their export markets successfully, and are increasingly drawn by their overseas contacts into the international business network. All this means that there can be no turning back to the old, centrally planned economic system. Nevertheless, Vietnam has this year reached a crossroads. The decisions it has taken so far have established a firm base for future growth, but the issues it must address over the next two to three years will determine the long term course of the country's development.

In spite of the progress made in recent years in integrating the Vietnamese economy into the world system the country remains extremely poor. The growth rates it is now achieving match the average in the dynamic Asia Pacific region, but this is not sufficient for the country to catch up with living standards prevailing in its near neighbours. It will be several years before the average Vietnamese citizen reaches the income level of a resident of the Philippines, let alone one of Thailand or Malaysia. On these grounds alone it is far too early to call Vietnam a new tiger. But can it become one in the future? The challenge is for Vietnam to continue to improve the investment environment, both for foreign and for domestic business, and to be an efficient borrower of multilateral funds, while at the same time instituting important administrative reforms.

POLITICS

Historical Background

Vietnamese history reads as though the country has been at war for the last couple of thousand years, either with nature or with other countries seeking to take away a fiercely held independence. The Chinese invaded and ruled the country from the first century BC until the tenth century AD, during which time Confucian ideals were introduced to the Vietnamese. The two sides steadfastly remained bitter enemies for centuries. A hundred years of French colonial rule began in 1859. Ho Chi Minh believed he had ended the French occupation with a declaration of independence in 1945, but this marked only the start of the bloodiest four decades of Vietnam's recent history. When the French were finally driven out in 1954, after their defeat at Dien Bien Phu, the country was divided against itself, between Ho's Hanoi-based, Soviet-backed communist government and the anti-communist, US-backed regime of Ngo Dinh Diem in Saigon. UN-sponsored elections in the south scheduled for 1956 did not take place. US military involvement in the south between 1963 and 1973 contributed to the devastation of the country but failed to bring victory for the anti-communists. Further deterioration of the economic and political situation in the south followed the signing of the Paris peace treaty in 1973, leading to invasion by the north in 1975 and the declaration of the Socialist Republic of Vietnam on 2 July 1975. The invasion of Cambodia - effectively an extension of hostilities with China, which backed the murderous Khmer Rouge regime - earned Vietnam the reprobation of the world and economic isolation as its punishment. Troop withdrawal from Cambodia in 1989, together with the first steps towards a market-driven economy, marked the start of a process of gradual rehabilitation of the country in the eyes of the world.

Democracy has never played a role in Vietnam's history. In common with many other countries in the region, traditions are based on Confucian ideas of hierarchy and order. The wars of the recent past, first against the colonial French and then the Americans, were not fought to achieve civil liberties for individuals, nor were they struggles for representative government; they were fought to restore the country's national identity and independence. The legitimacy of communist party rule has long gone practically unquestioned due to the primary role of its leaders in forcing colonial oppressors from the country. This does not, however, prevent the people from being deeply cynical about the motives of many individual party cadres.

Domestic Politics

Political organisation

The key components in the power structure of the Vietnamese Communist Party (VCP - the sole political party in Vietnam) are the People's Committees at municipal, district and provincial levels, and the Central Committee from whose members are drawn the Politburo. Local administrations have always been rather important power bases, in part because of the need in wartime for each province or district to be self-sufficient and the subsequent failure of the central government to take back those powers. People's Committees today exercise authority over local government revenue, land use issues, and the granting of licences and enforcement of regulations. A measure of their importance is that the head of the People's Committee of Hanoi (equivalent to the city mayor) holds ministerial rank.

The party's Central Committee, which currently comprises 161 members, is required to meet at least twice a year to debate important policy decisions. Major changes in policy direction taken by the Central Committee include those of the plenum held in August 1979, which initiated the first economic reforms, and of the 1985 plenum which reaffirmed and strengthened them. The twenty new members elected to the Central Committee in January 1994 included its first ever businessman as well as nine southern provincial party leaders (correcting a traditional bias towards the northern members). Proceedings of the plenary sessions are not made public.

Accountability of Central Committee members has, however, increased, with corrupt or incompetent officials being dropped; the effect of this process is also to aid leadership change.

The Politburo is the executive body of the Central Committee and is therefore the party's most powerful institution. Until 1982 there was practically no change in its membership, but the steady retirement of older members (six in 1982, six in 1986 and seven in 1991 - plus the expulsion of one individual in 1990) has effected the generational change with relative smoothness¹. Three pragmatic economists were among those newly appointed in 1991. The Politburo was expanded to the record size of 17 members in January 1994. Among the four newcomers was Nguyen Ha Phan, director of the party's economic commission and vice-chairman of the National Assembly, who is believed to be a possible candidate to succeed the 71 year old Prime Minister Vo Van Kiet. He is thought not to be fully in favour either of the concept of private ownership or of foreign investment². The foreign minister's appointment to the Politburo after an absence of representation lasting several years is a reflection of Vietnam's new openness to the outside world.

Party congresses are held every five years, to ratify decisions taken by the Central Committee and the Politburo. Main agenda items are extensively discussed and commented upon in advance by lower level party groupings, and their criticisms and views are then sifted once more by higher level cadres. This system represents the main process by which 'socialist democracy' is exercised by the VCP: a bargaining process eventually will result in some sort of compromise formulation, although contradictory statements may appear in documents, reflecting different regional or ideological interests. The sharp criticism of the draft political report circulated in advance of the Sixth Congress in 1986 was in stark contrast to the 'unanimous' approval hitherto given such documents. The party leadership also uses the consultation process as a means by which bureaucratism, arrogance, corruption and other negative facets of the party structure can be attacked by the voice of the people. Generally speaking, the leadership of the VCP has acted in a much more consultative and flexible fashion than in other communist countries, and has broadly avoided the problems of ideological factionalism encountered elsewhere. One of Ho Chi Minh's legacies (he died in 1969) to Vietnam's leadership was a commitment to the pragmatic approach and the idea that particular ideologies were of less importance than success in achieving overall goals, in terms of judging the political correctness of any given policy. His emphasis on adapting Marxist-Leninist thought to the special needs of Vietnam continues today.

Despite the new constitution of April 1992, which enshrines the concept of the separation of the party and the state, the VCP remains almost inextricably entwined with the governmental process. The constitution also reaffirmed that the communist party, "acting upon the Marxist-Leninist doctrine and Ho Chi Minh's thought, is the force leading the State and society". At the same time, it stipulated that all party organisations would operate within the framework of the law.

The National Assembly (*Quoc Hoi*) is the highest legislative authority in Vietnam. Its 395 delegates are mostly party members and are elected for five-year terms after nomination and screening by the Fatherland Front - one of the mass organisations supposed to represent grass-roots opinion. All the independent candidates who presented themselves for the July 1992 elections were disqualified. One third of the Assembly's delegates now works full-time in committees, superintending the government's actions and drafting new legislation. Sessions of the Assembly are convened in June and December of each year. Since Central Committee members tend also to be important members of the National Assembly, the latter's agenda and proceedings tend to reflect accurately the VCP's priorities.

The role of the National Assembly also includes the election of the president - currently Le Duc Anh - who now holds real administrative responsibilities compared with the largely ceremonial

¹ Carlyle A. Thayer, *Political Developments in Vietnam: From the Sixth to Seventh National Party Congress*, Research School of Pacific Studies, Australian National University, 1992

² Murray Hiebert, *More of the Same*, Far Eastern Economic review, 10 February 1994

duties carried out collectively by the Council of Ministers under the old constitution. The president's functions include the right to nominate candidates for the positions of prime minister and chief justice, although their appointments must be ratified by the National Assembly. He also fulfils the role of commander of the armed forces. The prime minister now heads an executive cabinet (the Government), which replaces the old Council of Ministers. Among members of the cabinet only the prime minister is obliged to be a member of the National Assembly; his decisions on appointments to or dismissals from the cabinet are approved by the Assembly.

Appendix 1 shows the current membership of the cabinet.

The political reform process

The party conference held in January 1994 was the first ever mid-term meeting: the party's statutes had been changed at the Seventh Congress in July 1991 to allow for such an event, in which party policy and leadership would be reviewed. Given that the breakup of the Soviet Union had taken place since the Seventh Congress, the policy statements that emerged in late January might have been expected to provide a firm statement of current thinking on the future direction of reform in Vietnam. It attracted minimal interest among the average Vietnamese (who these days show more interest in business than politics), despite having apparently been delayed twice due to internal party dissent. The pronouncements made indicate a certain ambivalence between the desire of the party to continue along the path of economic reform on the one hand, and fear of the consequences - particularly the social ones - that this might engender on the other. No dramatic changes of policy seem to have been decided, and much of the criticism of the final political statement read by party secretary Do Muoi focuses on the remarkable lack of detail it contains, either on economic reform policy or on strategies for combating perceived threats to the nation including corruption, bribery, smuggling and 'hostile forces' seeking 'peaceful evolution'. The absence of a clear statement reflects on the one hand, the consensual nature of Vietnamese politics (where compromise is sought between all shades of opinion); and on the other, the likely continuation of the ad hoc approach to the reform process. By not presenting a clear programme of action, the party leaders avoid establishing an explicit target for opponents to shoot at.

The VCP retains a firm grip on power, tolerating no thought of political pluralism. The party's attitude towards critics of the system has hardened since 1989 and several proponents of a more liberal political system - including Buddhist priests - have been taken into detention. Prior to the events of 1989 in Eastern Europe and in China, more open criticism of the party and the system in Vietnam had been tolerated, complaints about the behaviour and performance of party members were openly voiced. A large number of new journals and newspapers sprang up in which many articles on the corruption and incompetence of officials, and the rise of 'bureaucratism' were published. Even before the rise of the democracy movement in China senior party figures had spoken out firmly against pluralism, rejecting the debate that was taking place among Vietnamese intellectuals educated in Eastern Europe or the Soviet Union (of whom there are many). Privately owned journals and newspapers were banned by the end of 1989.

Nevertheless, beneath the surface, profound changes have been taking place within the party. These changes have generally been more willingly embraced by Asian commentators than by western observers, whose perspective on socialist countries in transition has perhaps been excessively coloured by the events in Eastern Europe and by western standards of democracy. The Vietnamese leadership has clearly recognised that political democracy does not by itself bring economic development. It has also strongly criticised the communist parties of the former Soviet bloc for their failure to listen attentively to the party membership and their failure to overhaul an outmoded economic system: in the opinion of Hanoi, these governments had reformed too little and too late. In Vietnam, the debate centres on the pace and scope of political reform, rather than on the issue of reform itself.

Senior leaders genuinely believe in the importance of grass-roots contributions to party policy. Indeed, party policy has traditionally largely been formulated in response to pressure from below, reflecting the origins of the party as a popular patriotic movement and thus with a fundamental

legitimacy missing from other regimes in the former soviet bloc. Limited attempts towards political reform were in fact made as early as 1981, although little was achieved before 1986. By 1987 leaders were seeking to reinforce the process of 'socialist democracy'³ by reactivating the mass organisations - through the Fatherland Front, an umbrella group encompassing the Women's and Youth Leagues, the Peasants' Association, and so on. It also instituted a campaign against incompetent or corrupt party cadres. The mobilisation and involvement of the people has proved a more difficult task in peacetime than in a time of war, however, as there remains a profound contradiction between efforts to stimulate mass voluntary participation and the leadership's declared intention to retain the party's monopoly over power.

The National Assembly has gradually evolved into something more than an institution that simply rubber-stamps decisions taken in advance by the Politburo or Central Committee. The December 1988 session of the National Assembly was the first to precede the plenary meeting of the Central Committee, which hitherto had always taken place ahead of the Assembly in order to take the decisions on which delegates would subsequently cast a unanimous vote. The process of nomination and screening of candidates for election to the Assembly does now permit an element of choice for the voters. The leadership recognised that the futility of voting represents one element of the alienation of the people from the party. Nevertheless there remains some interference on the part of local officials seeking to weed out undesirable independent candidates. Still, the composition of the Assembly no longer pretends to be representative of Vietnam's formal socio-economic profile. It has a high percentage of intellectuals as delegates, and businessmen from both the private and the public sector have good lobbying links with them. Now, debate over alternative bills presented for approval may be intense. One example of this was the numerous drafts and extensive discussions preceding the passing of the 1993 law on land use rights.

Three million people (out of a total population of some 70 million) are now members of the VCP, an increase of some 50,000 over 1992. This was higher than the 36,000 who joined in 1991, but still far below the 100,000 recruits to the cause in 1987. Many of the recent recruits, however, are apparently more interested in joining for the economic benefits their membership is expected to bring than for any profound ideological beliefs. Corruption among party cadres - and the resentment that this is provoking among ordinary people - is a continuing source of concern for the leadership, despite a year-long campaign to root out graft. One of the officials caught in the campaign was the former minister of energy, who lost his job and was given a three-year prison term in February 1994 after a public trial, for his role in illegal dealings on steel supplies for the north-south power transmission line. It would have been unthinkable even three years ago for such a trial to have been held, let alone in public - hence the vast interest it generated among the residents of Hanoi.

It is nevertheless hard at this stage to see the emergence of a party that would be able to rival the social base of the VCP, given the breadth of the rural (traditionally conservative) population and the tiny scale of the urban middle class. In the longer term the creation of a middle layer of entrepreneurs and professionals as the economic reform process continues, and the redistribution of income and social prestige, may create pressure for political change, but Vietnam is surrounded by plenty of examples of Asian countries where a single party dominates the political scene, whether or not pluralism is allowed. In this context, it is more likely that the economic process will encourage the leadership to continue along the path of moderate political reform, while maintaining single party rule.

³ 'Socialist democracy' is a Marxist-Leninist concept which defines democracy as voluntary popular involvement in the implementation of the party's decisions.

External Relations

The party platform that emerged at the end of the Seventh Congress in July 1991 marked the formal turning point in Vietnam's relationship with the outside world. Besides pledging 'equal and reciprocal cooperation with all countries, irrespective of differences in political and social systems, based on the principles of peaceful coexistence', the policy document also included for the first time capitalist countries in the list of bodies with which cooperation was to be pursued. Hanoi also conceded due recognition of the economic merits of these capitalist countries over the those of the surviving socialist economies. These statements were confirmed in the 1992 constitution, which specifically mentions the promotion of "economic ties of all kinds with all nations".

Since then, Hanoi has assiduously worked to build bridges, particularly with its closest neighbours, and to become friends with everyone - without becoming too close to any single country.

United States

The Clinton administration finally announced the lifting of the 19 year-old embargo on trade with Vietnam on 3 February 1994. The news was greeted by the Vietnamese with less than euphoric enthusiasm: the strides they had made alone in the past couple of years in implementing a programme of macroeconomic and structural adjustment, completely independently of any outside financial aid, had met with the critical acclaim of external observers. Irritation had long been apparent in Hanoi at the way United States policy towards Vietnam had allowed itself to be held hostage by internal issues (the emotionally charged issue of soldiers missing in action (MIA) was compounded following the presidential elections of November 1992 by Clinton's record of youthful opposition to the war).

In some respects, and from the Vietnamese point of view, the American veto on multilateral lending to Vietnam had become a more important issue than the embargo. President Clinton's decision to renew the trade embargo in September provoked greatest dismay among American business interests, even if they were allowed to bid on projects funded by multilateral aid⁴. Former president Bush had authorised companies in December 1992 to open offices in Vietnam and prepare 'contingent' contracts; they were eager to execute these contracts but in the event had to wait another five months for the embargo to be lifted.

Diplomatic relations between Vietnam and the United States have not yet been normalised, although agreement has been reached in principle for liaison offices to be opened in each other's capitals (a US diplomat has been stationed in Hanoi since mid July 1993, ostensibly only to further the process of accounting for some 2,250 American soldiers missing during the war in Vietnam, Laos and Cambodia). Critics of President Clinton's decision to abolish the ban on trade claim that this will encourage Hanoi to abandon its cooperative stance on MIA remains; the opposing view holds that the Vietnamese will be encouraged to work all the harder to solve the cases still outstanding. (The fate of Vietnam's own 300,000 missing soldiers has largely been ignored by vocal opponents in the US of the Hanoi regime.) High level American officials involved in MIA affairs believe Hanoi has been cooperating fully with efforts to trace remains.

Normalisation will require not only further progress on the MIA issue, but also the resolution of financial claims by both governments. Washington is seeking compensation for US property appropriated at the end of the war in 1975 (estimated to be worth US\$230 million), while Hanoi claims US\$290 million of frozen assets in the USA belonging to the former South Vietnamese

⁴ The Vietnamese Foreign Ministry was quoted in the Financial Times of 15 September 1993 as saying, "The US embargo does not hinder the economic renewal of Vietnam and the ever-broadening relations in all fields between Vietnam and other countries. It merely ties the hands of the American business community and deprives them of the opportunity to compete on an equal footing in Vietnam".

regime. There is also the issue of post-war rehabilitation aid which Vietnam may seek from the United States; however, this may not be immediately pursued for fear of jeopardising the reestablishment of diplomatic relations.

In the meantime Vietnam has not yet been granted most favoured nation (MFN) trading status. This denies the country's exports the same tariff treatment given to other US trading partners and puts them at a severe disadvantage. Average import duty under MFN status is just 3% compared with 20% otherwise. For Vietnam to achieve MFN status it must sign a trade agreement with the US that must be ratified by Congress, and this happens generally only with countries where the US has full diplomatic relations. US law also prevents communist countries from becoming beneficiaries of the Generalised System of Preferences (GSP) unless they already have MFN status, are members of the IMF and the GATT, and are not controlled by "international communism". This suggests that GSP privileges will not be forthcoming for some time - particularly since an application for membership of the GATT also appears to depend on US consent. There is further concern that the United States will wish to link access to American markets to human rights issues, a subject on which Hanoi is highly sensitive. Vietnam also remains ineligible for bilateral foreign aid from the United States.

Until progress is made on these issues, American companies will still be somewhat disadvantaged compared with other foreign firms doing business in Vietnam: there remain restrictions on the sale to Vietnam of computers, telecom equipment, machine tools and other items on the Cocom control list (which is supposed to cover high technology goods, but also includes some common chemicals); no agreements on air services can be signed; and US firms will not have access to credit and insurance with government institutions for their business in Vietnam. Since the embargo was lifted, a number of Western countries have announced the reinstatement or extension of investment guarantees and export credits.

Vietnam is, however, eager to forge closer links with the United States, on the economic level as a counterweight to investments from Japan and other East Asian nations, and on the political front to balance the influence of China in the region.

China

The relationship between Vietnam and China has traditionally been hostile. Even the most cursory survey of Vietnamese history would make this very clear. Nevertheless, good relations between Vietnam and China are widely viewed as an important pre-requisite for geopolitical stability in the region. Two contentious issues troubling interaction between the two countries during the last two decades - differences over Cambodia and divergent views on the Soviet Union - have now been removed from the agenda, but several troublesome territorial disputes have yet to be resolved.

Relations with China were officially normalised in November 1991, immediately after the Cambodian peace settlement. The peace accords represented something of a diplomatic victory for China in that it succeeded in placing Cambodian resistance parties, including its own protégés the Khmer Rouges, on the same footing as the Vietnamese-backed government. Nevertheless, China would not have wanted to push Vietnam any further over Cambodia, in the wake of the collapse of communism in eastern Europe.

Having normalised relations, each side promised to observe the principles of 'independence, sovereignty, complete equality, mutual respect and non-interference in each other's internal affairs'. The reconciliation - after 12 years of open hostility - occurred in a remarkably rapid three months, warmed by Hanoi's rejection of Soviet-style reforms and the anxiety of both sides over the collapse of communism in the former Soviet bloc. Despite the formal restoration of links, the signing of numerous bilateral agreements, the ceremonial reopening of the Friendship Gate at Lang Son, northeast of Hanoi, and visits by the prime ministers to each other's capitals, mutual distrust undoubtedly remains.

The Lang Son border crossing had been closed in 1979, when China last (unsuccessfully) invaded Vietnamese mainland territory, in a move intended to punish Vietnam for defeating the Chinese-backed Khmer Rouge communists in Cambodia. The exact land border between Vietnam and China has in any case been an area of dispute since 1955, and border clashes have periodically taken place since 1974. Tensions have not abated even while work on the rebuilding of road and rail links across Vietnam's northern border continues: Vietnam accuses China of allowing its workers to cross into Vietnamese territory, and claims that China occupies 36 small areas along the border which rightfully belong to Vietnam. A slight degree of progress on this issue could be discerned in October 1993, when agreement was reached on the fundamental principles underlying settlement of the border disputes, and this was followed up in February 1994, when officials met to discuss procedural issues for the joint working group.

The last armed conflict between the two countries occurred in 1988, when China (successfully) occupied several islands in the Spratly group. Soviet warships based in Cam Ranh Bay failed to come to the assistance of Vietnam, as this act of aggression occurred at the time of rapprochement between the Soviet Union and China.

Sovereignty has long been hotly disputed over the Spratly Islands, and the Paracels which China seized in January 1974 (from a south Vietnamese garrison: the US refused to intervene in what it termed as a territorial dispute, apparently in order not to upset its new-found Nixon-Mao dialogue). These two island groups are strategically located in an area of the South China Sea that is not only thought to be oil-rich but also straddles important sea lanes. Taiwan, Brunei, Malaysia and the Philippines also claim several islands of the Spratly archipelago for themselves. The multinational nature of this dispute thus makes it by far the most difficult of Vietnam's territorial disputes to resolve. China has pressed Hanoi to accept the status quo, and moved to reinforce its stance by passing a surprise piece of legislation in early 1992 on PRC dominion over various island groups. The granting in May 1992 of oil and gas exploration rights around the Spratly Islands to an American company, Crestone Energy Corporation, angered Vietnam, which believed this contravened their 1991 agreement to resolve conflicts peacefully. It has also been a continuing source of concern for ASEAN countries, which fear renewed geopolitical disputes in the region. Beijing's politically astute choice of an American firm, given the troubled relationship between Vietnam and the US, has more recently been countered by Vietnam which has approved the participation of the US oil company, Mobil, in one of the blocks in the Thang Long (Blue Dragon) oilfield which lies close to the area of contention.

A third area of territorial dispute is the delimitation of territorial waters in the Gulf of Tonkin, where the tension was raised by the commencement of oil drilling by China in these waters in September 1992. Alarm was also caused in 1993 by China's seizure without compensation of the cargo from a number of Vietnamese-chartered vessels on the route between Hong Kong and northern Vietnam, on the grounds that they were smuggling goods into China.

These disputes would appear to be responsible for the slow implementation of the fifty or so agreements the two countries have signed since relations were normalised. Rail links have still not been reestablished, even though the lines have been completed, and the fifth official border crossing only opened in December 1993, even though the original agreement in November 1991 anticipated 21 border posts. Nevertheless, people are reported to be crossing at 36 different places⁵. Agreement was reached between Hanoi and Beijing late in 1993 on the creation of a committee to investigate border problems; one effect of the meeting that took place in February this year was to pave the way to the reopening in May of the Friendship Bridge at Mong Cai. The bridge had been built by Chinese engineers three decades ago but was blown up by the Vietnamese military in 1979 to prevent Chinese invasion; despite each side having rebuilt their halves of the bridge since 1991, the dispute over the exact position of the border in the river had prevented it being put into use.

⁵ Indochina: Vietnam, Laos, Cambodia, EIU Country Report, 1st Quarter 1994

Despite refuelled political tensions, border trade between the two countries is booming - and in itself constitutes a further source of friction, given the volume of goods smuggled across. In the absence of official road and rail crossings much of this is carried across by porter. Some estimates suggest that import and export duties are levied on as little as one-third of the total goods making the crossing. The effect on some areas of the economy is devastating. The market, for example, for Vietnamese-made diesel engines (commonly used as irrigation pumps and in marine use) has been devastated by the flood of Chinese-made machines into the country, estimated at 40,000 machines per annum of which 95% cross the border without duty paid. The cost of production of Chinese-made diesel engines is US\$10 per horsepower, versus US\$30-40 at the Tran Hung Dao engine factory in Hanoi.

ASEAN

The relationship with the countries of ASEAN has prospered since 1990 after many years of deep mutual suspicion. ASEAN had been created in 1967, in the middle of the Vietnam war in which both Thailand and the Philippines were participating on the US side. ASEAN became a union of five (later six) anti-communist, pro-Western countries deeply opposed to the three communist nations of Vietnam, Cambodia and Laos. In particular, Thailand and Singapore feared the influence of the USSR, while Malaysia and Indonesia saw China as a greater threat to the stability of the region. Throughout the 1980s Singapore was probably the most severely critical of Vietnam. Indonesia, however, has always retained good relations with Hanoi and became Vietnam's privileged spokesman within ASEAN, eventually leading the way to a negotiated settlement in Cambodia.

Until the withdrawal of Vietnamese troops from Cambodia in 1989, and the departure of the Soviet military presence from Cam Ranh Bay, the ASEAN view of Vietnam was that it represented the region's biggest security threat. That view has now given way to the recognition that regional stability will be enhanced by reducing the economic gap between prosperous ASEAN and poverty-stricken Indochina, thereby inducing more moderate political attitudes and regimes.

Several rounds of high-level visits by officials of ASEAN member countries to Vietnam and by Vietnamese officials to them have taken place during the last four years. Vo Van Kiet visited several ASEAN countries immediately before Hanoi's relations with China were normalised, indicating the importance the region holds for the Vietnamese leadership. Vietnam has made clear its wish to become a member of ASEAN, and as a first step in July 1992 acceded to the Treaty of Amity and Cooperation, which stresses economic development as a means of achieving regional peace. At present it holds only permanent observer status but agreements reached at the ASEAN summit meeting in Bangkok in July 1994 will allow Vietnam to achieve full membership status by end 1995 if Hanoi so wishes - compared to the five-year timetable originally presented. Neighbouring countries have endorsed a plan that will allow Vietnam to join a proposed regional free trade area. There seems to be a general acceptance within ASEAN that Vietnam will remain a socialist country - but with a less threatening set of political convictions than those of China or North Korea.

For Vietnam the benefits of membership of ASEAN include a substantial lessening of the risk of renewed over- (and one-sided) dependence on any single country, and enhanced diplomatic strength vis-à-vis China. It had fallen too much into the orbit of the Soviet bloc during the 1980s and is highly unlikely to wish to establish such a dependent relationship with China. ASEAN thus provides a good counterfoil. In any case, the spectre of Vietnamese dependence on Chinese trade and investment - a situation which ASEAN would perceive as a severe potential threat to the region's stability - has substantially receded in the wake of the resumption of Japanese aid and investment, renewed multilateral lending to Vietnam and the lifting of the US trade embargo. On the other hand most ASEAN-related trade and investment is located in the southern part of Vietnam, adding to the dangers of unequal economic development.

Above all, Vietnam believes that ASEAN countries are at a stage of development that can be adapted to its own purposes. Technology levels are appropriate for transfer to Vietnam, while at the same time these countries offer good lessons on how to manage foreign investment inflows and the problems caused by rapid economic growth. ASEAN countries are not so strong themselves as to pose a threat to Vietnam's own economic independence - a factor that colours Vietnam's dealings with Japan (and to a much lesser extent Korea and Taiwan) - but together can counterbalance the potentially dominant influence of Asia's strongest economies. Recognising that Japan is searching for areas to demonstrate its responsibility as an economic superpower, ASEAN fears that its member countries will lose investment to Indochina; it also fears that a Japan-aided Vietnam will emerge as a strong competitor to ASEAN, and sees a form of collaboration between itself and Japan to provide aid as the best solution. Japan would tend to concur that her own technology may be too advanced in some cases, and that assistance would do well to be routed through southeast Asia.

Indonesia and Malaysia are specifically regarded by Vietnam's leaders as potential models for their country's economic development, as well as sources of trade and investment. Malaysia provides the Hanoi government with a good example of a democratic country run by one party which achieves rapid economic growth. Petronas, Malaysia's state-owned oil company, is clearly a role model for PetroVietnam. For its part, Malaysia regards Vietnam as a market place for its own products (such as textiles) and as a source of raw materials, which can themselves be enhanced by Malaysian expertise in the areas of palm oil and rubber planting. Both Vietnam and Malaysia have spoken of their cultural proximity, and in a move designed to resolve one potential area of conflict the two sides have agreed to share the costs and proceeds of joint development of their mutual oil interests in the Spratly Islands.

Friendly contacts between Jakarta and Hanoi date back many years, based on the perception of each other as potential allies against China. Indonesia also held the view during the 1980s that Vietnam was forced into the arms of the Soviet Union by the refusal of the United States or the West to accept Hanoi's approaches. Overlapping territorial claims have not become a contentious issue, and a variety of air and marine transport treaties have been signed, as well as agreements on the promotion and protection of trade.

Despite the participation of the Philippines on the South Vietnamese side of the war, relations between the two countries now are uncontroversial. They are also (along with those with Brunei) the least developed among the ASEAN countries, at least in part because the two economies have relatively little in common.

Even the relationship with Singapore, the ASEAN country with the strongest anti-Vietnam sentiment throughout the 1980s, has become very cordial. Singapore lifted its ban on direct trade and investment with Vietnam in 1991 after the signing of the Cambodian peace accord, and granted it MFN status a year later. Singapore has rapidly emerged as one of Vietnam's biggest trading partners (Japan vies with it for top position) and its officials are increasingly active in assisting the planning of a viable infrastructure - including bringing order to chaotic traffic conditions (though progress remains to be made on this issue). The high degree of cooperation between the two governments is reflected in the various agreements signed, including investment guarantees and agreements on aviation and commercial shipping and air cargo links. Vietnam has also requested Singapore's assistance in the management of air and sea ports. It has been suggested that Vietnam intends its relationship with Singapore to mitigate the influence of Thailand⁶.

Relations with Thailand have been a little slower to mend, reflecting the long-term regional rivalry between the two countries and continued conflicting interests in Cambodia. Thailand supported parties opposing the Vietnamese-installed government in Phnom Penh, and harboured ambitions during Vietnam's period of international isolation of building a 'baht bloc' encompassing Burma

⁶ Martin Gainsborough, *Vietnam and ASEAN: The Road to Membership?*, The Pacific Review, Vol.6 No.4, 1993

and Indochina. Hanoi also suspects that Vietnamese resistance groups are being harboured in the northeast of Thailand near the border with Cambodia. Although the two countries have signed a protocol on trade, economic and technical cooperation, lingering mistrust has hindered the development of trade and investment links: Thailand is only the twelfth largest investor in Vietnam. During a visit to Vietnam by the Thai prime minister in March 1994, agreement was reached to improve bilateral cooperation in tourism and to establish a high level joint body to settle disputes over common fishing waters (both sides have arrested several fishermen over the years). Vietnam's emergence onto the world stage as a major exporter of rice will in the future exert greater pressure on traditional Thai markets, as Vietnamese farmers continue to improve the quality of their exports (measured in terms of the percentage of broken grains). In mid 1993 they agreed to cooperate in producing and marketing rice in an effort to raise world market prices. Thai interest in Vietnamese natural gas supplies, which are thought to be substantial, continues to be met with little encouragement in Hanoi.

Japan, South Korea and Taiwan

Until the end of 1992 Japan adhered more closely to the embargo than other industrialised nations, for fear of further angering its largest trading partner with whom trade friction was mounting. However, having helped to smooth the path towards peace in Cambodia, Tokyo was willing to develop a policy towards Vietnam more independent of Washington, particularly since Hanoi was seen to be acting cooperatively. In particular the Japanese government, while requiring from Hanoi some signs of a gradual political liberalisation, has recognised more readily than the US the risk that pluralism could create new political instability that would itself threaten the progress of economic reform.

Immediately after the US presidential elections of November 1992 the Japanese government broke ranks and resumed an official development assistance programme to Vietnam in the shape of a ¥45.5 billion (US\$370 million) commodity loan. Tokyo had postponed the resumption of loans three times during 1992, under pressure from Washington, before reaching this decision. Part of the money was used to repay a bridging loan organised by a consortium of six Japanese banks for the clearing of arrears on Japanese government loans⁷. Some of these loans had originally been made to the Saigon regime and were inherited by Hanoi, while the remainder related to a ¥10 billion loan made to Hanoi in 1978. (Japan had supported the South as an ally of the US, but as early as 1973 - when it was clear that North Vietnam would win the war - had established diplomatic relations with the Hanoi government.) Tokyo's independence of Washington by the end of 1992 certainly extended as far as resuming bilateral aid, but not as far as abandoning the US position on IMF aid.

Vo Van Kiet visited Japan in March 1993, the first visit by a Vietnamese prime minister to the country since 1973, in an effort to persuade Tokyo to exercise its diplomatic influence over Washington. The visit also signalled to the US government Japan's increasing willingness to develop an independent policy on Asia. In April 1993 Japan became a member of the 'Friends of Vietnam' group which readied itself to provide a bridging loan to Vietnam for the clearance of its arrears with the IMF, and did provide US\$50 million in September 1993 towards the settlement of the debt once US objections were overcome. Economic development aid worth US\$30 million was given by Japan in 1993, and a further US\$27 million will be forthcoming in 1994. In addition, preferential rate loans worth US\$480 million were pledged in November 1993 for seven infrastructure projects, including three thermal power plants. The first visit by the Japanese prime minister was scheduled for the end of August 1994.

Despite caution at the political level, Japanese firms - in particular some of the trading houses - were present in Vietnam from an early stage, thoroughly prospecting the terrain in preparation for the resumption of loans. Having carried out feasibility studies on many infrastructure projects,

⁷ Tadashi Saito, Japan's Initiatives Regarding Vietnam, Japan Economic Institute Report No.16A, Washington, 30 April 1993

Japanese companies were well placed to participate in highway, port reconstruction, power and other multilaterally funded projects. The fact that Japan has for several years been one of Vietnam's largest trading partners (although it is only sixth on the list of investors), indicates the willingness of Japanese firms to ignore the Tokyo government's policy. They have been highly active in providing technical assistance and training, often well before formulating investment plans, and assiduous in building the relationships necessary for successful business activity in Vietnam. It would also be incorrect to conclude that they have held back from investing for (Japanese) political reasons: their previously low position on the list of investors in Vietnam is rather a reflection of a conservative approach to investigating potential business activities, and they are already moving up the list (from ninth in 1991). Any hesitation on political grounds over investing in Vietnam would relate to the fear of repercussions on their business activities in the United States. In addition, the trading houses have their own internal assessments of country risk which for Vietnam permit relatively limited amounts of direct investment. At least in part this is due to the sums of money (estimated at the end of 1990 to amount to US\$409 million) which Vietnam still owes to Japanese corporations for unpaid imports during the early 1980s.

The business activities of Japanese companies have been encouraged by the decision of the Tokyo government in mid 1993 to resume offering mid- and long-term export insurance for firms doing business in Vietnam. Export insurance had been suspended in 1975, when the trading company Itochu had been unable to collect ¥12 billion (US\$96 million) in payment for the export of a spinning plant to Vietnam⁸.

Japan's influence on Vietnamese development is potentially very large and the Hanoi government is well aware of this. In the interests of avoiding excessive dependence on any one nation's technology (as a number of countries in the Asia Pacific region have done), and determined to remain outside the sphere of influence of any one country economically, the Vietnamese government looks to Europe and, now, the United States to provide the counterbalance for Japanese activity. While European firms may regard the entry of American competitors to the Vietnam market as a threat, Japanese trading houses in particular view it as an opportunity to collaborate, introducing American companies to projects through the information networks they have built up over the last five years or more.

Korean firms do not appear to regard American firms as potential partners, but they have become major investors since the Korean government reestablished diplomatic relations with Hanoi in December 1992. South Korea had fought on the side of the US-backed Saigon regime in the war and relations had been severed at its end. A liaison office was officially opened in October 1992 to facilitate economic cooperation and perform some diplomatic and consular functions. Two way trade between the two countries has expanded rapidly in recent years, and large-scale investments by Daewoo and other Korean *chaebol* have pushed Korea up the list of investing nations. Korea is frequently cited as a suitable role model of economic development for Vietnam to follow.

Hanoi bowed to Beijing's sensibilities over Taiwan, agreeing at the November 1991 summit with China to regard the island as 'an indivisible part of Chinese territory'. This has not prevented Taiwanese businessmen from becoming Vietnam's largest investors - encouraged at least in part by Taipei to diversify their interests away from investments in the mainland. Aid from the Taiwanese government's International Cooperation and Economic Development Fund has been forthcoming, including funding for the reconstruction of parts of Highway 5 between Hanoi and Haiphong. A CETRA trade office has opened in Ho Chi Minh City, and an air rights agreement, signed in 1991 but initially not implemented because of protests from Beijing, now allows both Taiwan's flag-carrier China Airlines and the privately owned EVA Airlines to fly between Taipei and Vietnam. While China is prepared to turn a blind eye to economic and trade links, any hint of a closer diplomatic relationship would not be tolerated.

⁸ *Companies press government to insure deals with Vietnam*, Nikkei Weekly, 8 February 1993

Europe and Australia

The European Community reestablished full diplomatic relations with Vietnam in November 1990 but has in the first instance limited its presence to offices coordinating a far-reaching rehabilitation programme (known as EC-IP) for returned boat people. All the Europeans working in these offices are actually outside consultants on contract to the EC. The programme emphasises job creation, both for the returnees themselves and for the communities to which they return, as well as vocational training. Small scale loans - even as small as US\$50, or as large as US\$10,000 or more, are made available to people setting up businesses, on condition that additional employment opportunities are created. Loan recovery rates have been relatively high. This makes the programme at least partially self financing, although the EC is spending US\$30-35 million a year.

A new accord between Hanoi and Brussels was negotiated in 1993, the main thrust of which is economic in nature. It follows the agreement of quotas on Vietnamese textile and garment exports to the EC signed in December 1992; these quotas were expanded under a new agreement signed one year later. The EC is also spending US\$20 million on business-related technical assistance programmes (covering accounting and auditing, investment, insurance, standards and intellectual property rights) over three years to 1997.

Bilateral relationships between Vietnam and individual EC member countries appear to be rather more active - although the EC is expected to be sending its own ambassador to Hanoi by early 1995. France, by virtue of its past connections with Vietnam, has generally been its strongest champion among Western nations. The official visit of President Mitterand to Vietnam in February 1993 was the first by a western head of state since 1975, and represented a significant step towards bringing Vietnam out of its international isolation. Four months later, Vo Van Kiet visited France in the first visit of a Vietnamese premier to the country since 1977. France had long lobbied to arrange a bridging loan for the repayment of IMF debt arrears, and put up US\$50 million (together with Japan, it was the largest contributor) when this move was finally acceptable to the US. Following the signing of a bilateral aid agreement in February 1990, France has steadily increased the amount of assistance, doubling it from 1992 to 1993 to some FF500 million (US\$85 million). Part of this is used to fund a French language and management training centre in Hanoi. France was the third largest foreign donor in 1992, behind Japan and Sweden (which maintained its aid contributions throughout the 1980s). Bilateral cooperation agreements on energy, tourism, telecommunications and transport were signed in February 1992; and on economic, legal, medical and cultural cooperation during M. Mitterand's visit; more recently, in 1994, COFACE (the French export credit and insurance agency) and the BFCE have been authorised to guarantee long term investments against political risk, in an effort to stimulate the French business presence further. The Indochina peninsula has been clearly recognised as France's last chance to increase its influence in Asia, building on the residue of French culture in the region. Many in France have a strong feeling of nostalgia for Vietnam - this is borne out by the large number of French tourists, a fair proportion of whom either lived there in their younger days or had family connections there.

The British government is to provide aid worth £15 million (US\$24 million) for technical support in three broad sectors, transportation, energy and macroeconomic management. This will include the preparation of feasibility studies or master plans, for example for small scale hydroelectric development and the development of coal-fired power stations, and training in project management for personnel in two ministries. Britain's official export credit insurer resumed cover for exports to Vietnam in February 1994, after a 12-year hiatus, following the agreements reached between Vietnam and the IMF and Paris Club of official creditors in late 1993.

Post-reunification Germany has had to contend with the problems of Vietnamese rouble debt inherited from the former GDR, and the future of the resident Vietnamese community. Bonn is keen that 40,000 of the estimated 95,000 Vietnamese living in Germany should be repatriated on grounds of illegal entry (including arrivals from the Czech Republic and other Central European countries). Discussions are under way regarding the terms of their repatriation, which are likely to be similar to those of refugees returning from the camps of Hong Kong.

Among industrialised countries Sweden has by far the longest history of contact with the Hanoi government, having maintained its economic assistance programme despite the invasion of Cambodia by Vietnam in December 1978. Since 1965 it has provided an estimated US\$1.3 billion in non-refundable aid, particularly in forestry and healthcare and more recently in banking. Aid in 1994 is expected to total US\$25 million. Despite the advantages that close political links might be expected to create, Swedish business interests have been slow to capitalise on them and fewer than ten investment projects have been signed. Agreements on investment promotion and guarantees were signed in September 1993, and a double taxation agreement in April 1994.

Australia is the other industrialised country with strong interests in Vietnam. It had chosen to restore diplomatic relations with Vietnam as early as 1983, even though its troops had been fighting on the side of the US-backed Saigon government during the war, and in spite of the pressure put on it by other western and ASEAN nations to maintain Vietnam's isolation. In April 1992 it joined the list of countries resuming aid programmes, again in advance of its industrialised country partners, and gave US\$85 million for the period 1992-95. Cooperation between the two countries includes a series of agreements on air services, economic and trade cooperation, and investment encouragement and protection. An important result of Canberra's willingness to deal with Vietnam were some significant contracts won by Australian companies, for example the telecommunications system established by OCTI (now called Telstra) in 1987, and BHP's oil exploration and exploitation contract in the important Dai Hung field. It has also been the driving force behind the formation of Friends of Hanoi, an association formed to protect the cultural heritage of Hanoi.

Russia and Eastern Europe

One of the most dramatic changes in Vietnam's external relationships since 1990 has taken place with the countries of the former Soviet bloc. Whereas connections with market-oriented countries have shown a fairly slow but steady improvement, links with Russia and Eastern European countries have been practically severed. The collapse of communism in the former Soviet Union and its satellites was profoundly shocking, and a source of great concern, to Vietnamese leaders. While on the one hand the chaotic events taking place in Russia have been shown on Vietnamese television as a warning of the dire consequences of allowing liberal political views, on the other hand the leadership has been critical of Soviet and East European leaders for their inability to recognise the need to embrace internal change. Pro-reform party members in Vietnam muster their arguments for change (which do not include pluralist politics) by pointing to the turmoil there.

Soviet involvement in the Vietnamese economy became obvious at all levels after 1979. Until that point, Vietnam had also been receiving technical assistance and aid from China, but this was abruptly terminated after China drove its Khmer Rouge protégés out of Cambodia. Vietnam then joined the Council for Mutual Economic Cooperation (CMEA), and received strategic inputs for its heavy industry, including oil products, fertiliser, steel and cotton, at concessionary prices. Any trade deficits accumulated by Vietnam were translated into long term loans from the CMEA's International Bank for Economic Cooperation. The Soviet share of these debts, which Russia has now inherited, amount to some Rb10 billion. In 1991 Hanoi accepted in principle Moscow's demands that the debt should be repaid in dollars, and that interest should be paid on the sums scheduled for repayment in 1991-96. Talks between the two governments have so far failed to agree on a mutually acceptable exchange rate.

Indicative of the decline in the trading relationship is that, in 1988, the Soviet bloc provided 57% of Vietnam's imports, but by 1991 this share had declined to only 5%. Soviet Union itself accounted for 30% of Vietnam's total exports in 1988, and 60% of its imports; by 1991 only 10% of Vietnam's exports went to Russia and 14% of its imports. The ability of Vietnam to overcome the drastic shift in its trading pattern has been widely recognised.

More recently, there have been some signs of a revival in trading activity with the Commonwealth of Independent States (CIS): the Vietnamese agricultural products company, Vigecam, is reported to have signed a deal worth US\$500 million in November 1993 with the Russian company,

Infocenter under which rice, coffee, vegetables, fruit and meat would be exported from Vietnam by the end of 1994 in exchange for fertiliser and construction steel⁹. Much of the import/export business between Vietnam and its former benefactors was done under countertrade agreements.

The Soviet Union had, of course, also provided substantial military assistance and maintained a strong presence at Cam Ranh Bay which has subsequently been wound down. Rumours suggest a secret agreement between Moscow and Hanoi which would give Russian ships exclusive use of Cam Ranh Bay until the year 2004, although visits by the Russian navy have apparently still been blocked because of the effect this would have on relations with ASEAN and the US¹⁰.

Dissatisfaction with the effectiveness of some of the official development aid received from CMEA countries had already been voiced before the collapse of communism there. One observer, reflecting on the distribution capabilities of Vietnam's state-owned enterprises, remarked that they were good only at distributing Soviet aid. More recently, the government has been dismayed to discover the damage wrought on the oilfields by Soviet technology and the waste entailed in the flaring of gas from the fields exploited by Vietsovpetro. The Russian joint venture company in 1991 agreed to return five of the eight blocks it has been allocated (including the one where Dai Hung is located, citing lack of financial resources to exploit them) and relinquished a further three in January 1993 (Blocks 5, 9 and 16).

Moscow apologised to Hanoi in September 1993 for the appearance of a Soviet intelligence document, which appeared to suggest that Vietnam held more prisoners of war in 1975 than it had acknowledged to the US authorities, in the days immediately prior to President Clinton's deadline for deciding whether or not to renew the US trade embargo. Another document, also unauthenticated but on similar lines, which increased Washington's mistrust of Hanoi at a crucial moment, had emerged from Soviet archives six months earlier, forcing a three month delay in the US lifting of the veto on multilateral lending to Vietnam.

Multilateral Institutions

The IMF requires the support of all the main industrialised countries in order to make loans to a country. Hence, the United States' 19% of the voting rights has proved more than sufficient to block lending proposals to Vietnam. Although the World Bank has, on occasion, ignored obstacles raised by a member country in order to extend financial aid and was believed to be willing to help, Vietnam fell foul of the requirement that borrowing countries be in good standing with the IMF. Hanoi had fallen into arrears on an outstanding debt to the IMF in 1985, at a time of economic crisis undoubtedly exacerbated by the US trade embargo, on loans extended in 1977.

Once the peace accords on Cambodia had been signed in late 1991 the US became increasingly isolated in its opposition to IMF lending to Vietnam: no other country supported US demands for a full accounting on MIAs as a condition for resuming lending. The US veto on Vietnamese access to multilateral borrowing facilities was finally lifted at the IMF directors' meeting in July 1993. (Expectations that this obstacle would be removed at the April 1993 meeting were again held hostage to MIA-related stories, this time emanating from a document alleged to have been discovered in Soviet archives, which claimed that Hanoi in 1975 held twice as many American prisoners-of-war as it had admitted to Washington.) Once the veto was removed Vietnam was able to clear its arrears with the IMF amounting to some SDR100m (US\$140 million), with the help of a group of countries led by France and Japan, and thus open the way to its renewed eligibility for loans and for negotiations on an economic adjustment programme.

The arrears settlement was arranged in two parts: a US\$85 million bridging loan led by France's BFCE and Japan's Exim Bank, to which a total of sixteen banks from 11 countries contributed -

⁹ Indochina: Vietnam, Laos, Cambodia, EIU Country Report, 3rd Quarter 1993

¹⁰ Tadashi Saito, *Japan's Initiatives Regarding Vietnam*, Japan Economic Institute Report No.16A, Washington, 30 April 1993

including Singapore and Thailand; and cash grants of US\$55 million of which US\$15 million each came from France and Japan, and the remainder from a variety of developed countries including Sweden, Australia and Switzerland. These arrangements were finalised in early October and an agreement on new institutional borrowings followed rapidly thereafter. (This included a US\$85 million stand-by credit from the IMF, to permit immediate repayment of the bridging loan.) Vietnam also paid off its US\$13.6 million debt to the Asian Development Bank.

The World Bank had already prepared projects worth US\$228 million, for implementation beginning in the months following the regularisation of Vietnam's status. These included much-needed support for the crumbling primary education system, and reconstruction of parts of Highway 1 between Hanoi and Ho Chi Minh City. The ADB was similarly ready with US\$250-300 million for programmes to finance agriculture, irrigation, and road and port development. The loans from each institution are repayable in 40 years, at 0.75% (World Bank) or 1% (ADB) interest. Further, the IMF has granted credits worth US\$223 million.

A Donor Conference arranged by the World Bank and the UNDP in Paris in November 1993 brought together 23 country governments (but not the United States, which attended merely as an observer) and 17 international agencies. Together they pledged for 1994 US\$1.86 billion in aid, including the sums already announced by the World Bank, ADB and IMF. Much was in the form of soft loans, the rest in cash grants. Again, Japan emerged as the most generous donor, with a commitment of ¥60 billion (US\$555m). Other major contributors were South Korea (US\$65m), the UK (US\$60m) and France (US\$50m). Malaysia, Indonesia and Thailand, traditionally recipients of aid, are also reportedly ready to contribute. Rescheduling of Vietnam's US\$500 million debt to government creditors (representing the bulk of its hard currency debt) took place at a meeting of the Paris Club of western creditor nations in December 1993.

The promised donations stand in stark contrast to drip-feeding of aid from the non-Soviet bloc Vietnam received during the 1980s. Western aid in 1981-90 amounted to barely US\$840 million, of which US\$530 million was given by Sweden and US\$100 million by Finland¹¹. The United Nations Development Programme (UNDP) and UN Industrial Development Organisation (UNIDO), both widely recognised as politically neutral development partners, have been active in Vietnam for several years. UNDP assistance amounted to some US\$86m in the period 1986 to 1991, given almost entirely in the form of grants rather than loans. Total aid flows in more recent years have steadily increased, from some US\$150 million in 1991, to US\$250 million in 1992 and to about US\$720 million in 1993, thanks to the resumption of assistance from Japan.

The question which now arises is how well Vietnam is equipped to absorb these substantial inflows of aid money? Its record on this issue in the first half of 1994 has apparently not been as good as initially anticipated, and the country already risks the loss of some of the financing promised under bilateral agreements unless it moves more rapidly to satisfy the criteria laid down by the donor institutions¹². The Hanoi government has received widespread praise for the handling of the economy through the crises of the last three to four years - notably for the redirection of trade towards market-oriented countries once the Soviet bloc collapsed, and the capping of inflation. Nevertheless, concerns have been raised about Hanoi's tendency to micro-manage the economy. World Bank officials suggest that it will be Vietnam's internal policies that determine the country's overall rate of growth, rather than the volume of external financing. The government hopes to attract US\$7-8 billion in foreign aid and credits and US\$12-13 billion in foreign investment by the year 2000, to be matched by US\$20 billion in internally raised funds, in order to meet its goal of doubling income per head by the turn of the century. The recent syndicated loan arranged through Thai banks and Hanoi's apparent intention to issue sovereign debt in the short term conflict with the advice of the World Bank and its sister institutions that Vietnam have recourse only to supranational financing.

¹¹ OECD Development Assistance Committee, Annual Reports.

¹² Interviews, Hanoi and Ho Chi Minh City, August 1994

SOCIO-ECONOMIC BACKGROUND

Land and Resources

Vietnam is strategically located on the western edge of the South China Sea and shares common borders with China, Laos and Cambodia. Its land mass compares roughly in size to that of Japan (330,000 sq. km vs. 370,000 sq. km) but is considerably smaller than that of its near neighbour Thailand (519,000 sq. km). Although it is nominally a resource-rich country, enjoying substantial deposits of minerals including (offshore) gas and oil and large areas of fertile land, on a per capita basis it is at best reasonably- rather than well- endowed with resources.

Despite its proximity to the dynamic economies of east and southeast Asia, Vietnam ranks among the poorest countries in the world. Fifty years ago, standards of living were comparable to those of Thailand; now they are only one-sixth that level. The World Bank states average per capita GNP at below US\$200 and the Asian Development Bank US\$220 in 1992, although other data suggest a somewhat higher figure (despite the best efforts of the World Bank and the UNDP, few statistics generated in Vietnam are completely reliable). Estimates of GNP/capita for Ho Chi Minh City vary between US\$500 and US\$700; in Hanoi, the figure would be between US\$300 and US\$400.

The Red River (Songkoi) delta region in the north and the much larger Mekong delta region in the south are linked by the Annamite chain of mountains. Looking at a map, Vietnam is often described as resembling a carrying pole with a rice pannier on either end: long and thin in the central region (less than 150km wide in some places), its northern and southern parts broaden out substantially. 75% of the land is mountainous or forested. Northern Vietnam is much more rugged than the south and its climate is less obviously tropical: there is a recognisable cool season in the Red River delta from December to March.

The capital, Hanoi, is the largest city in the north, with a population of nearly 3 million; its port, Haiphong (100km away) has 1.5 million inhabitants. In the south, Ho Chi Minh City (formerly Saigon, a name by which it is again increasingly known) is Vietnam's largest city with a population of 4.2 million. Da Nang, Vietnam's fourth largest city, is located in the central region of the country.

Demographics

Vietnam is the second most populous nation in South-East Asia after Indonesia, with a population of more than 70 million. The vast majority - 78% in 1992, compared with 85% in 1960 - are rurally based. The low rate of urbanisation (and consequently industrialisation) constitutes one of the major points of difference between Vietnam and its former allies of the old Soviet bloc. The pace of urbanisation may be expected to increase more rapidly in future as industrial activity expands, particularly if the agricultural sector continues to be neglected by public investment, as population growth exerts unsustainable pressure on available agricultural land, and eventually, as agriculture becomes more mechanised.

The annual population growth rate, currently 2.1%, is likely to remain above the government's long-term target of 1.7% for some time as the 'baby boomers' of the immediate post-war period are now reaching child-bearing age. As a result of the long period of conflict, Vietnam has one of the lowest male/female ratios in the world, especially in the over-35 age group. 40% of the population is less than 15 years old, whereas only 7% is over 60. According to the 1989 census, the median age among Vietnamese males was 19 years, and among women, 21 years. Life expectancy at birth is now 66 years. On this and other socio-economic measures surveyed by various international bodies, including infant mortality, female literacy rates (important for the spread of knowledge on health and welfare issues) and health professionals per capita, Vietnam compares quite favourably even with middle-income Asian countries. Despite such achievements

the vast majority of the population remains very poor, with an estimated 45% of children suffering from malnutrition and less than half the population having access to clean water supplies and effective sanitation systems. Appendix 2 provides comparative details of certain socio-economic indicators.

Average population density in 1992 of only 209 people per sq. km masks substantial regional variations which mirror the geographical lay of the land: considerable in the northern and southern delta areas, and sparse in the narrow highland areas in between. Over 60% of the population lives in the Red River and Mekong deltas, which together comprise just 24% of total land surface. Density is also significantly greater in the Red River delta than in the Mekong delta, and the average available agricultural land per person correspondingly lower: just 462 m² *per capita*, according to some observers. Farming regions in Vietnam are three times more densely populated than equivalent areas in Thailand or China. Most Vietnamese proper (around 87% of the total population) live in the lowlands, while a number of significant ethnic minority groups scrape a subsistence living in the northern mountain and central highlands areas.

The workforce numbers around 31 million, but as many as 20% of these are unemployed and many more under-employed. Between 1988 and 1991, well over one million public sector employees lost their jobs, including 320,000 in the civil service. Many more job losses can be expected as the long process of rationalising state-owned enterprises and the bureaucracy gets under way. Some of these redundant workers have certainly been absorbed into the private and household sector: the government has been providing low interest rate loans and training to unemployed civil servants. Although the government announced the creation of 963,000 jobs in 1993, this was by no means sufficient to cope with the 1.2 million people who annually enter the labour force. At the end of 1992, 5.4 million people out of 20.6 million aged between 15 and 30 did not have jobs. Unemployment has been swelled in recent years by the return of many workers from government debt-repayment contracts in the USSR and East Europe, and by demobilised soldiers back from Cambodia. Despite the departure of some workers on new overseas work contracts (around 5,000 in the first half of 1993 were sent to Libya and Korea), this can only represent a partial and temporary solution to a seemingly intransigent problem. Government officials are reportedly in negotiation for other labour contracts with Finland, the Czech Republic, Poland, Lebanon, Japan and Malaysia.

The unemployment problem is worse in northern Vietnam than in the more entrepreneurial south (estimated at 17% in Ho Chi Minh City versus 25% in Hanoi), although this gap may diminish as the concept of private business takes stronger hold in the north. Given the wide-spread and tolerated moonlighting by state enterprise workers (of whom there are more in the north than in the south) employment may in fact be fuller than appears on the surface. Some hopes for a solution to the unemployment problem may also lie with the foreign business community, but to date Vietnamese working in foreign-invested enterprises number only 45,000. In contrast, the Nhan Dan (People's) newspaper has estimated that the private sector has created 400,000 jobs.

The ethnic Chinese population in Vietnam is centred on the district known as Cholon (meaning 'big market') in Ho Chi Minh City, comprising over half the 800,000 resident throughout the country. They originally came from such areas in China as Fukien, Guangdong and Hainan, and therefore have good connections with both Taiwan and Hong Kong. Prior to the fall of Saigon in 1975 they had attained a dominant position in the southern economy but lost much of their wealth when private businesses were expropriated or closed down following reunification of the country. Approximately 450,000 fled following the harsh clampdown on remaining private business activity in 1978-9 (and in the wake of the Chinese invasion in 1979). Nevertheless, historically the ethnic Chinese population has rarely suffered the type of harassment meted out in some ASEAN countries. Today, they once again represent a powerful economic force in the south - they are believed to have strong influence over the gold and foreign currency markets - and are now a key factor in the building of business relations particularly with Hong Kong and Taiwan. So far, the government has been content to recognise the benefits of their prosperity for the country as a whole.

A further 1.5 million Vietnamese live overseas, around half of them in North America. Other major concentrations are in France and in Australia. Known as the Viet Kieu, they have become an important source of financial and material aid for family members still in Vietnam. Most have their origins in the entrepreneurial south, and many are now beginning to bring market-oriented skills learned in the West back to their home country. Initially regarded with intense suspicion by the authorities, the benefits brought by the returnees are better appreciated now and favourable terms are available to those investing in their home country. Nevertheless, a careful watch is kept on those Viet Kieu elements believed to be hostile to the regime.

An abundant supply of skilful labour remains one of Vietnam's biggest competitive advantages, particularly as other developing Asian countries seek to upgrade their own economies to more capital intensive operations to escape the problems of their own labour shortages. Foreign executives with experience of investing in the country would not describe the costs of their operations as low, because of substantial add-on charges, but it is true to say that many people in Vietnam work for extremely low pay.

The labour force is reasonably well educated and the work ethic is strong. Literacy estimates vary from 88-94% of the population over the age of 10, much the highest rate among surrounding countries excluding Singapore. This compares with an illiteracy rate of 15% in 1979 and, according to some commentators, 95% in 1949 when the struggle for independence was just beginning. (The exception to Vietnam's good record on education lies with the minorities of the northern and central highlands, where literacy is as low as 10%.) These achievements - and those in health care - have come under threat in the last few years as education and welfare budgets have suffered in the government's attempt to reduce its budget deficit. A report on education and human resources prepared under the auspices of the UNDP and UNESCO in 1992 highlighted the declining quality and efficiency of the education system, in particular the high drop-out rates at all levels, the failure of the system to meet the needs of the new economy, and the difficulty faced by graduates of technical and vocational schools in finding unemployment (secondary and tertiary enrolments used to be an automatic passport to state sector employment, but this is no longer the case as the public sector shrinks). On the one hand teachers are inadequately paid, particularly following the transfer of responsibility for financing education from central to local government, and on the other hand pupils are being withdrawn from school to participate in family business activity. This is especially true in rural areas in the south of the country. Modest school fees introduced in 1989 (for secondary schools, VND 8,000/month (US\$0.75) in Hanoi or VND 14,000/month (US\$1.25) in Ho Chi Minh City) to provide additional funding to the school system have proved beyond the reach of some families. Since 1990 signs of official concern at the decline in educational standards have increased, and education's share of the government budget has gradually begun to rise once more: this is critical as Vietnam's strategists have predicated their plans for economic development on a literate, reasonably skilled and forward-looking workforce. Some commentators have expressed doubts about the ability of such countries as Malaysia and Thailand to join the ranks of the NIEs such as South Korea and Taiwan, because of the low percentage of students continuing on to higher education and the small number of engineers each country produces every year: this too should be a warning for Vietnam not to let its educational standards slip.

There are an estimated 60,000 engineers in the country, thanks to large-scale training programmes carried out mostly in the Soviet Union or in East Germany, and an abundant supply of technically and scientifically trained staff. The cream of today's Vietnamese students are choosing to specialise in computer engineering, suggesting the country is ripe to become a hothouse for software and computer startups. Even line workers are often able to work directly from technical drawings of products which may be entirely new to them - a state of affairs generally not possible in most ASEAN or other developing countries and which, properly developed, constitutes a clear potential competitive advantage for Vietnam.

The country's lack of foreign exchange resources and virtual isolation from most of the western world during the 1980s has sustained the impressive level of inventiveness (or 'make-do') developed to a remarkable degree during the war years. Scientists work to find ways of copying

technology or learning to do without it as a means of reducing the country's import bill: how to make chemical reactions take place without the use of (expensive) solvents, e.g. in producing a plant-growth hormone; or how to use tissue culture to grow seed tubers of a particularly disease-resistant potato. Work done at Hanoi's Institute of Mathematics is said to be world class, while on a more mundane level workers show considerable ingenuity in keeping operational obsolete machinery or adapting machinery to meet the new demands of foreign customers, or producing specialised items.

Among the most urgent human resource needs is for training in international practice and exposure to modern technology. Foreign business executives comment frequently on the receptiveness of the average worker to new technology, but an equally regular complaint is the lack of business expertise. Few Vietnamese have professional office skills such as double-entry book-keeping, let alone market economics, although some residue of professional talent trained in law and accountancy 20 years ago remains in south Vietnam. People in the north are still more naive than their counterparts in the south about business, but are learning fast: they only need to make a mistake once, and foreign executives are generally surprised by the level of innate business acumen to be found. Much creative talent and productive labour has been stifled by the bureaucratic management mechanisms of a subsidised, centrally planned economy. The level of individual economic activity obvious to all visitors to Vietnam is testimony to the resilience of the people.

A surprising number of officials speak foreign languages - French, English, Russian, German (from study tours in East Germany) - though English is the foreign language now most actively taught. Japanese is also becoming popular, whereas French and German are not widely taught. A recently conducted survey of foreign language schools in Ho Chi Minh City indicated that English accounted for 90% of the language classes followed. (Perhaps in a bid to stem the declining popularity of the French language in its former colony, the French Agency for Cultural and Technical Cooperation signed an agreement in March 1994, to include Vietnam in the Commonwealth of French-speaking Nations.) Despite the economic imperatives forcing some children out of school, the Confucian ethic of education remains important, and packed night school classes of young adults learning foreign languages or computer skills are a common sight.

Religion has never been formally banned under communist rule in Vietnam (although its practice was by no means encouraged), and it seems unlikely that the government would attempt a crackdown now. There was a mass exodus of Catholics from North Vietnam to the south, fearing religious persecution, when the French departed in 1954. Buddhist monks have at times been severely critical of the government, and the authorities claim that recent arrests among monks in Hue were for their political activities rather than for any religious beliefs they hold. Official estimates indicate that approximately two-thirds of the population have some sort of religious affiliation, and that one-third are practising their beliefs; unofficial estimates suggest that the actual figures may be higher. The largest religion is Buddhism, with 10 million followers; there are 6 million Catholics, 2.5 million Cao Dai believers and 1.5 million followers of Hoa Hao - the two last groups being sects specific to Vietnam. Muslims are a tiny minority of about 50,000.

An issue which could become a major source of social unrest - and is already well recognised at the highest levels of the government and the party - is the widening disparity in incomes. According to preliminary results from a government household survey, some two-thirds of the country's wealthiest people live in the cities, while nine-tenths of the poorest live in rural areas. Another survey suggests that 68.5% of all households have a monthly income of VND 150,000 (US\$13.75) or less. Inequalities in income distribution have increased substantially since the reforms of 1986, both in rural areas since the land distributions of 1988 (see p.21), and in urban areas as a result of government spending on industrialisation. People in the northern and central highlands have an income only one-third the national average, whereas farmers in the Mekong delta earn about 25% more than the average, making them the richest rural inhabitants. Those in the Red River delta earn only half as much as their southern delta counterparts.

Agriculture, forestry and fisheries

Over 70% of the labour force is directly dependent on agriculture for a living, despite the limited area of cultivable land available (especially compared with near neighbours such as Thailand and Burma, which have 1.5 - 2 times the total land mass). Just 22% of the land is available for farming, mostly for annual crops of which rice is easily the most important. Although there is potential to increase the area of land given over to agricultural purposes, perhaps by one million hectares, much of this reclaimable land is of poor quality as a result of erosion from deforestation or other environmental problems. At the same time urban encroachment and population growth are putting pressure on existing cultivated land.

The agriculture component of GNP achieved very high average real growth of 6.5% a year between 1988 and 1992, a rate of development matched by few other countries. Nevertheless, the share of agriculture and forestry activities in total GNP had dropped by 1992 to 38.2%. The State Planning Committee (SPC) anticipates a continued slow decline in agricultural contributions over the next 10 years, to around 35% of GNP. Commodities and food products still account for some 50% of export earnings, although this share too has fallen since 1990 as revenue from exports of oil, and to a lesser extent from light industrial goods, has risen. Table 15 on p.61 shows the principal agricultural contributions to exports.

The rural economy will continue to play a very important role in the country's development over the present decade. The relative successes of the sector in recent years have to be understood against a background of serious neglect by the government, first under the central planning system which attempted to favour heavy industry, and still today, as effort is put into the development of light industry. In the period 1986-91 only 17% of state investment was devoted to agriculture, compared with 43% going to industry. The momentum in growth of food crop production will certainly prove unsustainable over the longer term, both because of constraints on available land, and because dependence on world export prices of commodities gives insufficient incentives to farmers to intensify their production. Domestic demand arising from fast population growth will also be a limiting factor. Attention must therefore be given to adequate investment in agro-processing activities if Vietnam is to create a firm base for future economic development.

Although the reforms of 1988 are generally assumed to have marked the turning point in Vietnam's management of its agricultural sector, a significant milestone was passed as long ago as 1981, when Directive 100 (commonly known as "Contract 100") signalled an official shift away from the concept of farm cooperatives as the principal unit of agricultural production and towards the re-establishment of the peasant household. The most important revisions were initiated in Resolution 10 of mid-1988. Significant among these were the freeing of rice and input prices, privatised distribution of inputs such as fertiliser and seed grains, greater freedom of choice in crop planting, and the reduction of land taxes. Above all, farmers were given land use rights for at least 10 years, providing them with the incentive to increase the area of land under cultivation and to raise productivity in existing areas of cultivation. By 1989 compulsory purchases of rice by the state (at below free market prices) had been abolished following the termination of subsidised distributions of food grains to state sector employees. Private traders, at least in theory, were also given equal rights with state enterprises to purchase crops from farmers. Accompanied by tax cuts, new legislation on land use rights passed in 1993 gave peasants growing annual crops or involved in aquaculture 20-year renewable land tenure, or 50-year tenure for those engaged in cultivation of perennial crops. The same law limits maximum land holdings to three hectares per family, but many farmers have acquired more.

The results of the 1988 reforms have been spectacular. Farm household incomes rose rapidly with the improvement in crop yields and with the entitlement of farmers to sell their produce on the free market. Vietnam moved from a serious food deficit in 1987 to a position of overall food self-sufficiency in 1989 (based on annual per capita consumption of 260 kg of rice). Despite the difficulties faced by the agricultural sector in recent years (including shortages of fertiliser and other inputs during the period immediately after the withdrawal of Soviet aid, and frequent natural disasters) strong crop production overall has more than kept pace with population growth. In the

Table 1: Paddy production per capita by region (kg/person)

Region	Year				
	1988	1989	1990	1991	1992
Country	266.8	293.3	290.2	289.9	311.5
Regions:					
North & midlands	176.7	194.6	166.6	133.8	188.5*
Red River delta	248.9	274.4	259.8	225.5	
North central coast	171.5	181.4	185.8	180.6	
South central coast	227.2	239.9	234.8	250.0	498.8†
Central highlands	148.0	158.0	148.6	160.5	
NE southern region	105.3	106.2	129.9	101.6	
Mekong delta	525.7	622.0	649.5	695.5	

* All northern provinces of Vietnam, including Thua Thien Hue province

† All provinces south of Thua Thien Hue province

Source: Adam Fforde and Steve Seneque, Vietnam - the Economy and the Countryside: Does Rural Policy Development Really Matter?, 1993

Mekong delta, for example, per capita paddy production reached 695.5 kg in 1991 compared with 525.7 kg in 1988, an increase of more than 30%. Table 1 shows per capita rice production in the different regions of Vietnam. Approximately 20 million tonnes of paddy equivalent is theoretically sufficient to meet the needs of the population, based on 20 kg/month per capita staples consumption, but the infrastructural weaknesses of the internal market hamper distribution and contribute to continued food shortages in some regions. This is particularly true for the northern and central highlands, and the north central coastal regions, where food production is 10-15% below needs.

The inadequacy of the existing transportation system renders inter-provincial rice shipments too expensive for the viable movement of stocks from surplus to deficit regions, and tends to make local food self-sufficiency a prime objective rather than the production of crops where local conditions may offer a comparative advantage. Farmers are also constrained by their limited access to efficient rural credit institutions. Despite these shortcomings, since 1989 Vietnam has generated significant marketable surpluses of rice for sale abroad.

The objectives laid down for the agriculture industry between now and the year 2000 lay stress on agricultural productivity and qualitative improvements in output. In particular, the government seeks to strengthen the food processing industry, which includes creating closer links between it and primary producers, and to promote other rural industries such as the livestock feed industry. Products must be diversified to cater to growing domestic consumer demand and to export markets. The potential for diversification of food production is hindered in the short to medium term by domestic market constraints, namely, the limited ability of rural families to attribute more of their income to food consumption. Livestock and fishery products are generally considered in Vietnam primarily as income earners, rather than as components of the daily diet. Nevertheless, the quality of processed products aimed at export markets as yet remains rather poor but is improving with the help of imported technology and know-how.

The rice crop

Rice is easily Vietnam's most important agricultural crop, both in terms of domestic consumption and as a strategic commodity, being now the country's second largest export earner after crude oil. The climate permits two harvests per year in the north and three in the Mekong delta (although the condition of irrigation and drainage systems may not), of which the winter-spring crop is the

Table 2: Agricultural production and rice exports, 1986-93

	Paddy (rice) output (m tonnes)	Total staples output (m.tonnes paddy equiv.)	Rice exports (m.tonnes)
1986	16.00	18.38	-
1987	15.10	17.56	-
1988	17.00	19.58	0.09
1989	18.99	21.52	1.42
1990	19.22	21.49	1.62
1991	19.62	21.99	1.03
1992	21.59	24.22	1.95
1993	21.90	24.2	1.70

Source: General Statistical Office

most important. The Mekong delta accounts for 45% of all the rice produced in Vietnam (but 90% of the rice for export, so most of the financial benefits of liberalisation have accrued to the south) and the Red River delta for a further 25%. The Ministry of Agriculture aims to raise rice production in the Mekong delta by 4% per annum to the turn of the century, at which point the region's annual production would be 15 million tonnes and exports would be just below 2 million tonnes.

Some 21.9 million tonnes of rice were produced in 1993, out of total paddy equivalent production - rice, maize, cereals, sweet potato, cassava - of some 24 million tonnes in 1993. Total food crop production thus attained a similar level to the previous year, when a record winter-spring rice harvest had pushed output up 10.1%. Total food production in 1994 is now expected to reach 24.5 to 25 million tonnes; at the start of the decade, the 25 million tonne level was not expected to be reached until the year 2000. Table 2 shows the growth in principal food grain production and exports in recent years.

Rice dominates agricultural export activity. Exports in 1992 reached a record 1.95 million tonnes against an initial target of 1.5 million tonnes, and earned Vietnam some US\$400 million. In 1993 1.7 million tonnes of rice were sold on world markets. This would suggest that Vietnam has achieved its goal of attaining a stable level of rice exports in excess of one million tonnes per year. In doing so it has become the third largest supplier of rice to world markets after the US and Thailand. The surplus rice crop represents not only an important source of government revenue, generated from an export tax of 3% to 10% according to product quality, but also an important source of financing for imported goods, particularly fertiliser¹³. The United States itself is now a new market for Vietnam, with the first shipment in a 90,000 tonne contract scheduled to leave Saigon port in early May 1994. One US company has contracted to buy from Vietnam Food Corporation #2 of Ho Chi Minh City a minimum of 300,000 tonnes of rice per annum for the next thirty years - and is thought to be considering investment in an instant rice processing facility 200km southwest of Ho Chi Minh City. Vietnam has also contracted with Tehran to supply 300,000 tonnes of rice per annum to Iran, in a move to mop up surplus stocks among southern rice exporters. Although Myanmar may eventually emerge as a new supplier of rice to world markets, climatic change in the rice-producing areas of South America and increased demand expected from Africa for imported rice point to further growth in global rice trade in the 1990s and a ready market for Vietnamese output.

Rice productivity per hectare has already improved substantially, but further yield improvements should be achievable, particularly if fertiliser consumption rises above current low levels and greater investment is made in irrigation systems: output in 1991 of 3.1 tonnes/hectare compared poorly with 4.4 t/ha in Indonesia. Quality has also risen so that Vietnam's exports now compete

¹³ Adam Fforde and Steve Seneque, *Vietnam - The Economy and The Countryside: Does Rural Development Policy Really Matter?*, Australian National University, 1993

more directly with traditional Thai markets. In the early exporting years, most of Vietnam's rice was destined for low income nations in West Africa, the Philippines, India and China; as a result of investments in drying, husking and polishing equipment, a high proportion of exports are now high quality grade (5-10% broken grains) and so can command better prices. Nevertheless, Vietnam's 5% broken grain rice in late 1993 was 20-25% cheaper than equivalent Thai rice.

Rice is the only commodity still on the export quota list (originally established as a mechanism for Vietnam to meet its trade and debt service obligations with the Comecon countries)¹⁴. This means that, although domestic rice production and consumption have been completely liberalised, the government continues to exercise control over who may export, the volume, and the minimum price. The reason for maintaining the export quota system is to ensure sufficient supplies of rice to the domestic market at low prices. Selected state trading companies are given 60% of the total rice export quota, their exact share reflecting performance in the previous year, with the remainder allocated to any other trading company holding the relevant trading permit and able to meet certain export criteria. Quotas, which are adjusted every quarter to reflect the state of the harvest, cannot be bought, sold or otherwise transferred to different enterprises. The government allocates markets and clients to quota-holders, cutting competition between firms, and the Ministry of Trade sets minimum export prices by reference to those of other rice-exporting countries, with a view to guaranteeing reasonable profits to farmers.

While Vietnam's recent achievements in increasing agricultural output are laudable, serious problems remain to be resolved. One of these is that regulations making it difficult for licensed state exporters to deal directly with farmers severely disrupt the efficient functioning of the market. Banks, for example, limit the amount of local currency that can be carried across provincial borders and so restrict trade. Exporters also have to pay additional government taxes, making it cheaper for them to purchase through intermediaries which pay only turnover tax. Such middlemen, however, have little interest in the quality controls demanded by foreign buyers and are often responsible for delivering poor quality grain to fill export contracts. This exacerbates the problems of shippers waiting to receive sufficient rice of exportable quality. The biggest single difficulty for rice exporters is their lack of capital and their consequent inability to maintain sufficient warehoused stocks to fill ships in port even while the farmers themselves are sitting on massive stockpiles. Foreign buyers, aware of the oversupply situation domestically (and of the high costs of shipping from Vietnam), have been able to force exporters to sell at below the government-ordained price and in return to buy fertiliser for import at a higher price. Many state-owned trading companies reportedly suffered heavy losses on such rice export/fertiliser import deals in 1993¹⁵. The rice exporters have been further squeezed by the withdrawal of government subsidies to loss-making state enterprises and the reluctance of banks to lend to companies already unable to repay their outstanding debts. That said, the government is attempting to alleviate difficulties this year by providing US\$95 million in loans to help food companies purchase 1.6 million tonnes of grain and other surplus stocks.

Farmers' success in raising the productivity of their land, particularly in the Mekong delta, combined with the additional paddy put into cultivation, has generated such output that the internal market price of rice has also plummeted, leading to severe discontent among producers. Some 2 million tonnes of rice remained unsold in the Mekong delta from the 1993 crop, yet the winter 1993/4 crop again provided a bumper harvest. Unless the peaks and troughs of supply and demand can be smoothed out, farmers may be discouraged from intensive production in the future. Because the Mekong delta farmers seem to be specialising increasingly in rice production (output of other produce is stagnating as rice production rises) they are more vulnerable to fluctuations in the rice price than their counterparts in other regions, who may depend on non-rice staples for up to 40% of their calorific intake. Ironically, drought in the north threatens to create

¹⁴ *Vietnam: Policies for Transition to an Open Economy*, UNDP-World Bank Trade Expansion Programme, Country Report, December 1993

¹⁵ *Vietnam Investment Review*, 11 April 1994; Murray Hiebert, *Against the Grain*, Far Eastern Economic Review, 14 April 1994

food shortages there, but transportation and distribution difficulties are obstacles to the rapid diversion of excess southern supplies to northern markets.

Industrial crops

The priority given to rice and other grain production for national food security reasons has tended to divert attention away from development of industrial crops such as sugar cane, peanuts and cotton. Compared with the success of its rice exports, growth in Vietnam's exports of other crops has been relatively limited. Producers have struggled to find new markets to replace those of the former Soviet bloc. Under-investment in food processing facilities prevents many agricultural provinces from reaching required international standards, with the Ministry of Agriculture admitting that 70% of all equipment is more than 20 years old. The continuing monopolisation by state farms of production of cash crops such as coffee, tea, and rubber appears also to be a limiting factor, as the opportunities for independent growers to participate are restricted by high entry costs. The state-owned company Vinatea, for example, controls the tea industry through a network of 21 enterprises and generated export revenue of US\$25 million in 1993. The Ministry of Agriculture has made a cautious start to the transfer of some industrial crop gardens and fruit trees (primarily tea, coffee, oranges and lemons) and of livestock from state farms to private households.

Marketing of output is also somewhat disorganised, as local export companies compete with national state traders, while foreign purchasers try to make contact directly with growers. It is also not only the rice traders who lack capital to purchase from the growers: during 1993 state-run sugar refineries (based in the north), for example, had insufficient cash flow to purchase sugar cane from growers (who are concentrated in the south). This resulted in wasted crops, under-utilised refinery capacity and increased imports of refined sugar to meet domestic demand. Domestic transport systems are also preventing the development of an efficient market in, for example, certain vegetables and fruits: northern producers enjoy a comparative advantage over their southern counterparts, but the lack of chilled storage facilities on trains, the expense of shipping by truck, and the tariffs payable at provincial border crossings together raise the price of northern vegetable sold in southern provinces by 300-400%.

Coffee represents Vietnam's most important non-rice agricultural export, generating US\$104 million in foreign exchange in 1993. The export value in 1994 may be higher in view of the upward trend in world coffee prices during the year, although it seems that most of the 1993/4 was sold in advance of the price rises. The bulk of production from the 140,000 hectares under coffee goes overseas: 2.2 million bags (128,250 tonnes) of coffee from the 1992/3 (October to September season) crop of 2.4 million bags were exported. Total production of coffee for 1993/4 is estimated at 2.6 million bags (150,000 tonnes). Successful cultivation on Vietnam's central plateaux of the new hybrid robusta/arabica, Katimor, introduced from Indonesia suggests that Vietnam will continue to raise output and exports. The new hybrid crops more heavily than the robusta traditionally grown, and also produces coffee beans after only three years. Because the bushes need to be selectively harvested for only the perfectly ripe beans, their labour intensity is ideal for the small family plantations springing up now that the state farms have lost their monopoly. Vinacafé, the state coffee import/export company, These developments are encouraging some of the large European coffee traders to consider investing in coffee sorting facilities in Vietnam. Until now, Vietnam has lacked the skills to do more than rudimentary sorting by size of bean¹⁶, and most of the value-added activity has taken place in Singapore. European countries, particularly the Netherlands, Switzerland and Germany, are the biggest purchasers of Vietnamese coffee. Nestlé originally began trading other products against coffee purchases, but countertrade dwindled after 1991 and they switched to buying 4,000 tons/month¹⁷ through dealers in Singapore, thus avoiding delivery risk. Two Japanese trading companies have

¹⁶ Over twenty different coffees can be made from a single variety of bean, graded according to the amount of debris, colour, size.

¹⁷ Tradescope, February 1994

been making direct shipments of coffee totalling 4,000 tonnes/year from Vietnam to Japan, but again, considerably more is shipped via Singapore. The possibility of increased reliability of supply and of quality may encourage such companies to buy directly from Vietnam in future.

Vietnam emerged as the world's third largest exporter of cashew nuts in 1993, behind India and Brazil, with a volume of 60,000 tonnes and a target for the year 2000 of 100,000 tonnes. This compares with exports of just 300 tonnes in 1990. Production is almost entirely by small private farmers, concentrated in the central and southern coastal areas; Effectively 100% of their output is exported, since cashew nuts are a luxury good by virtue of the skilled and highly intensive processing required (both are factors which suggest this industry has great potential for Vietnam)¹⁸. Raw materials at the factory gate costing US\$700/tonne are converted into unroasted nuts ready for export worth US\$5,000/tonne (but note that 75% of raw material weight is lost). The main difficulty for processors is the capital intensity demanded during the short growing season. While it is possible to store the raw materials for future processing, the factories generally lack the necessary finance. Nevertheless, the processing industry in Vietnam has been stimulated by the emergence of the southern provinces of China as a major new export market, and this has reduced dependence on Indian cashew nut traders. In past years Indian traders have capitalised on Vietnam's lack of facilities by buying the crops and carrying out the value-added processing in India for re-export to European and American markets, the world's major markets for cashews. In the 1993 season several Indian traders are reported to have defaulted on major contracts with Vietnamese companies. Now, the task for Vietnam is to diversify their market for fully processed cashews away from China and towards Europe and the United States.

Rubber plantations are concentrated in the area to the north of Ho Chi Minh City, producing 80% of the country's output in 1993. Total rubber output grew an impressive 25%, to 86,000 tonnes of dried latex - nearly 85% of which is of first class quality, and which found markets in Malaysia, Taiwan, India and Russia. Latex production for 1994 is expected to reach 100,000 tonnes. The state has been slow to divest its interests in rubber plantations, and under-investment has been a major problem in recent years, but there is some reason to hope that the recent granting of 50 year land-use rights to growers may change this situation. Foreign investment from such countries as Malaysia may also help to improve techniques and quality of output.

Seafood products

Vietnam's 3200km coastline and extensive inland waterways are home to an important fishery industry employing over one million people. Nevertheless, water resources remain generally under-developed since aquaculture is in its infancy (although some areas suffer from pollution and over fishing). Shrimp, prawns, clams, squid, snapper, cuttle fish and mackerel are but a few of the many species fished mainly in the Tonkin Gulf, the Central offshore range, the Nam Bo East Sea and the Gulf of Thailand. Ambitious goals call for the tripling of marine products' export turnover to US\$1 billion by the year 2010, from US\$368 million in 1993. The target volume of the annual fish catch and aquaculture output in the year 2000 is 1.6 million tonnes, compared with 1 million tonnes in 1992. Traditional markets in Japan, Hong Kong and Singapore have been expanded to include Europe, the Mediterranean, North America and South Korea, although the volumes sold here are relatively small at present. Marine products are currently the country's fourth largest foreign exchange earner. Although shrimp now accounts for more than half of exported marine produce, the industry has substantially expanded its range in recent years. 80% of the catch is exported in frozen form.

Fishing has increased following the abolition of import tariffs on fishing catches in 1993. Now, many captains employed by state-owned fishing enterprises effectively hire their boats from the company and operate them with their crews on a profit-sharing basis.

¹⁸ The process is also somewhat dangerous as the oil in the shell is toxic - but it is also the natural equivalent of phenol, which is used as a hardener for paint, and is therefore useful as a low-value by-product in the making of Vietnamese lacquerware.

Seaprodex is the core state-owned company of the marine products industry. Its activities have expanded rapidly since it was permitted to start experimenting with self-management in 1981 (an example of 'fence-breaking' - see footnote 37). Today it accounts for about 40% of Vietnam's seafood exports. Seasimpex, which is part of the Seaprodex group, has benefited from a UNDP grant and Danish technical assistance to build a new, international standard, canning factory in Ho Chi Minh City. Today, the marine sector boasts some 160 processing plants with a daily capacity of 760 tonnes and 130 import-export companies. Some US\$15-20 million is to be invested by the year 2000 in a new factory with annual processing capacity of 40,000-45,000 tonnes. Investments in processing and refrigerated warehouses will assist Vietnam to raise the share of high value-added products it exports.

More than 20 foreign invested enterprises are now involved in aquaculture. Vietnam expects that 30-40% of its total catch will eventually come from fish farms.

Forestry

In 1943 forested areas covered 19 million hectares; by 1976 the depredations of slash and burn agriculture, clearing of land for conventional agriculture, logging without replanting, and deliberate destruction of 1.7 million ha of forest land during the war had reduced that area to an estimated 8.4 million ha. The problems of deforestation are exacerbated by the use of wood for fuel in some 90% of rural and urban households, and vast areas of land are now barren. Today, perhaps 5 million ha of natural forest remain, although some foreign experts suggest the actual figure is much lower. The Ministry of Forestry controls approximately one-sixth of forested land, with the remainder the responsibility of provincial authorities. Many of the latter have turned a blind eye to hundreds of wood-processing enterprises operating illegally. Even legally licensed companies, including foreign-invested ones, are experiencing raw material shortages because of the government's decision to reduce annual timber production from one million cubic metres to 800,000 cubic metres in order to conserve supply. (Total production capacity at the legally operating processing facilities alone is some 4.7 million cubic metres.) The Central Highlands remain relatively heavily forested because of difficulties of access; in any case, no processing facilities are available to produce value-added timber products.

The government aims to raise forest cover from the present 24% to at least 40% of the country through ambitious reforestation programmes. Numerous programmes to replant mangrove forests have been implemented, with survival rates reported to be good in the provinces around Ho Chi Minh City but rather poor elsewhere. The plan now is to achieve better management of existing resources by allocating greater amounts of forest land to non-state entities and individuals under long term tenure agreements. One of the problems faced by fuelwood afforestation attempts on denuded or barren land is the low price of fuelwood, making such projects economically non-viable at least as long as supplies from 'free' natural resource forests are available. A number of experimental eucalyptus plantations for wood chip and pulp are at an early stage of development in the area around Da Nang. A joint venture with a Japanese trading company to produce wood chips is expected to start exporting its output to Japan in summer 1994.

Environmental issues - soil erosion, flood control - and the need to realise the potential of the forests on a sustainable basis are a source of government concern. Vietnam's first environmental protection law was passed in December 1993. It creates a broad framework for measures necessary to halt further degradation of the environment in both rural and urban areas, but specific regulations on industrial discharge, water quality, and so on have yet to be formulated. Decrees on the protection of forests, land and mineral resources have already been promulgated, but enforcement of the regulations is poor.

Mineral resources

Vietnam's economically most important natural resource by far is oil, which accounts for roughly one-third of total annual export earnings. It also has substantial reserves of gas, although the

extent to which these are commercially exploitable has not yet been determined. In addition, it has important reserves of high quality anthracite and other types of coal. Together with hydropower, this means the country has considerable indigenous primary energy potential.

Other mineral deposits have yet to be fully surveyed, but enough is known to indicate viable quantities for exploitation and the probability of a significant contribution to national development. Estimated reserves include:

coal : at least 3 billion tonnes
 bauxite : 7 billion tonnes
 apatite : 2-3 billion tonnes
 iron ore : 540 million tonnes
 chromite : 19 million tonnes

Small-scale mining of copper, zinc and other metals takes place, but often illegally and is the cause of serious environmental damage. The exploitation of mineral resources by foreign investors has been hampered by the absence of related legislation, although a few agreements outside the oil and gas industry (which is subject to separate legislation) have been signed. The Law on Mineral Resource Exploitation should finally clarify the position for foreign companies seeking contracts to extract gold, gemstones, coal, tin, lead, zinc and copper.

Vietnam is the world's biggest producer of apatite, a mineral used in the manufacture of fertiliser. Traditionally the bulk of annual output, around 1.5 million tonnes, has been exported to the Soviet Union. The north and central regions of the country boast high quality reserves of iron ores (ferrous content 64-67.5%), but as with other mineral deposits, commercial exploitation is hindered by the lack of legal and physical infrastructure. Vietnam also possesses deposits of precious gemstones, mainly rubies. These are found near Yen Bai (in the province of Hoang Lien Son to the northwest of Hanoi) and in An Giang Province (in the Mekong Delta close to the border with Cambodia).

Coal

The bulk of Vietnam's coal stock, some 2,300 million tonnes in proven reserves¹⁹, is high quality anthracite, the largest such reserve in Asia and far too good to be used for Vietnam's coal-burning power stations. Anthracite reserves are all to be found in the northern province of Quang Ninh, around Cam Pha and Hong Gai. In addition, smaller quantities of coking coal, lignite, thermal coal and semi-anthracite are to be found in other parts of Vietnam. Only just over one-third of the coal mined comes from underground mines; the rest is open-cast. More than half of the country's coal-bearing areas have not yet been properly explored, but it is probable that they would require underground mining.

Full capacity utilisation at the country's thermoelectric power stations requires some 3 million tonnes of coal a year. However, the commissioning of the Hoa Binh hydroelectric power station (see below) has sharply reduced demand for coal, while export levels remain low for logistical reasons. Production of approximately 5 million tonnes in 1993 was far from either design capacity (9 million tonnes) or levels of output achieved in the early 1970s, but it did represent a small recovery from 1987 levels. The position of the principal coal mines is made worse by the existence of many outcrop mines that usually undercut the prices of the main mines. Ironically, these small mines are often run by units also under the aegis of the Ministry of Energy. Dust remaining after the transportation of lump coal is mixed with clay and water and the resulting patties used for home consumption as well as in brick and porcelain kilns.

¹⁹ According to the World Bank, this assessment is based on the old Soviet system. Using the Western classification, Vietnam's proven anthracite reserves would be in the region of 500 million tonnes.

Exports, destined mainly for Japan, the Philippines, South Korea, China and Europe, have rebounded from just 200,000 tonnes in 1987 to some 1.2 million tonnes in 1993. A Japanese trading firm has been shipping Vietnamese coal to the Philippines for use in a joint venture copper smelter operated by Kawasaki Steel, and further opportunities to serve the Asian steel industry may emerge. The closure of anthracite mines in the UK, France, Germany and South Africa appears to offer Vietnam scope to increase its own exports, but this depends on the country's marketing skills and a reduction in transport costs by upgrading port facilities²⁰. Coalimex, the central state-owned enterprise, has lost its monopoly on trading since Quang Ninh province companies were authorised to compete in the early 1990s, but their experience is limited compared with their ambitions and larger exporters continue to use the services of Coalimex. The installation at the port of Cam Pha of a screening machine for high quality coal and the dredging of the port in 1991 have helped to improve export capacity, but a major barrier to further expansion is the high cost of ocean freight rates paid from Vietnam. These are largely a function of the slow loading rates achieved and the consequent high demurrage charges.

Oil and gas

Ending its traditional reliance on imported petroleum products, Vietnam in 1992 became a net energy exporter for the first time. It had only joined the ranks of oil-producing nations in 1986, but for the time being still relies on imports of refined petroleum products. In 1993 export earnings reached US\$861m, equivalent to 29% of the country's total exports.

Crude oil production totalled 5.9 million tonnes in 1993, a 13% increase over the 5.2 million tonnes pumped in 1992, and is scheduled to reach 7 million tonnes in 1994. Despite rapidly rising output, and the importance of crude oil to the country's balance of payments, Vietnam remains a relatively small producer in world terms, and a medium scale one in Asia, as Appendix 4 shows. Current output of around 115,000 barrels/day (bpd) from a single field compares with a forecast total output of 300,000 bpd from three fields by the turn of the century. Although such output lies at the bottom end of the 300-500,000 bpd range previously estimated, it would nevertheless bring Vietnam's annual crude sales by the year 2000 to some US\$2 billion.

Table 3: Vietnam's trade in oil and oil products

	Petroleum prod. imports (US\$m)	Crude oil exports (US\$m)	Share of total exports (%)
1986	492	-	-
1987	531	30	5
1988	556	79	11
1989	449	200	15
1990	524	390	23
1991	485	581	28
1992	570	790	32
1993	900	861	29

Note: 1986-9, transferable rouble imports; 1990, transferable rouble + convertible area imports; 1991-3, convertible area imports.

Source: World Bank

The quality of Vietnam's crude oil is reported to be in the top 15% of the world's resources. By 1993 four offshore fields had been identified: Bach Ho (White Tiger) in Block 9, Dai Hung (Big Bear) in Block five, Rong (Dragon) in Block sixteen, and Thanh Long (Blue Dragon) also in Block five. Since only one of the more than 30 wells drilled over five years from 1988 had struck a commercially viable prospect, and this was of gas rather than of oil, by 1993 it seemed that Vietnam's exploitable oil reserves may not be as great as had originally been anticipated. The Dai Hung field, for example, is now believed to hold reserves in the range of 100-500m barrels against an initial estimate of over 800m barrels. Estimates of total recoverable reserves nevertheless seem to fall into the 2-3bn barrel range compared with the 4-6bn barrel range talked of previously, but drilling over the next couple of years in remaining southeastern blocks and off

²⁰ *Vietnam Energy Sector Investment and Policy Review*, World Bank, June 1993

the north central coast will help to determine the range more precisely. The announcement in June 1994 of a potentially major oil find by JVPC (a Mitsubishi Oil subsidiary) in Block 15-2 just northeast of Bach Ho revives otherwise flagging hopes. Oil struck in the first test drill in the Rang Dong (Aurora) field appears to be the same type of high quality, low sulphur crude oil found at Bach Ho, and the rate of flow (10,346 bpd) suggests the discovery is one of the largest in Asia²¹. If the promise of this field is substantiated, exploitation would still be at least two years away. Other strikes in Vietnamese waters are rumoured. Inevitably, any finds, rumoured or confirmed, will have an impact on the forthcoming bidding on surrounding blocks.

All fields identified to date are in the south; exploration activity to the north, in the Bay of Tonkin and on-shore in the Hanoi basin, has yielded nothing so far. Exploration continues in other areas, but these are progressively further from the Vietnamese coast and in deeper waters. Although recent advances in technology enable viable oil and gas recovery in deeper waters and rougher conditions than before, areas away from the coast fall into the zone of the South China Sea disputed with China. The Thanh Long field, to the west of the Spratly Islands, comes into this category. In 1992 China provocatively awarded exploration rights to a US-based company, Crestone Energy Corp, in an area adjacent to the Thanh Long field. This action was later mirrored by Vietnam, which in 1994 awarded the rights to oil exploration in the Thanh Long field to Mobil, in a consortium with three Japanese companies, soon after the US trade embargo was lifted. Both Vietnam and China are thus seen to be using foreign oil companies to stake their territorial claims.

Mobil had made the original oil discovery in Vietnam in 1975, on the continental shelf offshore from the Mekong delta in what is known as the Mekong Basin. That field is now called Bach Ho, but events at the time conspired against its exploitation. The find was only developed a decade later by Vietsovpetro (VSP), a joint venture between PetroVietnam and the USSR. It is still the only field - and Vietsovpetro the only company - producing crude oil commercially. Subsequent experience has shown that use of inappropriate Russian technology has actually damaged the field and that extensive remedial work is necessary to maintain production levels. One Western oil company believes that output could have been three times the level achieved by the Soviets if modern technology had been used. Output from the field is likely to peak in 1994.

Rong (30 km southwest of Bach Ho) and Dai Hung are both expected to begin pumping oil in the autumn of 1994. VSP had discovered the Dai Hung field, 160 km away from Bach Ho and 280 km from shore, in 1987 but lacked the financial resources to develop it (or even sufficiently modern technology to accurately estimate its size) and was ultimately forced to relinquish control. It has the most complex geological structure of the fields discovered to date. Australia's BHP emerged from the international bidding process as the field operator, at the head of a consortium comprising Petronas of Malaysia, Total of France, Sumitomo of Japan and PetroVietnam.

VSP handed back to the government five of the eight blocks it had been assigned in 1987, and these have been progressively parcelled out under production sharing contracts (PSC) among the oil multinationals. The remaining parts of the three blocks where oil has already been found, and which remain unexploited by VSP, were scheduled under the original terms of VSP's contract to be returned to Hanoi in January 1994.

Little direct exploration for gas has yet taken place in Vietnam, but a significant amount of associated gas is present at existing oilfields. To date the small Tien Hai gas field is the only one not to be associated with oil, but drilling has indicated gas-prone geological structures off the northern and central coast and in the region known as the Malay Basin in the Gulf of Thailand. Jurisdiction over the Gulf of Thailand is divided between Vietnam, Malaysia and Thailand, and gas discoveries have already been made by companies operating in the Malaysian and Thai waters.

²¹ 'Lucky' strike, Vietnam Investment Review, 27 June -3 July 1994

It was only in 1993 that the first efforts were made to harness the gas present at the Bach Ho oil field. Until then it had been flared off by Vietsovpetro at the rate equivalent to over 12,500 barrels/day of oil²². This has reportedly upset the Hanoi government so much that other oil exploration companies are likely to come under heavy pressure to develop associated gas discoveries. Whereas the development of oil resources is relatively easy, since a small installation and a mooring buoy for the tanker to take the oil being pumped up are all that is absolutely necessary, gas is more costly to exploit. Not only does the volume available have to be in exploitable volumes to justify investment in an LNG (liquefied natural gas) plant - in the range of 6-8 trillion cubic feet (TCF), according to industry specialists - but markets must also exist either for export or domestically.

A 124 km pipeline to bring the gas ashore from Bach Ho is currently under construction (by Hyundai Heavy Industries of Korea) and expected to be operational by autumn 1994, but an extension or a second line will be required to bring in the gas from BP's reported find some 350km offshore. PetroVietnam was reported to be unwilling to authorise the marginal extra cost involved in laying a pipe with a diameter large enough to take gas from all potential fields in the area, rather than one simply to serve Bach Ho²³. To reduce the cost of collecting gas from more distant fields, sharing agreements would need to be made with operators of other wells to cover the cost of t-joints at each junction installed. This would of course have a bearing on the price of the end product. In contrast, the price of crude oil is clear: the world market price prevails.

A consortium of foreign companies comprising British Gas, Mitsui & Co and Transcanada Pipelines was appointed in June 1994 to make a feasibility study for the exploitation of the gas brought in. The US\$400 million project envisages construction of onshore facilities and installations at Ba Ria (close to Vung Tau, the base for oil operations in the south) to pipe the gas brought from Bach Ho to Ho Chi Minh City. Considerable debate surrounds potential uses for the gas culled from Bach Ho and other fields, particularly regarding the viability of constructing Vietnam's first fertiliser plant. In the immediate future, however, the priority is likely to fall on power generation particularly to serve the growing energy needs of the south which in the recent past has suffered severe shortages.

Feasibility studies are also just beginning on the construction of an oil refinery in the south, to reduce the country's dependence on imported oil products. Imports of petroleum products are growing at the rate of 15% per year, to an anticipated 4.5 million tonnes in 1994. Singapore is an important supplier of such products (as well as a major purchaser of Vietnam's crude oil). The studies are expected to last for two years, pushing the date for likely commencement of operations to 1999 - assuming that the US\$1.2-1.5 billion project is finally deemed economically viable. Approximately two-thirds of the projects is expected to be externally financed. Vietnam has made several unsuccessful attempts to construct its own refinery in the past, which may explain the lengthy decision-making process this time before a consortium including Total of France and CPC of Taiwan was chosen. Six international consortia on a shortlist had submitted their plans for a refinery as early as 1991, but the contract was not awarded until 1993. The proposed refinery will be capable of processing 130,000 barrels of oil per day, against a minimum viable size for a refinery of 100,000 bpd. A share of the output of refined products is likely to be for export, to serve the growing markets of the region. The Hanoi government has recently mooted the prospect of a second oil refinery to be built further north.

Power generation

Current per capita consumption of electricity is a mere 2 kilowatt-hours (kWh) per annum, considerably below usage in Thailand and other neighbouring countries. The timely discovery of oil and gas reserves gives Vietnam the flexibility to develop thermally generated power capacity to

²² *Vietnam Energy Sector Investment and Policy Review*, World Bank, June 1993

²³ Interview, Ho Chi Minh City, February 1994

supplement existing hydropower capability, at a time when demand for electricity is expected to grow rapidly.

The north, south and centre of the country at present have their own power companies operating separate transmission systems. There is no national grid, the country operates on both 220 volt and 110 volt systems, and each region requires substantial rehabilitation of existing distribution and transmission networks. According to the Ministry of Energy, losses of electricity during transmission amounted to 25.9% of all electricity generated nationwide in 1993, compared to 18.3% in 1985, due to theft and dilapidation. The situation is worst in the north, with over 55% lost in Haiphong. (The World Bank believes the overall loss situation is actually much worse.)

Power supply to major cities, investment projects and irrigation systems are the main priorities, with substantial sums also needed for the renewal of the distribution system. The estimated cost of power generation plans for the decade to the year 2000 is likely to be around US\$4 billion. A World Bank estimate based on an average growth scenario concluded that US\$2.6 billion in power generation expenditure would be needed by the end of the century, rising to US\$11.6 billion by the year 2010. Much of this would have to be financed by overseas aid.

Total installed generating capacity in 1992 was 3,400 MW, of which hydroelectric power installations accounted for 65%, but the terrible state of some power generating units, particularly the coal fired plants, reduced Vietnam's total usable capacity to something over 2,000 MW. Additional capacity has come on stream since 1992 with the completion in March 1994 of the eighth turbine at a massive dam and hydroelectric plant in Hoa Binh, southwest of Hanoi. The Hoa Binh complex, which was originally begun as a Soviet aid project, now has a total capacity of 1,920 MW. Additional hydroelectric potential exists upstream of Hoa Binh, at Son La (giving rise to potential for electricity exports to China one day). Work on the 720MW Yali hydropower plant began in late 1993; the power generated is intended to hook into the north-south transmission line currently served by Hoa Binh (see below).

In fact, the country has sufficient hydropower potential to cater to all current national requirements - although scope for conflicts of interest exist between water used for electric power generation and its use for water-borne transport, irrigation and agricultural or aquacultural purposes. Most hydroelectric potential is in the north. This factor, together with the lower level of economic activity compared with the south, means that the north has never suffered the constraints on development due to power shortages common in the southern part of the country. Power cuts do occur irregularly in the north, but these are due to faults in transmission.

Thermal coal-fired power stations are mainly in the north. The most modern is at Pha Lai, within 100 km of Hanoi, but all suffer from poor design, inadequate fuel transportation and delivery facilities as well as causing substantial pollution in surrounding areas. Their usage has declined sharply as more turbines at the Hoa Binh station came into operation. Potential exists for a new coal-fired power station at Quang Ninh (the main coal-producing area of Vietnam). A number of small gas turbine units in the north are fed by the minor Thai Binh gas field not far from Hanoi. In the future, gas gathered from the Bach Ho and other oilfields in the Mekong basin should provide a much-needed energy source in the power-starved south. A gas turbine plant in northern Vietnam was dismantled and relocated in the south in 1992 to provide some desperately needed electricity there - a feat which the manufacturers of the plant said was impossible (this is one example of the inventiveness of Vietnamese engineers). Existing diesel powered stations in the south and central regions are fuelled by imports.

Power shortages in the dry seasons of 1992-3 imposed major constraints on the development of industry and agriculture in the southern part of the country. During the 1992 dry season, businesses in Ho Chi Minh City were without electricity for up to four days per week and those which could afford it bought reconditioned US army generators. Considerable maintenance and repair work undertaken resulted in considerable improvements to supply, such that by late 1993 at

least one major private manufacturer in Cholon claimed that power failures would no longer be a serious problem²⁴.

A long-term solution to the power crisis in the south over the medium to long term must lie in the harnessing of the gas currently being flared off from Bach Ho and from new discoveries. In early 1992 Prime Minister Vo Van Kiet - himself a southerner - proposed and championed a high profile project to construct a 500 kV north-south transmission line to carry 2.5 bn kWh of power from Hoa Binh to Ho Chi Minh City in order to resolve the immediate needs of the south. Sceptics suggest that an ulterior motive in building the 1500 km line was to keep the south dependent on the north for its power generation capacity, and that in any case the surplus of power in the north will disappear quickly once foreign aid and investment begin flowing strongly.

The project attracted intense criticism from the start, both in the National Assembly and from foreign experts, on the grounds of inadequate planning (construction began before a feasibility study was carried out), sketchy specifications for interested foreign suppliers and excessive cost for a country as poor as Vietnam (the initial budget of US\$268m doubled to nearly US\$600m). Bonds issued to finance construction also failed to attract investor interest and had to be forced onto already loss-making state enterprises. The project has also provided countless opportunities for corruption and embezzlement. In a well-attended public trial in February 1994, the Minister of Energy and several officials of state enterprises were jailed for their role in faking invoices for steel supposedly provided for the line.

Nevertheless Hanoi finally appears to have defied its detractors, at least in part, by completing the task only one month behind schedule: after testing during April and May 1994, electricity began to flow down the line to businesses in Ho Chi Minh City in June 1994. Even World Bank officials had believed it was technically impossible to complete such a mammoth project in only two years. The Vietnamese have clearly not lost their ingenuity in the face of adversity, and have demonstrated to the outside world also the importance of political will in pushing through a major investment project.

The completion of the line also points to the future integration of each region's transmission and distribution systems using standardised designs - current installations reflect the influence of the various periods of foreign presence in Vietnam (Russian and French equipment in the north, French and American in the southern and central regions) and are largely incompatible as well as unsuited to local climatic conditions. Integration into a national grid may in turn lead to a national pricing strategy for electricity. Rural consumers tend to pay more due to added local charges, but according to the World Bank supplies for all consumers remain at below-cost prices. Electricity has yet to reach some 8,000 villages across the country.

By 1995 Power Company #2, which serves the southern part of the country, plans to have 2,012 MW of generating capacity compared with just 1,000 MW in 1991: this includes 600MW from the north-south power line. This would raise per capita generation to 300 kWh against just 160 mWh in 1991. Ambitious plans for the remainder of the decade expect to raise installed generating capacity by a further 1,900 MW.

Compared with certain Asian countries Vietnam already has substantial power generation capacity (though it does not function to its full capability), and the natural resources to expand that capacity. The major constraint is the financing of power sector development. The build-operate-transfer (BOT) concept has been embraced by Hanoi as a solution to the problem, and accordingly amended the foreign investment law in December 1992. Some investors remain sceptical that all officials have fully grasped the principles behind BOT (i.e. that such projects are not gifts and that companies should be allowed to make a reasonable return on their investment). At least four power generation projects are on the government's list of infrastructure projects for investment under BOT contracts, for completion by the end of the decade. The Hiep Phuoc power

²⁴ Interview, Ho Chi Minh City, February 1994

plant, for example, will commence supply of electricity to the Tan Thuan export processing zone in Ho Chi Minh City from 1997.

Infrastructure

BOT contracts are expected to play an important part in the government's other infrastructure development plans. Urgent investments are required for roads, bridges and port facilities. The fairly sophisticated network set up by the French pre-1954 is now hopelessly inadequate and outmoded. A 1990 UN survey of the economy described the transportation and distribution network as being underdeveloped even for a country of Vietnam's income level. The situation has deteriorated rather than improved since then, as GNP growth of around 8% per year has generated an annual 8-10% increase in demand for transportation services.

Official statistics show that over 40% of total freight currently travels by road and 30% by inland waterway. Vietnam's railway network carries just 5% of annual freight volumes, while a high proportion of goods continues to be transported by traditional means, including carrying poles, bicycles, horse and carts and small river boats. Sea-borne freight traffic has risen sharply over the last five years, reflecting the increased volume of foreign trade, but the tiny (2%) share of freight transported by coastal shipping is indicative of the low level of inter-province trade. No effective national transport system even links one major town to another, let alone the north of the country to the south. This has important cost implications for the distribution of goods from one region to another. The cost of moving goods by road is about twice as expensive per tonne/km as shipping them by inland waterway.

Less than 15% of Vietnam's 105,000km road network is paved. Conditions in the north and central regions are considerably worse than in the south which still boasts a number of American-built roads from the 1960s and early 1970s. Only 7% of national roads are in reasonable condition, while 47% are described as being in bad or very poor state. Throughout the country road maintenance work is acutely underbudgeted. Investment in roads to serve the highland areas is essential if inhabitants are to have access to markets and greater interdependency between towns and provinces is to be encouraged. Bridges everywhere are in very poor shape and in many cases unable to take the weight of trucks; small ferries are required to cross Vietnam's many waterways which are not served by bridges at all. A well-known bottleneck on the Route 5 Hanoi-Haiphong road is a long bridge which takes only one line of road traffic and at the same time must serve the railway. Japanese aid money is being used for the reconstruction of key bridges on Route 1, the arterial linking Hanoi and Ho Chi Minh City.

Priorities on rebuilding existing roads include Route 5 and parts of Route 1. Taiwanese and Japanese aid money is financing the reconstruction of Route 5, but here as in other projects elsewhere progress has been slowed by the presence along the proposed route of squatters requiring compensation. The first road infrastructure project to be completed was a dual carriageway covering part of the journey between Hanoi and Noi Bai airport. It was inaugurated in time for the Tet (New Year) holidays in 1994, despite a complete absence of road markings, direction signs, etc. (and so was closed again after Tet for the finishing touches). The main difficulty now surrounds the village tracks which lead directly onto (or worse, cut straight across) the highway: local people with livestock or slow-moving farm vehicles courageously practise a form of 'priorité à droite' which is intensely alarming to faster-moving main road users. On normal two-way roads there exists an invisible 'third lane' down the middle, much as in other Asian countries, where motorised traffic competes with vehicles coming in the opposite direction, leaving the sides of the road to bicycles, motorcycles, carts, rice-drying or other activities. Road discipline in general remains at a very basic level, but is higher in Ho Chi Minh City (fortunately, given the amount of motorised traffic) than in Hanoi.

The railways are in a state even more parlous than the road system. About 80% of the 3,260km total network is single track and narrow gauge, many of the bridges are in unsafe condition following 'temporary' repairs to extensive war damage, the signalling system is best described as

rudimentary, and rolling stock in many cases is over 40 years old and frequently out of action. The result is severe limitations on freight capacity and on the speed of the trains (on average 25 km/hour for passenger trains and 15 km/hour for freight). Of the six main routes, the north-south link between Hanoi and Ho Chi Minh City, and the line from Hanoi to the port of Haiphong are the most important. Repairs to track and rolling stock have recently cut the north-south journey time on the fastest trains to 36 hours. Japanese aid money is destined for railway bridge repair the length of the north-south route. The rail link with China, which was severed in 1979 at the time of last major border dispute, remains closed due to continuing territorial disputes despite intentions to reopen it in April 1992. Once reestablished this route is likely to haul significant amounts of freight between northern Vietnam and Kunming in China's Yunnan province.

Vietnam has seven major ports, the largest being at Ho Chi Minh City and Haiphong. The port of Da Nang handles transit cargo to and from Laos as well as serving the central highland area. In addition there are specific-use ports such as the ones linked by rail from the Hong Gai and Cam Pha coal mines, and a number of much smaller local facilities. Dredging of several of these ports, including Haiphong, is a priority issue. Nevertheless, a number of efficient feeder services have developed to Singapore, or to Hong Kong and Taiwan for onward shipment to Europe and other destinations in Asia. A Japanese shipping company now runs a direct container service to Vietnam from Japan, calling at Bangkok before returning to Japan.

Ho Chi Minh City in fact is home to several different port facilities - the most important are Saigon Port, which is operated by the central government, Ho Chi Minh City Port at Ben Nghe, belonging to the city's People's Committee, and New Port which is owned by the Ministry of Defence (Navy). They all lie some 80 km up the Saigon River from the coast and inadequate navigational systems make them inaccessible after dark. Each port has different characteristics. Saigon Port, for example, may be the largest but lacks space to handle containerised cargo and therefore takes mainly conventional vessels. (The port at Vung Tau, on the coast, is reported to be popular for off-loading conventional ships since lower traffic volume and flexible customs officers aid rapid customer clearance.) New Port, on the other hand, is almost entirely a container port and is used by all the main carriers. It is beginning to suffer congestion as container traffic increases. Next door to Ben Nghe port, which is used by two big international carriers, is a public facility for handling refrigerated cargoes and another (pre-1975) installation owned by the Ministry of Agriculture for coconut cooking oil exports.

Together the three main ports of Ho Chi Minh City handled 170,000 TEU (twenty-foot-equivalent unit) of container cargo in 1993, up from 100,000 TEU in 1992 and 70,000 TEU in 1991, demonstrating rapid acceptance of the concept of containerisation. The share of through-to-factory containers is also increasing²⁵. Freight handled at the three ports rose from one million tons in 1980 to five million tons in 1992, with domestic traffic falling to less than 20% of the volume. A major issue facing development of facilities in Ho Chi Minh City and elsewhere is the lack of coordination between the different government agencies running the ports.

Haiphong port experienced a decline in traffic in 1990-1, due to reduced trade with the former communist bloc and elimination of the need to import rice to feed the population in the north. As economic activity around Hanoi and in Haiphong itself has grown, demand has recovered. The number of containers handled doubled from 25,000 TEU in 1992 to 50,000 TEU in 1993. The potential for development in the Haiphong area is great, but much depends on the rehabilitation of the port, particularly dredging, for both container and bulk traffic and a series of eight projects related to the infrastructure (including Highway 5 to Hanoi and Highway 1 as far as Vinh province, which is expected to be a good hinterland for Haiphong). These projects will cost in excess of US\$500 million over the next 3-4 years, with completion by 1998. With the mending of relations with China, Yunnan province should become an important customer of the port

²⁵ When factories have insufficient volume of business to fill an entire container load (an LCL - less than container load) they are obliged to bring their cargo to container yards for stuffing. Full container loads (FCL) are becoming increasingly common, particularly in the garment industry as export volumes pick up.

facilities of Haiphong but this will depend on good rail links. The rehabilitation plan for Haiphong port prepared by the Japanese aid agency, OECF, forecasts some 2 million tons/year of transit cargo for Yunnan out of a total port capacity of 5 million tons. (Total expected cargo capacity in northern Vietnam - Vinh province and northwards - is 15 million tons per annum.)

Hanoi has its own container yard and container freight station to handle traffic for Haiphong port. One problem yet to be solved is nationwide customs clearance: at present cargo originating in one province cannot be cleared in another, which inhibits long-distance container operations (which are already severely limited by the road network).

Air traffic has increased considerably in the past two years, particularly on international routes, and more than 20 foreign airlines now serve the country. Passenger numbers are expected to rise to 1.5 million in 1994 from 1.1 million in 1993 and 520,000 in 1991. Vietnam Airlines already handles 16 international routes, some in code-sharing agreements with other airlines, and in 1994 will add Berlin and Paris to its destinations. Agreement was also reached with Japan in April 1994 on a service between Ho Chi Minh City and Osaka. During 1994 local Vietnamese passengers are to lose the near 50% subsidy they have enjoyed on ticket prices for the carrier's 14 domestic routes. Over the last couple of years Vietnam Airlines has been gradually replacing its ageing fleet of 20 Russian-built airliners despite the US embargo, which prevented not only US aircraft manufacturers from selling or leasing planes, but any other company - such as Airbus Industries - which uses more than 20% of US-supplied components in their aircraft. The solution was to wet lease planes²⁶. A variety of aircraft from different sources were obtained in this way, with Air France supplying five A320s beginning in October 1993. Now that the embargo is lifted, Vietnam Airlines is expected to purchase as many as 15 aircraft, including at least five capable of carrying more than 300 passengers. Since such purchases are likely to be financed through government aid arranged by the winning contractors, American aviation companies while actively lobbying for business cannot yet fully participate: diplomatic relations between Hanoi and Washington have not yet been restored and American aid is not available. Non-US companies have also been able to develop a good relationship with the Vietnamese authorities for example by retraining pilots and engineers and upgrading maintenance and technical facilities. Since the lifting of the embargo, several US airlines including United, Delta and Northwest have expressed interest in flying between Vietnam and the United States.

Infrastructural improvements to domestic and international airports have yet to be completed, although a quantum leap has taken place in passenger facilities at Ho Chi Minh City's Tan Son Nhat airport. It is estimated that some US\$1.8 billion will need to be invested over the next fifteen years to handle the 50 million passengers and one million tons of cargo passing through Tan Son Nhat by the year 2010. Smaller airports serving domestic routes are in generally poor condition and improvement is essential for both tourist and commercial development.

Telecommunications continue to be the best element of Vietnam's infrastructure, but they are expensive. Outgoing faxes cost around US\$5 per page to Europe and the US, and smaller charges are levied on incoming documents. Now that Prime Minister Vo Van Kiet has identified telecommunications as one of the few remaining areas of state monopoly which needs to be broken, competition in the future may induce lower pricing tariffs. The Army Telecommunication Co, which is controlled by the Ministry of Defence, is to compete with the existing monopoly agency, the General Directorate of Posts and Telecommunications (GDPT). It is unlikely that private companies will be allowed to participate on a national basis, although Ho Chi Minh City is considering setting up a venture to compete with state-owned companies.

Australia's Overseas Telecommunications International (OTCI) - now known as Telstra - was the prime mover behind the creation of an external communications service which matches those elsewhere in the Asia Pacific region. In 1987 it formed a contractual business cooperation agreement with the GDPT to link Vietnam into the Intelsat system via Sydney, thus allowing the

²⁶ On a wet lease, the airline leases both plane and crew from another airline.

many Viet Kieu in Australia (and later elsewhere) to communicate with their families. The project achieved an extremely rapid return on investment and earned considerable foreign exchange, 90% of which GDPT has been allowed to reinvest in other services. The result is a substantial improvement in domestic telephone services, aided by Australian, French, Italian, German and South Korean companies through a mix of joint ventures and friendly deals, and North American telephone companies are also now attempting to make up lost ground. A submarine optical fibre network linking Vietnam, Hong Kong and Thailand is scheduled for completion in 1995.

By February 1994 all 53 of Vietnam's provinces were digitised, an achievement exceeding that of many more-developed countries. Vietnam has had the advantage of starting with a relatively clean slate for the creation of its telecommunications network, but piecemeal contracts accorded to suppliers with access to financing means that equipment is sourced from around a dozen companies, compared with the normal two or three suppliers for a major network. This suggests there may eventually be problems in fully integrating the national network.

The number of private subscribers to the telephone service is rising sharply, but supply meets only around one-quarter of current demand. Country-wide the number of telephones is only 0.27 per 100 people but ambitious plans call for over two million lines to be installed by the year 2000. This would represent an eight-fold increase over the 260,000 lines available in 1993 and an investment of US\$2.7 million. Mobile telephone services are becoming increasingly popular, particularly in Ho Chi Minh City, while pay telephones installed by Sapura (of Malaysia) and Schlumberger (of France) have made their appearance on the streets of Ho Chi Minh City and Hanoi.

In spite of these developments, the business of actually communicating with government officials or potential partners from abroad can be frustrating. Apart from the high cost of sending a fax or making a telephone call from Vietnam (which deters cash-strapped government ministries and state enterprises from responding to requests from abroad for appointments, information, hotel reservations, etc.) and the language barrier, office staff in Vietnam have been known to turn off fax machines at night in order to save electricity.

Export processing zones

In order to provide a friendly environment where foreign businesses can develop export-oriented production while creating jobs and giving access to new technology, Vietnam has enthusiastically embraced the idea of export processing zones (EPZ). Although separate legislation enacted in November 1991 provided for EPZs in Vietnam, amendments made to the Foreign Investment Law (FIL) in December 1992 contained provisions which effectively bring the zones under its protective umbrella. Investors in EPZs receive various benefits such as exemptions on duties payable on raw materials imported and later exported as finished goods, and a more generous tax regime, including longer tax holidays and favourable tax treatment on profits repatriation. Making an investment in a zone may be a simpler matter than investing outside, if the operator of the zone has worked with the relevant authorities to set up a one-stop shop which undertakes all the investment licensing procedures - this is the case at the Tan Thuan EPZ in Ho Chi Minh City.

Six zones were licensed between September 1991 and April 1994, even though Hanoi had initially intended to establish only one or two EPZs on a trial basis. As many developing countries have discovered, such zones do not necessarily bring all the benefits anticipated. For example, there may be relatively little 'trickle-down' of technology to domestic industry particularly if no effort is made to create linkages between small local firms and the foreign ones. The result is an enclave of technological excellence in a sea of relatively undeveloped manufacturing practices, and a mass of small local companies unable to export their goods. Vietnam may avoid the worst of this problem if sufficient manufacturers attracted to the zones sell a portion of their output on the domestic market (on payment of the relevant import duties on raw and intermediate materials), and source some of their materials locally.

Table 4: Export Processing Zones in Vietnam

Name	Location	Date of estab.	Area (ha)	Foreign partner	Capital (US\$m)	No. of cos. registered
Tan Thuan	Nha Be, HCMC	24/9/91	300	Pan Viet Corp, CT&D	89	40
Sepzone	Thu Duc, HCMC	31/8/92	60	SDIC Corp, VI Corp	14	22
Haiphong EPZ	Do Son, Haiphong	12/1/93	300	Very Good International	150	30
Can Tho EPZ	Tra Noc, Can Tho	2/11/93	57.1	Sampoema	8.15	30
An Don Nuoc Man	Da Nang	21/10/93	120	Masscorp	24	n/a
Noi Bai	Soc Son, Hanoi	12/4/94	100	Renong	29.95	n/a

Source: press reports

The zones have been relatively slow to get under way principally because of land clearance problems. Rents collected from interested companies are funding the building of the necessary infrastructure - the first three zones to be licensed have attracted over 100 companies from some 25 countries, in such industries as garments and textiles, foodstuffs, sportswear and electronics. Sites within EPZs seem to hold greater appeal for investors from the Asia Pacific region than for European or American companies, perhaps reflecting the smaller number of western firms looking for competitive cost advantages for exports to third countries.

By mid-March 1994 the Taiwanese investor Tan Thuan zone was the only EPZ with an operating factory. This was Lien Minh of Taiwan, a textile and garment producer. A further eight factories are expected to be operational in Tan Thuan by the end of 1994. Sepzone had two companies licensed by December 1993 (an Indonesian maker of bridal wear and a Korean producer of luggage) but neither was operational and the zone has only recently been cleared following relocation and compensation of local residents. The Haiphong EPZ has yet to make a real start on infrastructure development, while the Can Tho zone broke ground only in March 1994. Renong of Malaysia is the latest developer to receive an EPZ operator's licence. It hopes to attract high technology companies to an initial 100 hectare site (with potential for later expansion to 430 hectares) close to Hanoi's Noi Bai airport.

Big plans surround the Tan Thuan EPZ. Central Trading & Development (CT&D), the Kuomintang-backed Taiwanese investor, has created a huge "Saigon South" project encompassing not only the EPZ but an 18km highway and a whole new town of housing areas and retailing and wholesaling centres. The power station at Hiep Phuoc which will supply electricity to the whole development was licensed for construction to a Hong Kong company in June 1993.

THE ECONOMY

A comment frequently heard on the lips of Vietnamese officials is that Vietnam needs to "catch up" economically with its neighbours. This will require Vietnam to achieve growth rates noticeably higher than its already fast-growing neighbours': simply to match their growth, no matter how high that may be in world terms, will condemn the country to a permanent gap in economic and living standards and may ultimately threaten the ability of the government to maintain its hold on power. In his Report to the National Assembly in December 1993, Prime Minister Vo Van Kiet reiterated his government's goal of doubling Vietnam's GDP over the decade to the year 2000.

Even this means that Vietnam will remain a poor country. At current rates of progress Vietnam can best aspire to catching up with the Philippines (whose economic growth rates are much lower than those of other southeast Asian countries - see Charts 1 and 2). If it were to grow at more than 10% a year for the next decade, annual population growth of over 2% would mean that Vietnam's GNP/capita would be only half as big as Thailand's is today.

The volume of foreign aid which Vietnam can now look forward to receiving is undoubtedly an important factor in the rebuilding of the country's infrastructure. The policies Vietnam chooses to pursue are an even more important factor²⁷. The country has already demonstrated in recent years, when reforms had begun but external financing was not available, an impressive degree of self-sufficiency. Now, institutional change is a critical factor if the government and its agencies are to meet the heavy demands of aid absorption and project evaluation, and if a dynamic private sector is to develop. At present there coexist on the one hand excessive government interference in market activities in the form of unnecessary and inefficient regulation, and on the other too little 'government' to adequately protect the public interest and maintain the provision of public goods.

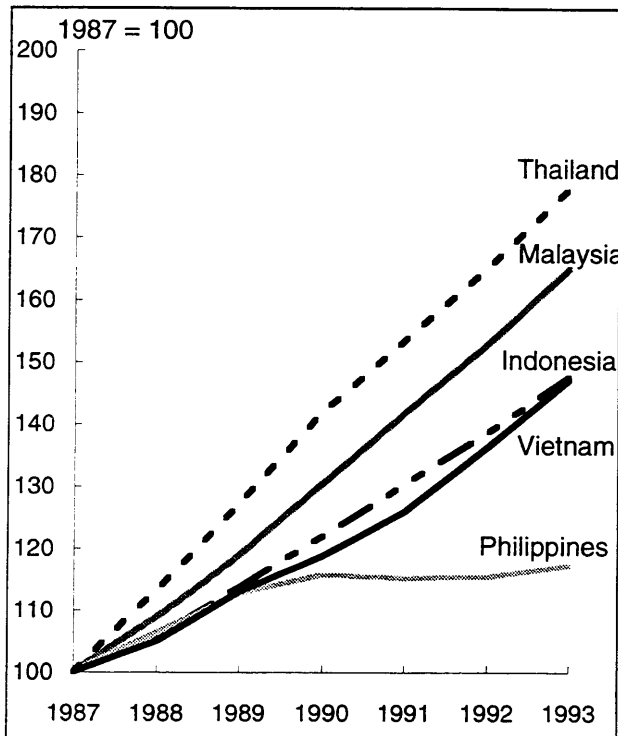
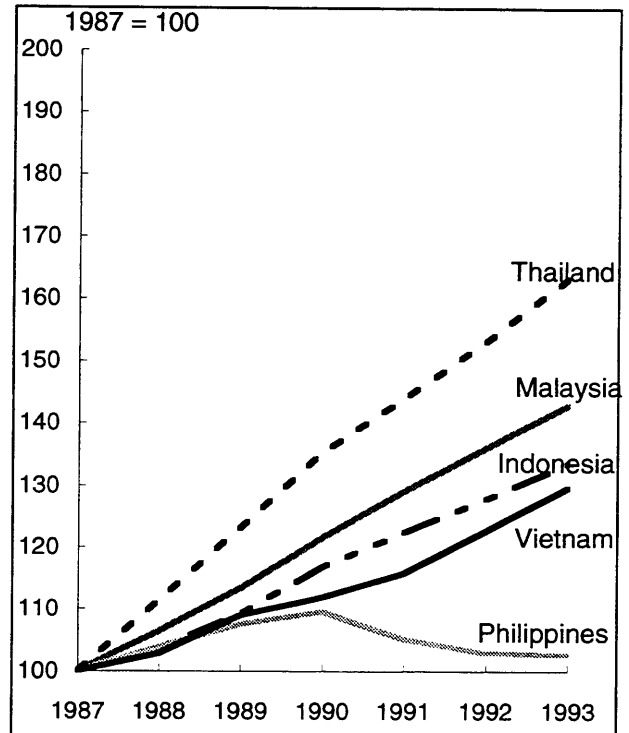
Economic Overview

Vietnam's emergence from communist-style economic management into a market oriented system differs markedly from the experience of other former Soviet bloc countries. Above all this is because Vietnam's economic base is overwhelmingly agricultural, and thus invites some comparison with the path China has followed since the end of the 1970s. Unlike China, however, Vietnam has never in its history experienced successful industrial development. In French colonial times the policy of the governing forces in Indochina was to concentrate on natural resource exploitation; communist attempts at establishing heavy industry run by state-owned enterprises in the north, post 1954, were as much a failure as their efforts to eradicate American-style capitalism in the south, post 1975.

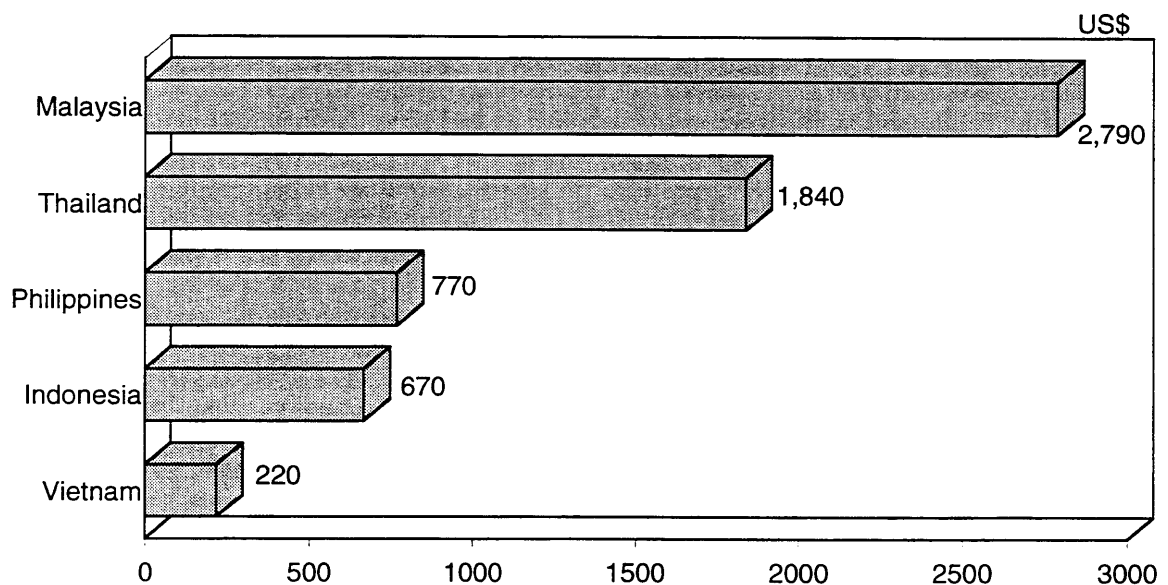
The first hesitant steps towards re-development of the household sector were taken as early as 1978, when families of state employees began to work on contract to state enterprises and were allowed to sell surplus or 'defective' products on the open market. The result was growing worker absenteeism from the state enterprise²⁸. The experiment did not last long, and more widespread attempts to improve worker motivation were largely restricted to the farming sector, where household contracts with cooperatives were in widespread operation in the early 1980s. Even during periods of relatively hard-line communist ascendancy, markets where private goods were bought and sold abounded in the north as well as in the south of the country. It was not, however, until the *doi moi* economic renovation programme of 1986, reinforced by further reforms in 1988, that Vietnam began serious structural adjustment of its economy, and the search

²⁷ Viet Nam: *Transition to the Market - An Economic Report*, Report No.11902-VN, World Bank, 1993

²⁸ Hy Van Luong, *The Political Economy of Vietnamese Reforms: A Microscopic Perspective from Two Ceramics Manufacturing Centres*, in Eds. William S. Turley & Mark Selden, Reinventing Vietnamese Socialism: Doi Moi in Comparative Perspective, Westview Press, 1993

Chart 1: Growth in ASEAN countries and Vietnam**GDP growth****GDP per capita growth**

Source: Asian Development Bank

Chart 2: GDP per capita, 1992

Source: Asian Development Bank

Table 5: Major economic indicators

		Actual			Estimates	
		1991	1992	1993	1994	1995
GDP	% growth	6.0	8.3	8.0	9.0	10.0
Gross domestic investment	% of GDP	11.6	12.0	19.8	21.7	25.0
Inflation rate	yr/yr % change	67.6	37.8	5.2	6.0	6.0
Export growth	% change	18.0	21.2	15.2	21.1	20.0
Import growth	% change	18.8	20.4	38.3	22.9	22.0
Current Account	% of GDP	-3.4	-0.4	-6.4	-7.1	-8.4

Source: ADB, General Statistical Office Hanoi

for its own, specifically Vietnamese, brand of socialism. This has included a greater emphasis on light and consumer goods industries and the creation of export industries aimed at convertible currency areas.

By 1993, to the accolades of many external observers including the IMF (and Euromoney/Asiamoney, which in December 1993 voted Vietnam the best-managed Asian economy), the country had achieved substantial successes in raising food production beyond target levels, reducing inflation to single digits, stabilising the dong, and completely reorienting external trade away from its old Comecon partners. It has made progress on building a body of law suited to a market economy, with the passage of the land-use law in 1993 arguably the most important event in the life of the people. The bankruptcy law and labour law once implemented will clarify important issues for all investors, whether domestic or foreign. On the other side of the equation, rampant corruption, smuggling and the erosion of the health and education services are major causes of concern to the government. Corruption among civil servants and administrators is the source of much cynicism among ordinary Vietnamese regarding the motives of the government in introducing reforms²⁹. This is particularly evident among those yet to experience much benefit from the process. Moreover, the Vietnamese currency is now thought to be over-valued, particularly in view of the successive devaluations of the Chinese renminbi, and fears over inflation have been expressed as foreign aid money flows into the country.

Developments on important policy issues, particularly those with far-reaching political and social implications, appear at times to progress at snail's pace. This is the result both of the consensual approach favoured by the government and of the absence of a clearly defined programme of economic reform. In fact, the lack of a firm plan generally acts to the advantage of pro-reform leaders: those opposed to change have no obvious target to shoot at. The downside is that the government ends up with a piecemeal package of reforms, any one of which may present loopholes for the less scrupulous to exploit or create unintended hardships for certain sectors of the population until the next phase of policy has been thoroughly debated and agreed upon. An example of the latter is the introduction of fees for schooling and healthcare and rent revisions for state housing before the restructuring of public sector salaries took place. While Hanoi can already lay claim to a stream of noticeable achievements, action is still urgently required in such areas as public sector restructuring, the development of institutions appropriate to a market economy, and completion of the legislation programme.

Statistical data in Vietnam remain highly unreliable. Despite the best efforts of the World Bank and the IMF to introduce more appropriate methods of accounting, much debate surrounds even

²⁹ Anti-reformers in the government allege that the problem of corruption is caused by the state relaxing its grip on the economy and thus presenting more temptation to the cadres; those in favour of reform counter by saying that the way to eliminate such abuses is through the free market, which further separates political influence and economic opportunity.

such basic statistics as GNP/capita. Data on unemployment is equally unreliable, with different ministries or government agencies providing different headcounts. Apart from a lack of appropriately trained statisticians to collect and analyse the data, statistical compilation generally is hampered by the substantial amount of informal economic activity particularly in the individual/private business sector and in pseudo-private business activity undertaken by state owned enterprises.

The parallel economy, which could be equivalent to as much as 60% of official GDP, is underpinned by substantial uncounted private savings. The Central Institute for Economic Management, an economic advisory unit within the State Planning Committee, estimates that between VND20 to 30 trillion (US\$1.8 to 2.7 billion) lies idle in private hands. Close attention to gold prices in the press provides a clue to the form taken by much of this wealth. Added to that are remittances from family members abroad, which according to the State Bank totalled US\$371.8 million via the banking system in 1990-92 and more than US\$600 million via other means in 1993 alone. The formal domestic savings rate has risen in the wake of economic reforms undertaken so far - including realistic exchange rates, improved property rights and a somewhat more efficient banking network - but remains well below the norm for developing Asian economies. Given Vietnam's funding requirements for infrastructure improvements and other development programmes of US\$ 40 - 50 bn by the turn of the century, the country urgently needs to leverage idle domestic capital in addition to attracting foreign funding.

Table 6: Employment growth in industry (%)

	Total	Degree of management		Economic sector	
		Central	Local	State	
1980	5.4	1.1	6.2	1.0	8.2
1981	-0.8	-3.6	-0.3	-2.3	-0.2
1982	1.8	3.5	1.5	1.6	1.9
1983	4.0	7.3	3.5	6.4	3.1
1984	4.0	3.6	4.1	6.3	3.1
1985	4.5	2.8	4.9	1.7	5.7
1986	0.6	3.2	0.1	5.2	-1.3
1987	10.0	4.5	11.0	6.7	11.4
1988	3.5	2.0	3.8	1.9	4.2
1989	-14.0	-6.1	-15.4	-7.3	-16.7
1990	-11.1	-1.5	-12.9	-4.9	-13.8
1991	-1.1	-6.3	0.0	-6.3	1.3
1992	-7.9	-3.4	-8.8	-4.2	-9.4

Source: Economy of Vietnam, Reviews and Statistics, Hanoi, 1994

In 1993 the state employed 3.2 million people in all branches of the economy including the civil service, agriculture and industry. State employees represent just 10.5% of the entire 30.97 million workforce. Just over one-fifth of them (739,200 people) work in industry (compared with some 60 million workers, or 8% of the labour force, in China), but even this small total represents a 22% decline since 1989. 1.1 million civil servants (who include managers and chief accountants at state-owned enterprises) remained on the state payroll by end 1993, a reduction of 115,000 public service positions since reforms began. Reform of their salaries in 1993 provided a minimum monthly payment of VND120,000 (approximately US\$11), to be multiplied by a coefficient which reflects each worker's education, experience and responsibilities. The differential between the highest and lowest paid civil servant is now 13:1 compared with 3.5:1 under the old salary structure. The number of ministries themselves has also been cut during the past five years from 40 to 24, and further streamlining of the bureaucracy is expected. Two

ministries have emerged noticeably stronger from the package of reforms that have been implemented so far: the Ministry of the Interior (for internal security issues) and the Ministry of Finance (which has gained from the passage of legislation reinforcing executive-style government and reducing the fiefdoms of the line ministries). Although the government is a fairly small employer, its actions to improve efficiency are having a marked impact on the unemployment situation. The decision to implement salary reform before widespread reform of the public administration was a major factor in the widening of the budget deficit in 1993.

Employment growth has slowed substantially since the introduction of radical economic reform measures in 1989. Prior to *doi moi*, the government increased employment roughly in line with the prevailing 3.3% annual increase in the labour force - this was one of its main objectives and the result was substantial over-staffing of state enterprises, especially in the north. Particularly severe since 1989 has been the decline in industrial employment in the state and collective sectors, with the latter practically disappearing and the private sector unable to take up the full slack. Moreover, the lack of industrial job opportunities is limiting the shift of labour away from agriculture and is contributing to significant underemployment in the farm sector, where family farms have become a refuge for surplus labour³⁰. An alternative for people leaving state sector employment because of reorganisation is to create their own small enterprises or take up employment with other small business owners. In theory all workers losing their jobs at state firms are entitled to compensation, but the dire economic circumstances of the companies causing the redundancy of the workers often means that full compensation entitlements have not been paid. From 1994, a state social security system is supposed to pay pensions to former state employees based on the number of years they have worked, rather than paying on retirement, i.e. they will be able to collect a pension while still working. This move is intended to encourage the further shedding of workers from the state system³¹.

The northern part of the country has been worse hit than the south by the structural adjustment of the economy: state enterprises and cooperatives predominated in the northern part of the country while private sector activity has always been more strongly rooted in the south, stimulated by the lasting influence of American capitalism and the presence of the mercantilist ethnic Chinese community in Cholon. The people of the south have a reputation as traders and hustlers, with the emphasis on turning a rapid profit, while northerners like to portray themselves as more intellectually driven, with a longer term perspective on how Vietnam should develop. Economically, the relative positions of Hanoi and Ho Chi Minh City can perhaps be likened to that of Aesop's tortoise and hare. Initially most foreign investment was directed towards Ho Chi Minh City, reinforcing the growth of private sector activity and employment potential there, but more recently Hanoi and Haiphong have been successful in capturing a greater share of foreign investment flows - to the great relief of the authorities who had feared a further widening of the disparity in incomes and activity between the two regions. Northerners, too, have demonstrated an ability to learn quickly modern business techniques and foreign businessmen expecting to meet unsophisticated partners will be in for a surprise. Economic imbalances between the north and the south of the country are of a temporary nature only. They are the result of the weakness of transport and communication links, which are historical - not geographical - in nature. Integration of the northern and southern economies of Vietnam will be relatively easy and inexpensive, quite unlike, for example, north-east Thailand or western China which are isolated from the rest of the economy. This process will be assisted by the anticipated growth in centrally located cities such as Da Nang, Vinh and Nha Trang, which have thus far tended to be marginalised.

Table 7 overleaf demonstrates the current difference in industrial scale between the capital city and its southern rival. The industrial output of Ho Chi Minh City is in fact greater than that of the entire northern region of Vietnam, which amounted to a little more than VND 2 billion in 1992.

³⁰ *Employment, enterprise development and training in Viet Nam*, International Labour Office, Bangkok, January 1993

³¹ Adam Fforde, VECA #4

Table 7: Industrial output in Hanoi and Ho Chi Minh City, 1989 constant prices

(VND billion)	Hanoi			Ho Chi Minh City		
	Total	State	Non-state	Total	State	Non-state
1990	367.4	205.3	162.1	2179.6	1007.1	1172.5
1991	327.1	186.8	140.2	2288.0	922.7	1365.3
1992	389.9	224.1	165.8	2580.0	1026.8	1553.3
1990-92 growth (%)	6.1	9.2	2.3	18.4	2.0	32.5

Source: Statistical Yearbook 1992

Economic sectors

Industrial production still accounts for only slightly more than one-fifth of GDP, significantly lower than either agriculture or the service sector. Within industry, the government analyses activity by 'ownership', i.e. by the state sector and the non-state sector (which is subdivided into collectives and private/individual businesses). State enterprises produce about 70% of industrial output, while industrial collectives have declined sharply in importance and now contribute less than 5% of manufactured output. Most private sector industrial activity remains at the individual or household level, rather than at the corporate enterprise level.

According to CIEM, the policy think tank attached to the State Planning Committee, only 15% of Vietnam's industrial production is exportable, and many goods produced by state firms are not even saleable on the domestic market.

The state sector contributed 39.9% of GDP in 1992, compared with only 34% in 1990. In part this was the result of important capital investment projects commenced in the 1980s (often under

Table 8: Sectoral contributions to GDP, constant 1989 prices (%)

	year					
	1988	1989	1990	1991	1992	1993
GDP growth	5.1	8.0	5.1	6.0	8.3	8.1
Industry	3.3	2.3	2.5	9.9	14.6	12.1
Construction	-3.1	2.0	4.7	5.2	11.1	18.3
Agriculture	3.9	6.4	1.5	2.2	7.2	3.8
Services	8.9	2.7	9.6	8.3	7.0	9.2
Share of GDP	100	100	100	100	100	100
Industry	18.3	18.8	18.7	19.3	20.4	21.1
Construction	3.3	3.6	3.8	3.8	3.9	4.2
Agriculture	39.2	40.3	40.3	38.3	37.5	36.0
Services	39.2	37.3	37.1	36.6	38.2	38.7

Source: Statistical Publishing House, Hanoi

Table 9: State/non-state sector shares of various economic activities (%)

	1990	1992	1993
Industry (based on total production value)	100.0	100.0	100.0
State sector	67.6	68.5	71.1
Non-state sector	32.4	31.5	28.9
• Collective enterprises	9.1	4.8	4.2
• Private enterprises	1.0	1.5	1.3
• Individual enterprises	22.3	25.2	23.4
Consumer goods transportation (based on transported volume)	100.0	100.0	100.0
State sector	89.9	90.4	88.7
Non-state sector	10.1	9.6	11.3
• Collective enterprises	4.5	3.3	3.4
• Individual enterprises	5.6	6.3	7.9
Passenger transportation (based on passenger numbers)	100.0	100.0	100.0
State sector	60.6	56.7	56.7
Non-state sector	39.4	43.3	43.3
• Collective enterprises	19.1	16.0	16.2
• Individual enterprises	20.3	27.3	27.1
Trade, services (based on total level of retail sales)	100.0	100.0	100.0
State sector	30.4	26.9	21.9
Non-state sector	69.9	73.1	78.1
• Collective enterprises	2.7	2.0	1.6
• Individual enterprises	66.9	71.1	76.5

Source: Statistical Publishing House, Hanoi

Soviet aid agreements) finally coming on-stream. Even at these increased levels of contribution, Vietnam's state sector is small compared with most socialist and former socialist countries³².

The virtual collapse of the cooperative sector also contributed to the decreasing share of non-state activity to 60.1% in 1992, even though private business activity rose sharply. It is important to note that private businesses have achieved this success with only a fraction of the assets available to state enterprises. Table 9 indicates the contributions of the state and non-state sectors to the main areas of economic activity in recent years.

Non-state enterprises now take a greater variety of forms than was possible before economic reform. New forms include limited liability companies (of which there were 703 by the end of 1992) and joint stock companies (60 at the end of 1992). Limited liability companies are primarily to be found in Ho Chi Minh City. Joint stock companies are mostly involved in trading and industry although several joint stock banks also exist. They tend to have higher capital than other non-state companies and include those companies which have left the state sector following equitisation.

³² Prior to the collapse of the Soviet bloc, state enterprises in Poland accounted for over 80% of GDP and 70% of the labour force. In Hungary the corresponding figures were 65% and 70% and in East Germany, 96% and 94%. In China the share in GDP of industrial sector SOEs is five times as great as Vietnam's (57.5% vs. 10.5%).

State-owned enterprises (SOE)

The rate of growth among state-owned companies in the industrial sector has accelerated more rapidly than growth among non-state enterprises. Industrial output at SOEs increased by more than 10% in 1993, with centrally-owned units performing slightly better than locally managed ones. For comparison, private and household industrial activity achieved 9% growth. The trend was confirmed in the first quarter of 1994, when the state sector grew by 12.5% and the private sector by 8.9%. Combined with the shedding of employees noted above, this points to an impressive performance by SOEs in terms of productivity gains.

Centrally-operated SOEs are for the most part engaged in capital-intensive heavy industry and large-scale light industry. They dominate the oil, electric power, cement, coal mining and paper industries and are concentrated around Hanoi and Ho Chi Minh City. While heavy industrial output is roughly evenly split between north and south, two-thirds of the state's light industry is in the south, giving the south a larger share of industrial output overall. Northern SOEs tend to be few in number but relatively large in scale for Vietnam - although their average employment is still below 300. In the south, employment among state enterprises is more widely dispersed across a greater number of companies. Until 1989 around 80% of the state's industrial investments were made in heavy industry, but many units operated significantly below capacity because of the preference for new projects over the upgrading or repair of existing facilities. In recent years the heavy industrial sector has achieved particularly impressive growth (+23% in 1993) both through activities in core businesses and through diversification into consumer-oriented production.

Locally-managed (provincial, district or municipal) SOEs are more strongly oriented to light industry, and are particularly heavily engaged in wholesale trading, transportation and other services. In the industrial sector, local units contribute a relatively small share of output compared with centrally operated industrial SOEs: 2,053 local units generated 17.7% of output in 1991, compared with 48.1% of output from 546 centrally-operated SOEs.

While centrally-run SOEs report to and are controlled by government ministries (Ministry of Heavy Industry, Ministry of Light Industry, Ministry of Trade and Tourism, and so on), locally-run SOEs are answerable to their local People's Committee and may compete with the central SOEs operating in the same field. Given the widespread diversification undertaken by SOEs since the granting of autonomy for the formulation of business plans, such competition is much more aggressive and may lead to turf warfare between local and central authorities over the granting of licences and other business permits.

The Ministry of Defence is one of the most active government agencies in diversifying activities. Already involved in commercial ventures before Soviet military aid ceased, between 1990 and 1993 its business empire mushroomed to more than 300 companies employing about 12% of the regular armed forces³³. Several joint ventures have been formed with foreign companies. Business interests range from dance halls through hotels and construction companies to garment-making, TV set assembly, seafood processing, and coal and tin mining. Income from these ventures, while representing only a tiny fraction of the military's total budget, has nevertheless grown from US\$27 million in 1990 to an estimated US\$111 million in 1993³⁴.

Vietnam's wartime history, when independence and initiative were encouraged, provides the explanation for the often conflicting behaviour of central and locally-run state sectors. It also explains why competition between state enterprises already exists in most industries. Before the country was reunified in 1975, state companies and party bosses had to be able to operate autonomously, and to feed, clothe and supply industrial goods to the people of the province in wartime conditions. Many industrial SOEs began life as munitions manufacturers in the

³³ Murray Hiebert, *Corps Business: Vietnam's military is learning to turn profits*, Far Eastern Economic Review, 23 December 1993

³⁴ Willian Brannigan, *Vietnamese Army Goes Commercial*, International Herald Tribune, 18 October 1993

Table 10: Growth in gross industrial production (%)

	Total	By management		By economic sector	
		Central	Local	State	Non-state
(in constant 1982 prices)					
1980	-10.3	-17.2	-5.7	-15.2	-1.6
1981	1.0	2.4	0.2	-1.0	4.0
1982	8.7	4.7	11.0	4.0	15.5
1983	13.0	11.2	14.1	11.6	14.9
1984	13.2	12.0	13.8	14.3	11.8
1985	9.9	7.6	11.1	10.0	9.7
1986	6.2	5.6	6.5	6.2	6.2
1987	10.0	6.8	11.6	9.3	10.9
1988	14.3	12.3	15.3	15.5	12.9
1989	-3.3	5.9	-7.6	-2.5	-4.3
1990	3.1	15.3	-3.5	6.1	-0.7
(in constant 1989 prices)					
1991	10.4	15.5	6.1	11.8	7.4
1992	17.1	23.2	11.5	20.6	9.6
1993	12.1	14.1	10.0	13.4	9.0

Source: Economy of Vietnam, Reviews and Statistics, Hanoi, 1994

Table 11: Structure of industrial gross production

	Total	By management		By economic sector	
		Central	Local	State	Non-state
<i>(in constant 1982 prices)</i>					
1980	100	36.5	63.5	60.2	39.8
1981	100	37.0	63.0	59.0	41.0
1982	100	35.6	64.4	56.4	43.6
1983	100	35.1	64.9	55.7	44.3
1984	100	34.7	65.3	56.2	43.8
1985	100	34.0	66.0	56.3	43.7
1986	100	33.8	66.2	56.3	43.7
1987	100	32.8	67.2	55.9	44.1
1988	100	32.2	67.8	56.5	43.5
1989	100	35.3	64.7	57.0	43.0
1990	100	39.4	60.6	58.6	41.4
<i>(in constant 1989 prices)</i>					
1990	100	45.9	54.1	67.6	32.4
1991	100	48.0	52.0	68.5	31.5
1992	100	50.6	49.4	70.5	29.5
1993	100	51.5	48.5	71.3	28.7

Source: Economy of Vietnam, Reviews and Statistics, Hanoi, 1994

mountains of the north, moving to the cities in 1975 and taking up peacetime production (for example, making diesel engines). While a policy of autonomy was both essential and successful in the particular circumstances of war, the independence the local authorities had cultivated proved difficult to relinquish. Hanoi's inability to bring them under centralised control in the years immediately after reunification sowed the seeds of ultimate failure for a centrally planned economy: while Hanoi made centralised plans for the economy, they were not followed at the local level.

The state sector had swollen from 7,000 companies in 1976 to 12,084 by the end of 1989. Over 10,000 of these were locally-run units set up with a minimum of assets and working capital, supported by subsidies from the state budget, and serving to bolster the power of local party cadres. They also served to create employment opportunities for the growing workforce. Ho Chi Minh City in 1992 had a total of 397 industrial state enterprises. Of these, 134 belonged to the central government, but 177 belonged to the city government and the remaining 86 belonged to the district government. Only 20% of Ho Chi Minh City's state-run companies are now operating profitably, according to the City Department of Industry³⁵.

The weakness of the many poorly capitalised locally-run SOEs was fully exposed when the switch to a market driven economy began in 1988. Faced with spiralling budget deficits and thrown into shock by the abrupt ending of Soviet-supplied cheap inputs (petrol, fertiliser, steel, etc.), the government handed managerial and financial responsibility to SOE directors and ended government subsidies, including negative real interest rates. A survey of state sector businesses in January 1990 revealed that fully 40% of Vietnam's SOEs were deeply loss-making, and that 90% of these were small scale and/or locally run. Only 20% of state firms were thought to be operating at a profit. Accumulated debts run up by SOEs with other SOEs, the banking system and even foreign companies totalled some VND 18.3 trillion by the end of 1992. According to the Ministry of Finance, they also owed the state VND 600 billion in tax arrears.

Wage reform in the state sector aimed at raising productivity and eliminating subsidies has taken place more slowly than planned. Although employees ceased receiving rationed goods at subsidised prices (e.g. rice) in 1989, they continued to benefit from cheap electricity and grants for social welfare, healthcare and education. By 1993 benefits were estimated to be equivalent to 50% of the average worker's wage. Wages at SOEs in the south tend to have a fairly high discretionary element, based on the profitability of each individual work unit, and a relatively low fixed salary whereas northern SOEs rely more heavily on the fixed wage system. While this makes southern state companies more subject to market forces of supply and demand, the large wage increases announced for all public servants (which includes SOE employees) in 1993 is causing problems for northern companies. Workers receive in-kind benefits as well. Thus, workers' monthly incomes in a number of enterprises in Hanoi were reported to top VND 400,000 (US\$37) in the first quarter of 1994³⁶. Government sources indicate a 29.7% increase in per capita income during 1993 for employees in the state 'material productive' sector (which includes industry, agriculture, construction, etc., as opposed to the 'non-material productive' sector which covers health, education, banking, state management, etc.). Further changes in pay scales will take place following the passage of Vietnam's Labour Law through the National Assembly in summer 1994.

SOEs have sought to mitigate the trials of the market economy through diversification, often into completely unrelated areas of activity. Already skilled at 'fence-breaking'³⁷ before the

³⁵ Vietnam News, 22 February 1994

³⁶ Vietnam Investment Review, 18 April 1994

³⁷ 'Fence-breaking' is the term used in Vietnamese for the activities of state companies in the free market since the late 1970s. Peasants had always been allowed to sell surplus produce and to possess individual plots of land, and their prices changed frequently while SOEs' (subsidised) buying and selling prices were centrally fixed and changed infrequently. SOEs therefore began to swap or sell their goods on the open market in order to earn cash for materials or to pay bonuses to workers. This led to the so-called Three Plan system in 1981: in Plan A SOEs used

introduction of economic reform, companies entered new businesses through a variety of legal and dubious means. State assets (including workers) today are leased for private business activity, production lines used after hours (for example, for the manufacture of consumer goods by a heavy industrial company), workers are allocated retail outlets for a percentage share of the profit, workers are sub-contracted out on construction work with assistance from the SOE for capital, equipment, use of the company bank account, and so on. The result by the early 1990s has been significant leakage of state assets and a blurring of the already hazy concept of 'ownership' of state enterprises. This is particularly true given the confusion over different sources of capital to which SOEs have access today. These include³⁸:

- Capital 'supplied by the state' - loans plus the original budgetary grants, often supplemented by (most frequently) illegal land sales effected by local authorities supporting 'their' companies
- Own capital - created under a 'soft' plan allowing SOEs to diversify commercial activities away from the 'hard' plan. The creation of joint stock banks, which have several SOEs as its main shareholders, would be one example of this. Because the profits of such activities are seen to be the results of the unit's own efforts, the unit regards its 'own capital' as its own, but this remains a highly contentious issue.
- Individual capital - private individuals may contribute capital to that of an SOE. The capital of Vietnam Auditing Company was provided almost entirely by the director and several of his colleagues when the Ministry of Finance set up the SOE at the start of the 1990s. They are not shareholders, however, and view their contributions as a loan³⁹.
- Joint venture capital - either domestic or foreign companies can form joint ventures with SOEs. Capital provided to such ventures by domestic concerns could, again, take any of the forms cited above.

Although 'hard' budget restraints (real interest rates, no more state subsidies, etc.) were imposed on SOEs in 1989-92, the pain caused forced the government to soften its stance in 1992-93 and covert state subsidies in the form of budgetary grants, soft bank credit and protective entry barriers entered the system. The extent of these subsidy elements is hard to determine. One unforeseen result of the delay in definitively terminating favourable treatment of SOEs was the encouragement of private resources to hide behind the facade of state company activity. Continued discrimination against private businesses (see below) was an added factor in this phenomenon. This in turn has helped to slow down the privatisation process⁴⁰: if cheap credit is available to state firms but not to private ones, why not act as a covert private unit within the state company?

Reform of the state enterprise sector is a critical feature of the government's economic programme and yet, because of ideological sensitivities, it is an issue on which policy is determined with caution. The role of the state enterprise as a social safety net, and of state enterprises as the dominant force in both commercial and non-commercial sectors of the economy, are concepts which remain dear to more conservative elements in the leadership. Implicit in the reform

the inputs supplied by the State to produce for the State and keep 50% of the profits thus generated; in Plan B they could buy materials from non-State sources, use them to produce additional output of main line products which were then sold at mutually agreed prices, the SOEs keeping 60% of the profit; and in Plan C they could diversify into other product areas and sell the items produced to third parties at negotiated prices, with the right to keep 90% of the profit. As long as an SOE fulfilled Plan A it had no need to seek permission for Plan B or Plan C activities. Centralisation was reasserted in 1982-3, but SOEs which had been operating on a commercial basis were reluctant to return to the 'material balance' system. Some SOEs thus have more than a decade of quasi-market experience.

³⁸ Adam Fforde, *Vietnamese Commerce: the "Tiger on a Bicycle" Syndrome*, Columbia Journal of World Business, Winter 1994

³⁹ Interview, Hanoi, February 1994

⁴⁰ Adam Fforde, VECA #4, 1994

strategy, on the other hand, is the creation of an environment where state companies compete on an equal basis with the private sector. Implementation of such a strategy requires decisions on the sectors in which the state is to remain active, and on the number of companies to be defined as strategic to the state's interest. It also demands the separation of remaining state companies from their line ministries and the establishment of a new government agency or department in which supervisory control of all state business interests is vested. These measures would have the likely additional result of curtailing the competing power structures established by central and local governments. Until decisions on state enterprise reform are formalised - and, even more importantly, the method by which the transfers of ownership implied in such decisions are formalised - abuses of power (for example in the reallocation of state assets including land) will remain common. Certain officials holding positions of power enjoy financial benefits derived from the present 'twilight' situation and are reluctant to see further progress in the reform process lest the opportunities they currently exploit disappear⁴¹.

Key elements of the SOE reform programme to date include:

- reorganisation of state enterprises via a re-registration process by which the most healthy survive and those which are loss-making or otherwise non-viable are disposed of, through liquidation, sale or merger;
- resolution of outstanding debts between different SOEs and between SOEs and external creditors, particularly the banking system;
- an experiment in privatisation of state enterprises.

The final course of the SOE restructuring programme is still under discussion. The three principal options currently under study include corporatisation of all SOEs, which would remain in public ownership but be organised under the Companies Law (i.e. the company would have a clear legal definition and the owners - the state - would have clear evidence of ownership in the form of shares); the formation of large, state-owned business groups in key areas which would represent the bedrock of the economy; and privatisation on a wider scale than so far achieved.

The Debt Resolution Committee was established in 1991 to resolve debt arrears and bad debts among SOEs. It has more or less completed the first phase of its work, which involved determining the arrears position of each company and overseeing the repayment of debts by those SOEs in a position to do so, and is now attempting to unravel the outstanding bad debt situation. State businesses have been accused of dragging their feet in implementing debt repayment arrangements; a new directive threatened such firms with bankruptcy unless they began the process by July 1994. An example of the difficulties created by the government's uncertainty over how best to handle the debt problem, was the effect of a 1992 decree allowing companies going into 'voluntary bankruptcy' to write off their debt. While ministries and the local authorities greeted with enthusiasm the prospect of avoiding repayment of loans, creditors objected so strongly that a new decree had to be issued four months later, making the writing off of enterprise debt considerably more difficult. The work of the Debt Resolution Committee has proceeded so slowly that some SOEs have started to settle their debts between themselves, even though they do not legally have the authority to transfer state assets from one entity to another. Along the way, many state assets have simply disappeared.

Over 2,800 SOEs vanished between 1 January 1990 and 1 January 1992, and a further 2,240 had left the rolls by mid 1993. All SOEs were required to reregister themselves according to Decree #388 issued in November 1991, but by the time this process was suspended in 1993 only around 6,500 enterprises which had done so were deemed economically viable; a second round of reregistration began in early 1994 to offer another chance of survival to those companies which did not meet the financial criteria laid out in the first round but which are nevertheless thought to

⁴¹ Interview, Hanoi, August 1994

be essential to the interests of the state. This has brought the number of SOEs up to around 7,000. Nevertheless, the withering of the state enterprise sector will continue.

Not all those companies which have disappeared were loss-making: the better-performing locally managed enterprises in particular underwent 'spontaneous privatisation', i.e. state assets were transferred to other owners with the tacit agreement of the local authorities. Indebted companies, already effectively bankrupt, simply ceased to exist but, in the absence of a bankruptcy law, were not formally wound up - these companies are described as 'dead but not buried' by the Vietnamese authorities. Nine months after the passage of the bankruptcy law, implementing provisions for SOE bankruptcy have still not been issued.

Other state enterprises have either amalgamated with other units in related businesses or were effectively taken over by stronger ones, either at the initiative of one of the parties involved or at the 'request' of the line ministry. Hai Ha Confectionery and the textile sector's Phuong Phu are examples of healthy state companies absorbing troubled ones. Other state companies were simply 'returned' to the private sector to which they had originally belonged. Since the reregistration process required companies to demonstrate assets equivalent to US\$200,000, some companies simply grouped together and presented themselves as one. This was the case, for example, with a group of Ho Chi Minh City fruit and vegetable enterprises: previously five different aspects of the business (processing, freezing, storage and trading....) were conducted by separate units with their overall affairs handled by an administrative unit. Lacking sufficient capital to reregister individually, as they should have done, they simply reregistered as a single unit and thus six locally-run enterprises overnight became one.

Candidates for the pilot scheme for the creation of state-owned business groups include Petrolimex, the Corporate Union of Cement Enterprises, the state air transport carrier, and the railways. The ministries involved began preparing proposals for the establishment of these groups in April 1994, with the intention of eliminating the distinction between 'central' and 'local' SOEs and reducing the administrative controls perceived to inhibit business development⁴². Each group is required to have at least seven members and a minimum legal capital of VND1,000 billion (US\$91 million). The rationale behind the creation of business groups is that existing Vietnamese companies are too small to compete on a truly international basis. There are concerns in some quarters, however, that the formation of such groups will simply add another layer of bureaucratic control particularly if the principal motive for companies to join the group is the fear of being unable to compete with it if left outside. There is also some confusion in the minds of the general business community as a whole over the government's definition of a business group. Some enterprises have formed themselves into informal associations and are calling themselves business groups - for example Thang Long Construction, which has both private and state company members. Such groupings are described by the government as 'illegal' because they are not formed under the basis of law.

The issues surrounding the scaling down of the SOE sector as a whole, and of control mechanisms for the new slim-line version, remain highly contentious at all levels. Certain ministries are strongly resisting proposals to transfer SOEs to a separate government agency which will look after state interests, since their power base has been traditionally derived from the companies in their domain. In spite of the transfer of managerial responsibility to the company level ministries continue to exercise sweeping and direct authority over SOEs, including for example the right to appoint or dismiss the director of a company. Indeed, it is said that in the past the best qualification to be a manager of an SOE was to be able to get on well with one's superior in the line ministry. It has also substantially undermined the concept of managerial accountability. Now, different skills are required.

⁴² Additional 'yoke' of control heightens doubt over \$64m Saigon Trade Group, Vietnam Investment Review, 23-29 May 1994

The privatisation issue

The idea of mass privatisation of SOEs as carried out in some East European countries appears to have been completely ruled out by the government: it is an issue which is not even discussed. The very concept of privatisation as a means of reducing the state's influence (with equitisation as a first step, i.e. the creation of a company with shares) in business meets considerable barriers both within the companies themselves - among managers and/or workers - and in the political establishment. In the latter group ideological concerns are noticeable. Within both groups a lack of any clear understanding of the philosophy (or the mechanism) underlying privatisation is the greatest problem. Much of the confusion surrounding equitisation is due to the lack of explicit, articulate and public support for the policy at the most senior levels of government, and the absence of clear guidelines on how SOEs qualify for the equitisation process or how to implement it once they have qualified. Confusion has led to scepticism and increasing resistance to the equitisation programme.

The objectives of the equitisation process are defined as:

- divestiture of ownership in order to raise efficiency;
- mobilisation of capital; and
- creation of the rights of ownership for employees in state-owned enterprises⁴³.

For many constituencies, however, equitisation is seen simply as the division of state assets and capital among the members of the company. Workers who have foregone legal bonuses in earlier years in order to support their company's investment programme suspect their sacrifices will have been made in vain⁴⁴, and employees of many companies fear their incomes will fall as net profits are used to pay dividends rather than regular staff bonuses. Further, few ordinary people have confidence in the state financial system and even fewer are willing to invest in production facilities by buying shares, even if they had the funds to do so. Valuation of the assets (mostly land) of an SOE is in itself a contentious and complex problem.

The government's formula for divestiture of shares in equitised companies provides for 50% ownership by employees, 30% by the state, and 20% by outside investors, with further limits on ownership by individual employees (10%) or by individual outsiders (5%). The 5% limit on shareholdings by outsiders - whether foreign or Vietnamese - effectively eliminates the possibility of a company attracting a 'strategic investor', who could bring new capital, technology, management know-how, market access or other benefits.

A pilot plan involving 19 candidates from six ministries and three provinces which had been identified as suitable for equitisation had effectively ground to a halt by April 1994, with the government apparently deciding to stress first other elements of state enterprise reform - including the resolution of inter-firm debt. Only nine of the companies participating in the programme had put forward viable proposals, and by the end of 1993 only two of them had been equitised. These were Gemadept, a freight forwarding company, and REE, a refrigeration engineering company in Ho Chi Minh City. Two more companies, Hiep An Shoes Factory and Legamex, began the sale of their shares but alleged financial irregularities by the company's director has subsequently halted the equitisation process at Legamex. Despite these difficulties the directors of a few SOEs are apparently determined to push ahead with equitisation: Thach Ban Company, a manufacturer of bricks and ceramics for construction expects to undertake the process at the end of 1994⁴⁵.

⁴³ *Charting equitisation through difficult waters*, Vietnam Investment Review, 23-29 May 1994

⁴⁴ SOEs are legally required to reinvest a minimum of 35% of their net earnings, the remaining 65% (maximum) being available for employee welfare and other bonuses. Workers who accepted a smaller bonus in the interests of long term corporate investment plans thus make important sacrifices.

⁴⁵ Interview, Hanoi, August 1994

Table 12: Participation in the equitisation pilot scheme, as at March 1994

	Began	Stopped	In progress	Complete
Min. of Agriculture	1	1	-	-
Min. of Commerce	2	2	-	-
Min. of Construction	3	-	3	-
Min. Of Heavy Industry	1	1	-	-
Min. of Light Industry	5	4	1	-
Min. of Transport	1	-	-	1
Provinces (various)	5	*2	2	1

* believed stopped

Source: KPMG Policy Economics Group

Table 13: Status of equitisation participants, as at March 1994

	Status	Comment
Min. of Light Industry		
Thang Cong Textiles	stopped	union disagreed
Binh Minh Plastics	stopped	bonus would be less after equitisation
Hiep An Shoes	valuation complete, shares being sold	
Thong Nhat Matches	stopped	disagreement over land rights
Bien Hoa Wool	stopped	
Min. of Construction		
Thach Ban Bricks	valuation in progress	
Construction Co. #3	in progress	
Doi Tan Tiles	in progress	
Min. of Agriculture		
Animal Foodstuffs	stopped	
Min. of Transport		
Freight Forwarding	100% complete	equitisation 7/93
Min. of Commerce		
Restaurant	stopped	
Hai Hung	stopped	
Min. Heavy Industry		
Soap	stopped	
Hanoi		
Hoakkimex	in preliminary state	
Haiphong		
Transport	unknown	
Hai An Mechanics	unknown	
Ho Chi Minh City		
Legamex	valuation complete, shares being sold	equitisation stopped, investigation
REE Refrigeration	100% complete	equitisation 10/93
Long An		
Export Company	valuation in progress	

Source: KPMG Policy Economics Group

Government priorities for further equitisation will certainly focus on the transfer of small and medium sized SOEs in non-essential industries (trading, services, tourism, transportation, consumer goods production.....) to the private sector. A programme of divestment in Eastern Europe and the former Soviet Union of state enterprises with few employees and very limited capital has proved highly successful, and according to western advisers provides Hanoi with a useful model for similar action in Vietnam. Divestiture of small state units creates little financial or social risk and the financial consequences of straight asset sales via auction, without a prior attempt at valuation, are relatively insignificant⁴⁶.

Cooperatives

This sector has clearly been the greatest casualty of the economic reform process, as the rationale for the existence of collectives (originally, to prevent the spread of capitalism) has disappeared. They contributed around 28% of national income in 1986, but only 5% in 1992, reflecting a precipitate decline in numbers of operational collectives. Industrial collectives, which are strongly focused on light manufacturing and handicrafts, numbered nearly 33,000 in 1985 but fewer than 22,000 in 1990 and just 8,829 by 1992. Reflecting historical trends, about 65% of those remaining are based in the north. The collective transportation sector suffered a similar fate, losing one third of its member units per year as numbers dropped from 3,301 in 1991 to 2,299 in 1992 and just 1,500 by September 1993. Cooperatives used to account for 11% of all people employed in retail trade in 1986, but by 1992 only 0.3% (some 4,000 people) of retail traders worked in cooperatives.

Cooperatives have borne the brunt of the ending of the state subsidy system. Not only did they directly receive subsidies on their own account, but because their role was to supply the state sector they were integrated into the central plan and therefore have suffered indirectly from the withdrawal of subsidies to their customers. They nevertheless continue to enjoy certain advantages over the private sector, in the form of concessional taxes, land use and credit facilities, and thus are sometimes used as cover for private businesses.

Many of the old cooperatives have been transformed, either into private enterprises or into cooperative share-holding companies (otherwise known as joint stock companies - even though cooperatives are, by their very nature, a type of joint stock venture). In the latter case, members of the cooperative are offered shares in the company on the basis of their seniority and contributions to the old co-op, but may opt for withdrawal and transfer their interests to work under contract for the business instead.

Although cooperatives may establish joint ventures with foreign partners, in practice this happens very rarely. Cooperatives are also handicapped by a prohibition on them carrying out direct export or import business. A new law governing cooperatives is eventually expected to rejuvenate the sector.

The backbone of the cooperative system has traditionally been the rural economy. Until 1988 most farmers worked in cooperatives, with state enterprises generally only involved in industrial farms. Then, cooperatives were authorised to make contracts with households who were to farm land assigned to them for 15 year periods⁴⁷. In spite of the redistribution of collectivised land, the

⁴⁶ *State Enterprise Reform and Equitisation, Inception Report*, KPMG Peat Marwick Policy Economics Group, March 1994

⁴⁷ The distribution of land use rights to farmers took place in 1988. Despite the absence of security of tenure a technically illegal market developed in many places, particularly in the outskirts of urban areas where villagers sold land for housing and business premises. Richer farming households also accumulated land. Cooperative leaders were in many cases accused of abusing their authority by distributing to relatives and friends land from the so-called 'second land fund' (which was supposed to be auctioned for 1-2 year periods and the funds thus raised used for community projects). The 1993 Land Law formalised the concept of the transferability of land use rights, but also diminished further the role of the cooperatives and the communes by investing district and city level

concept of the agricultural cooperative has endured albeit in changed form. The more active cooperatives - perhaps half of all remaining rural cooperatives - are in the north and central Vietnam. They have engaged in organising low interest loans for farmers, buying farm machinery for their members' use, improving irrigation facilities, building local infrastructure, and establishing food processing and other small enterprises⁴⁸. At best the less active cooperatives provide farming advice and implement policy handed down from higher administrative levels.

Private businesses

The recognition given by the 1992 Constitution to the role of the private sector marked the watershed for private business people, who until then were subject to open discrimination and harassment by state officials. The government's policy stance was further clarified for the public with the passing of the Private Business Law and the Company Law in late 1992. While these laws provide a legal foundation for private enterprise, private companies pay significantly higher taxes than either state or foreign-invested firms. Many private business people continue to suffer also from the more ambivalent attitude of officials, particularly at the local level, because of the competition they create with SOEs for scarce resources. They are regularly accused of such misdeeds as counterfeiting, tax evasion and smuggling. While this may be true, SOEs are just as likely to be engaged in the same "negative phenomena". Potentially more worrying are recent indications that while the authorities are happy for the private sector to develop at the household level, they are reluctant to see private businesses growing beyond a certain size and may therefore institute compulsory state purchases of shares⁴⁹. The implication is that competition for the state sector should come principally from joint venture companies formed with foreign partners.

Private sector activity, accounting for over 60% of GDP, is generally small-scale. It is most dynamic in Ho Chi Minh City, where growth was 16.9% in 1993, compared with 9% growth for the country as a whole. Government statistics subdivide data on the sector into private enterprises and private households. They show that the overwhelming majority of private industrial establishments are household based, numbering nearly 450,000 in 1992 (a 34% increase since 1990). The number of private enterprises registered has risen dramatically since 1992 after a difficult 3 year period during which many went bankrupt, starved of capital by the austerity measures implemented in 1988 to combat inflation or caught by the collapse of numerous unregulated credit cooperatives in 1990. In 1991 there were just 770 private companies in Vietnam, actually fewer than in the mid 1980s before *doi moi* was introduced. By early 1994 some 11,700 private businesses, including joint stock and limited liability companies, were operational throughout Vietnam. Over 2,000 of these were in Ho Chi Minh City, with nearly 1,000 in Hanoi. Da Nang, in central Vietnam, had nearly 450 private companies in operation.

Their scale, however, is tiny. Between them the entire stock of private business in Vietnam musters capital of just VND 3.96 trillion (US\$365 million), one-eighth of the remaining SOEs' capital of VND34.40 trillion. By this measure their contribution to GDP is a remarkable achievement. The low capitalisation of these private enterprises reflects continuing uncertainty over state policy, doubts over future prospects, continued arbitrary intervention in company affairs by the bureaucracy, and the perceived discrimination against private domestic investors in the form of higher tax rates and fewer privileges than those available either to the state sector or to foreign-invested enterprises.

Lack of capital is a significant barrier to the creation of a dynamic private business sector. Traditionally denied any access to the formal banking system, private business people have continued to struggle against ingrained prejudices among state-run banks. There are some signs of improvement: 9% of State Bank loans went to the non-state sector in 1991 but this rose to 15%

administrations with the authority to manage the transfer of these rights. This was done in an attempt to reduce the arbitrary nature of decisions by local officials.

⁴⁸ Ben Kerkvliet, *Society and State Interactions in Vietnam's Rural Transformation*

⁴⁹ Interview, Hanoi, August 1994

in 1992 and 30% in 1993. For 1994 the State Bank has announced its intention to raise the ration of loans to the non-state sector to 40%. Small, short term loans are the most common form of bank credit, however, with longer-term funding exceptionally difficult to access. An important source of funding for private business operators is therefore their relatives overseas. Much of the capital provided to manufacturing businesses is in the form of equipment. Today, many private companies are covertly owned by Viet Kieu. In early 1993 it was estimated that private manufacturers operating in the plastics industry imported machinery worth nearly US\$10 million⁵⁰. A second important group of entrepreneurs is represented by the Chinese population, which receives substantial funding from Overseas Chinese in other countries. Many of the karaoke bars which have sprung up around Ho Chi Minh City, for example, are Taiwanese-funded although they are registered as domestic businesses. Some Chinese groups have already become very large. One of the biggest is Viet Hoa, which not only owns a joint stock bank that boasts several branches but also a broad portfolio of property developments.

The number of employees on the payroll of a private enterprise is typically less than thirty, although a handful of companies (Huy Hoang, Biti's....) have grown to employ well over one thousand people. The 976 new private businesses registered in Ho Chi Minh City during 1993 are reported to have created 12,000 new jobs. This represented only a fraction of the 123,059 people thought by city officials to have found work during the year (leaving another 375,000 in the city jobless). Private businesses in Ho Chi Minh City employ well over 30,000 people. If all sorts of private enterprises in the city are included, they numbered 20,000 by mid 1993 and employed 170,000 workers - compared with fewer than 20,000 employees at the city's 252 foreign-invested companies.

The private sector holds a substantial share of the garments, furniture, soft drinks, plastics, ceramics and small-scale food-processing industries. However, lacking both capital and confidence, most private businesses have preferred to enter the trade and retail sectors where they are now the dominant force, rather than commit themselves to long term investments in manufacturing equipment. The result is that, although private industrial output may be increasing rapidly (up by 16% in Hanoi in 1993, for example) its contribution to national gross industrial production is tiny. Similarly, private sector exports have yet to attain critical mass. Hanoi's private companies, for example, exported goods worth US\$2.3m in 1993. While the growth rate may be impressive - a doubling of the 1992 level - Hanoi's total exports that year were US\$420 million.

Fiscal and Monetary Policy

Distortions in the economy induced by parallel pricing systems for essential goods and budget deficit-financed support for the ailing state enterprise sector caused massive inflation during the 1980s. Inflationary pressures were initially exacerbated by the introduction of economic reforms in 1989 which liberalised prices and wages, but austere fiscal and monetary measures brought in by the government under the tutelage of the IMF - including alignment of the official dong/dollar exchange rate with the prevailing black market rate - were highly successful and in 1993 Vietnam had its first single-digit inflation rate (5.2%) since the 1970s. Although inflation looks set to rise again in 1994, the rate is expected to remain below 10%. Nearly two-thirds of the 6% increase in prices in the first half of the year came in February, when more money was issued by the State Bank to pay for increased state sector salaries and Lunar New Year bonuses. (Foreigners may feel that inflation is actually rising faster than this: the issue of new bank notes in denominations of VND 20,000 and VND 50,000 seems to have been accompanied by the disappearance of all notes of VND 500 or less when change is required. Until 1992, the largest denomination bank note in circulation was the VND 2,000 bill.)

⁵⁰ Vietnam Investment Review, 22-28 February 1993

Table 14: Monetary indicators

		Actual						Estimates	
		1988	1989	1990	1991	1992	1993	1994	1995
Gross domestic savings	% of GDP	-0.2	-0.2	2.1	4.8	6.9	n/a	n/a	n/a
Gross domestic investment	% of GDP	14.4	11.6	11.5	11.6	12.0	19.8	21.7	25
M2 money supply	% change	445.4	188.8	49.2	83.5	33.7	17.2	18.9	19
Budget surplus/deficit	% of GDP	-8.3	-8.7	-6.4	-1.7	-1.8	-5.1	n/a	n/a
External debt	US\$ bn	15.3	15.7	17.3	17.7	17.7	17.7	19.6	21.4
Debt service ratio	% exports	70.0	42.3	29.9	20.2	22.4	28.5	12.0	12.0
Average exchange rate	VND/US\$	3000	4300	5000	12500	10530	10510	n/a	n/a

Source: Asian Development Outlook, ADB, 1994

The biggest threat to Vietnam's ability to hold inflation below 10% is the widening budget deficit. Growing oil export revenue had brought a substantial improvement in the deficit, but this merely helped to disguise the lack of any broadly-based tax collection as a regular source of government income. In 1993 the position was sharply reversed, as reform of the state sector's pay system and financing of costly infrastructure projects such as the north-south power line more than doubled the budget deficit to VND 8.7 trillion (US\$ 805 million). Economists forecast a 50% increase in tax revenue in the first half of 1994, and this will help to pull the deficit back to just under VND 10 trillion (around US\$900 million). Around two-thirds of the deficit was expected to be financed through foreign loans, but the inflow of foreign funds for capital construction so far this year has been slower than anticipated. This has forced the State Bank in June 1994 to resort to its first ever commercial financing, a US\$100 million loan arranged by an international consortium of banks led by Thailand's Export-Import Bank. At the same time it imposed a credit squeeze on government ministries and requested localities to increase their tax revenue by 10% more than plan. The financing shortfall threatens the future of some of the nation's infrastructure programmes, with three-quarters of the 5,460 projects, worth around VND 6 trillion (US\$545 million), not meeting funding requirements. Total capital investment required this year was VND 40 trillion (just under US\$4 billion). Additional commercial borrowing of US\$500-800 million may be required during the second half of 1994.

Tax legislation introduced since 1987 is designed to bring a greater portion of the economy into the tax net. Vietnam has traditionally relied too heavily on a small number of large state-owned companies to provide the bulk of its revenue, but new legislation has aimed to treat state and non-state businesses equally, eliminating individual negotiations carried out by SOEs with the tax authorities. In 1993 tax revenues of VND4,888 billion (US\$448 million) were equivalent to 23.0% of GDP, a share which the government expects to increase to 23.8% in 1994. Private businesses complain strongly about perceived discrimination they suffer vis-à-vis state companies and foreign-invested firms. Taxes are currently levied on turnover, profits, natural resources, personal income, and property. New rates of income tax, which for example reduce the top band from 80% to 60% for a Vietnamese citizen earning more than VND8 million per month and raise the income tax threshold from VND650,000 a month to VND1.2 million (US\$110) for the lowest paid, are designed to encourage personal savings. (For foreigners and Viet Kieu, the top 50% tax rate is payable on monthly incomes over VND70 million, and income is assessed on a worldwide basis.)

Proposals for a value-added tax system to replace the existing turnover tax over the medium term have gained some currency, but corporate financial accounting and data collection methods at present are by no means sophisticated enough to allow such a move. Although the percentage of revenue collected by central government is increasing, the fiscal system is not yet fully centralised. Given provincial authorities' desire to retain as much autonomy as possible and the widening regional disparities in income, Hanoi's ability to perform adequately its role of

redistributing revenue from richer to poorer areas may come under threat. A certain degree of unrest has emerged in rural areas, where additional charges for a variety of items seem to be levied on an ad hoc basis.

Vietnam's external debts in 1988 were nearly equal to GNP (although the hard currency portion was rather low) and its debt service ratio was nearly 40%. By the end of 1992, the stock of debt had increased to over US\$3 billion as arrears on debt servicing accumulated. Lacking access to world capital markets to replace Soviet aid, the government had no alternative but to cut back its investment programme, which declined sharply from 6.7% of GDP in 1989 to just 3.1% in 1991. By 1992 it had recovered to 5.6% and was supplemented by private investments⁵¹. The officially reported investment rate of 12% in 1992 is thought to be underestimated because of the difficulties in accounting fully for private sector activity. Nevertheless the rate needs to increase substantially if economic growth is to be sustainable. The State Planning Committee predicts gross domestic investment of 20% by 1995, compared with the ADB's forecast of 25%.

The dong was one of the world's strongest currencies in 1991-92, appreciating some 25% against the dollar as the government sold between three and seven tonnes of gold (a favoured savings instrument in Vietnam) and issued Treasury bonds to soak up some of the currency in circulation and curb the import of consumer goods. Efforts to control money supply growth have contributed to shortages in capital to buy rice for export, causing huge surpluses to build up in the Mekong Delta and prices to fall. During 1993 the State Bank kept the exchange rate steady, and spent an estimated US\$200 million in the process, to the growing concern of exporters and to the manufacturers serving the domestic market who have been hurt by a flood of cheap imports valued in dollars and renminbi. Pure market forces would have produced a 20-30% decline in the value of the dong over the last couple of years⁵². Pressure has been growing from certain quarters - reportedly including the World Bank - for a devaluation of the currency, by 15% or even 30%, to restore the country's export competitiveness while those opposed to such an abrupt move cite the fragility of confidence in the dong. A gradual depreciation is a more likely approach in order not to scare people's savings back out of the banking system and into dollars or gold under the mattress.

The authorities moved to stem a rapid rise in gold and dollar prices after the 1994 Lunar New Year and the lifting of the US trade embargo, by selling gold below the market to bring the domestic price back to parity or just below world prices. There are several reasons for the surge in the gold price: visiting Viet Kieu and American businessmen apparently brought large amounts of dollars with them in January-March, which locals wanted to exchange into gold locally; the resurgence of the real estate market, where most transactions are made in taels (37.5 grams) of gold, boosted demand; and so did the activities of smugglers seeking to bring in now-banned second hand consumer goods, who require gold to trade for hard currency⁵³.

The State Bank has been moving to curb the use of the dollar as a parallel currency since the start of the year, and will require all foreign currency settlements and transactions to pass through the official banking system from 1 October 1994. Henceforth only duty-free shops and specifically authorised organisations will be allowed to receive payment in foreign currency, a move which is intended to increase use of the dong and reduce the number of dollars circulating outside the formal banking system. Differentials charged in interest rates on dollar and dong loans has caused concern over currency speculation by businesses which are borrowing in dollars but then exchanging them into dong for their normal business purposes, pushing up the value of the dollar. Full convertibility of the dong has emerged as a new goal for the end of the century; necessary conditions - including a strategic foreign currency reserve fund and gold and exchange rates integrated with international market rates - do not yet prevail.

⁵¹ *Vietnam: Transition to the Market*, An Economic Report, World Bank, September 1993

⁵² Nayan Chanda, *Money Pit*, Far Eastern Economic Review, 14 April 1994

⁵³ Vietnam Investment Review, 4-10 April 1994

Foreign Trade

Prior to the reforms foreign trade played only a marginal role in the Vietnamese economy. In 1980 imports were equivalent to 10% of GNP against exports of only 3.9% of GDP - and three-quarters of these went to the Comecon area under barter arrangements. Ten years later exports reached 15% of GNP and 90% of them went to the convertible area. Soviet aid largely financed Vietnam's trade deficit until 1989, when such assistance was terminated. The deficit in that year was some US\$350 million. The switch in export orientation from the rouble zone to the convertible currency area in 1990-92, as the Soviet bloc disintegrated, is a truly impressive achievement. Trade deficits of less than US\$100 million were recorded in those three years, but the country ran a substantial deficit on the services account arising from interest obligations of around US\$200 million per year. Rescheduling and forgiveness of a portion of the debt will henceforth ease the pressure on the current account.

Government policy of according high priority to exports and to the elimination of the state monopoly on overseas trade has generated an increasingly diverse export base and a broad portfolio of client countries. Eight of Vietnam's ten largest foreign trade partners are from Asia. This outward-oriented stance, which has been demonstrated so effectively by other Asian countries to bring important economic benefits, will ultimately create similar advantages for Vietnam: improved domestic income generating capacity, higher levels of employment and better international competitiveness.

Reforms of the foreign trade system introduced since 1989 eliminated quotas on exports and imports of virtually all commodities and products (the notable exception being rice) and extended direct foreign trading rights to a broad range of companies. It has made progress in dismantling some of the formal non-tariff barriers which controlled foreign trade but has yet to complete policy revisions. Issues yet to be addressed include the two-tier system of permits and licences for import/export business, which is not only selective and highly complex but also provides too many opportunities for abuse. The number of export and import tariff bands is excessive, leading to inconsistencies in application.

28 central trading monopolies dominated foreign trade activity prior to 1988, accounting for 92% of all imports and 82% of exports in 1987. The remainder was handled by provincial and municipal state traders. In 1992 central and local trading companies still handled 75% of official imports and 65% of official exports (i.e. excluding smuggling activities which are rampant - see below) although the diversification of many state trading companies into their own production activities suggests that the state's share in external trade may be higher⁵⁴. State trading companies these days have the freedom to trade for any government agency or organisation they wish, rather than being confined to transactions on behalf of the line ministry to which they were responsible. By 1991 Hanoi had extended the right to export and import, through the granting of trade permits, to more than 800 business units. These included 120 state companies and nearly 700 production enterprises. The latter category includes joint ventures. These trade permits - which may be withdrawn from a company at any time - represent the first tier of Vietnam's two-tier export/import licensing system.

Pure export/import companies are barred from forming joint ventures with foreign companies (although manufacturing companies may). In addition, the Law on Private Enterprises requires private companies, whether domestic or foreign, to have the approval of the Prime Minister in order to specialise in import/export activities. Stiff capital requirements also favour state companies over private ones. According to the Vietnam Chamber of Commerce, only three domestic private companies had gained specialist export/import licences by February 1994⁵⁵. Despite intense lobbying by interested parties, nervousness in Hanoi over the potential influence

⁵⁴ *Vietnam: Policies for Transition to an Open Economy*, UNDP-World Bank Trade Expansion Programme Country Report, December 1993

⁵⁵ Interview, Hanoi, February 1994

of foreign trading companies on Vietnam's economic interests restricts their activities to those permitted of a representative office, rather than of the branch office or subsidiary status they desire.

Manufacturing companies face fewer restrictions in international transactions, but must nevertheless produce goods for direct export to qualify for a trade permit. Thus, non-exporting enterprises or those exporting indirectly are forced to import raw materials and other inputs through trading companies - and they are not likely to be the privileged customers of such traders. Trade permits for qualifying companies are accorded only for specific categories of goods listed in the application to the Ministry of Trade and Tourism, which is the agency charged with sole responsibility for issuing these permits. Additional product lines require either a new application or transactions through a trading company already in possession of the relevant permit. According to the World Bank, such restrictions impose unnecessary constraints on the diversification of Vietnam's export base. It also considers that the screening process by the local People's Committee which all applicants for trade permits must undergo in order to establish their fitness to undertake international transactions implies a paternalistic attitude towards private sector businesses: the government appears to want to shelter private business from the risks of the market economy, by selecting via the licensing system which entity has the right to trade in which products, and thus slows down the process of learning through exposure to foreign markets the lessons required for a dynamic and competitive private export sector.

The second tier of the import/export system, necessary once the trade permit has been secured, is a shipment licence for each and every import or export transaction. The rationale is that this allows the government to monitor the implementation of SOEs' import/export targets, control its balance of payments position and foreign exchange reserves, and ensure that requirements permitting tariff exemptions granted to foreign-invested companies are met. In practice, the increasing volume of Vietnam's foreign trade is making administration of such a system untenable because of the paperwork and the delays involved. This leads to increasingly arbitrary enforcement of the regulations and raises the potential for corruption accordingly. Experiments with the granting of six-month shipment licences for a selected number of export products began in 1993.

In addition to a complex structure of import tariffs, Vietnam from time to time operates a number of bans or temporary restrictions on the import of certain goods in order to protect its domestic producers. The import licensing system effectively imposes informal quotas on imports. Experience has shown that outright bans, quotas and excessive tariffs tend to be highly counterproductive. The smuggling activity stimulated by such measures deprives the government of revenue from import duties and also defeats the object of government restrictions on imports - the protection or promotion of domestic industries. Smuggling has risen dramatically whenever temporary bans have been introduced or tariffs are increased to excessively high levels, actually increasing the problems for companies producing locally and which must compete with 'zero tariff' contraband goods.

Estimates of the extent of the smuggling across Vietnam's long land and sea borders vary, but range from 20 to 40% of total trade. A frequently cited figure is US\$500 million (20% of official imports), but press reports suggest that in some cities the percentage of trade in smuggled goods is as high as 60%. Smuggling has apparently been encouraged by an abundance of foreign currency held by the private sector⁵⁶, but much is actually carried out under the protection of state organisations. Partial reform of state enterprises has given them the freedom to engage in all sorts of economic activities, but without necessarily adopting the risks and responsibilities of the marketplace. As the *Nhan Dan* newspaper pointed out as long ago as December 1990, "In some [state-owned] units of 600 people, only 50 are required and the rest are released to engage in

⁵⁶*Vietnam: Policies for Transition to an Open Economy*, UNDP-World Bank Trade Expansion Programme Country Report, December 1993

Table 15: Exports to the convertible currency area, 1984-93 (US\$ million)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Total exports	440	497	495	607	733	1320	1731	2042	2475	3000
Exports to the convertible area	276	336	307	430	465	977	1256	2010	2475	3000
Agricultural exports	99	129	118	170	231	575	518	804	1001	
Rice	0	0	0	0	0	316	272	225	420	350
Coffee	0	2	2	24	25	31	25	75	87	85
Rubber	7	2	2	6	6	14	16	50	46	70
Tea	3	5	4	2	3	3	2	14	14	25
Other agricultural exports	89	120	110	138	197	211	203	440	434	
Oil exports	0	0	0	30	79	200	390	581	790	861
Seafood exports	74	80	95	113	124	133	220	285	305	368
Industrial goods exports									170	340
Agricultural exports as % of exports to convertible currency area	35.9	38.3	38.4	39.5	49.8	58.8	39.7	31.1	40.4	
Oil exports as % share of exports to convertible currency area	0	0	0	7.0	17.0	20.5	29.9	26.7	31.9	28.7
Seafood exports as % of exports to convertible currency area	26.8	23.8	30.9	26.3	26.7	13.6	17.5	14.2	12.3	12.3
Industrial goods exports as % of exports to convertible currency area									6.9	11.3

Source: World Bank, Ministry of Commerce

Table 16: Imports from the convertible currency area, 1984-93 (US\$ million)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Total imports	903	1121	1184	1412	1670	1772	2105	2535	3300
Imports from the convertible area	459	453	465	603	985	1208	1985	2535	3300
Petroleum	-	-	-	-	-	236	485	570	900
Fertilisers	67	94	98	72	46	130	236	235	
Steel	84	96	157	271	-	-	18	85	
Capital goods (est.)	-	-	-	-	489	562	713	941	
Other imports	308	263	210	260	450	281	533	704	
Petroleum imports as % of imports to convertible currency area						19.5	24.4	22.5	27.3
Capital goods imports as % of imports to convertible currency area					49.6	46.5	35.9	37.1	

Source: World Bank, Ministry of Commerce

trading, but do so in the guise of state employees".⁵⁷ In other words the state is acting against the interests of the state. The government is engaged in a constant drive against smuggling, and regularly dismisses customs officials accused of illegal activity, but has yet to demonstrate its ability to stem the tide. Swathes of Vietnamese industry - bicycles, fans, diesel engines, steel - have been all but decimated by the volume of goods smuggled in from China, which have become all the more competitive thanks to China's progressive devaluation of the renminbi.

Vietnam achieved a roughly balanced trade account for the first time in 1990, and its first ever current account surplus - which includes some US\$500 million in remittances from Viet Kieu - in 1992. These triumphs were short-lived. The trade balance recorded a US\$334 million deficit in 1993 as imports of capital goods surged. (Note that detailed import and export statistics expressed in dollars are difficult to come by, although volume data is more readily available.)

The value of refined petroleum goods imports appears to have slightly exceeded crude oil exports in 1993. More worrying was the rapid growth in imports of consumer goods, notably cars, motorcycles and electronic goods. The value of TV sets and components imports, for example, jumped from US\$7 million in 1988 to over US\$90 million in 1991. 90,000 motorcycles worth US\$66 million and 1,200 automobiles worth US\$1.5 million were imported into Ho Chi Minh City in the first nine months of 1993, contributing the bulk of the excess over plan of imports for the period. The government has now banned the import of all second hand consumer goods, as well as right-hand drive cars. Whether or not the attempt to stifle growth in consumer goods imports succeeds, demand for capital goods will contribute to a further deterioration in the trade balance over the next few years.

Declines in world prices of Vietnam's major export items - crude oil and rice - hurt the trade balance during 1993, but exports still rose 20% to US\$3 billion. Seafood products overtook rice to become the second largest export category in 1993. Table 15 demonstrates the progress made in diversification of hard currency earnings over the last few years. Exports of garments and textiles doubled over 1992 levels to around US\$340 million, just over 11% of total exports. Vietnam continues to experience difficulties in finding new markets for such export products as processed meat, handicrafts, fruit and vegetables, but nevertheless achieved a further 20% increase in exports in the first half of 1994, to US\$1.6 billion. Imports meanwhile rose 27% to US\$1.7 billion, and it seems likely that there will be a trade deficit of around US\$300 million for the full year.

Industrial products as yet represent only a small share of the goods Vietnam sends overseas. Joint ventures with Asian and other firms in the garments, food processing and marine products industries will eventually contribute to increased sales of manufactured goods overseas - indeed, in 1992 foreign-invested projects exported US\$160 million of manufactured and other goods, equivalent to 7% of Vietnam's export turnover. Rapid progress in the export of manufactured goods from a low base is possible, but it is unrealistic to expect large benefits to the economy in the short term. Even after 20 years of high growth Thailand's manufactured goods exports in 1980 contributed less than 5% of GNP and three-quarters of its exports were natural-resource based; Indonesia's manufactured exports represented less than 1% of GNP in 1980. Exports of labour-intensive manufactured goods, reflecting Vietnam's position as a late starter and a low cost producer, will nevertheless fuel growth in hard currency earnings over the longer term.

In contrast to the caution exhibited by Japanese firms in investing in Vietnam (see below, p.88), Japan has been the country's largest trading partner from the convertible currency area for a number of years. Between 1984 and 1988 it accounted for 40% of Vietnam's imports and 24% of its exports, and a Japanese trading company provided the long term financing for the import excess. Today Vietnam is one of the relatively few countries in the world with which Japan runs a trade deficit. This is almost entirely due to Japanese purchases of Vietnamese crude oil, plus some

⁵⁷ Article quoted by David W.P. Elliott, *Dilemmas of Reform in Vietnam* in Eds. William S. Turley and Mark Selden, *Reinventing Vietnamese Socialism: Doi Moi in Comparative Perspective*, Westview Press, 1993

seafood products. Japanese exports to Vietnam are increasing faster than imports although the extent of this growth is not fully apparent from IMF trade data. Japanese trading houses are active in sourcing capital goods and equipment from third countries such as Thailand and Indonesia, where a more appropriate level of technology (and price) may be found. One of the major trading houses currently imports only one-fifth of the goods it brings to Vietnam from Japan (but almost 100% of its exports go directly to Japan). Another Japanese trading company is responsible for nearly 4% of Vietnam's entire two-way trade with the world. In 1992 total direct imports from Japan to Vietnam more than doubled to US\$450 million.

Table 17: Vietnam's top foreign trade partners

	1992	1993
Japan	1340	1450
Singapore	1020	1340
South Korea	493	460
Germany	286	354
France	310	350
Hong Kong	320	320
China	255	220
Indonesia	215	215
Taiwan	212	200
Thailand	160	170

Source: Ministry of Commerce

Vietnam's refined petroleum imports are brought in from Singapore. European Union (EU) countries represent less than 20% of its exports and less than 15% of its imports. Germany is the biggest single customer in Europe of Vietnamese goods, especially garments and textiles. French imports from Vietnam doubled in 1993 to around US\$190m, while exports rose 35% to US\$300 million. More than half of French exports to Vietnam is in capital goods, while the share of pharmaceutical and agro-alimentary goods is declining: French pharmaceutical and agro-chemical companies such as Rhone-Poulenc remained in Vietnam throughout the 1980s and thus were well placed to benefit from the switch to a market-oriented economy. Historical connections have played an important role for France in developing an 8% share (in 1993) of Vietnam's foreign trade. Its share of Asian trade is on average only 2-3%, well behind other European countries, but a realistic assessment of future prospects suggests that over time France's share will settle back to around 5%⁵⁸.

Although limitations on Vietnamese textile exports are imposed by the EU under the Multifibre Arrangement, the EU has become Vietnam's most important market for textile goods since the signing of quota agreements in late 1992. It purchased three-quarters of Vietnamese textile exports in 1993. Production of the bulk of these goods is, in fact, work subcontracted by foreign firms which provide all the materials for assembly in Vietnam. The Taiwanese-invested company Lien Minh became the first company to export goods from the Tan Thuan Export Processing Zone, in the final quarter of 1993. Its fibres were also destined for the EC. Vietnam has been negotiating for additional quotas with the EU in order to absorb the additional production capacity caused by the loss of markets in the former Soviet bloc. In the past Vietnam exported as much as 40 million textile units, equivalent to its entire export capacity, to former Soviet countries but is now able to export only half that amount⁵⁹. High tariffs on garments exported to the US before Vietnam wins MFN status renders the American market largely inaccessible for the present.

⁵⁸Vietnam: *le temps du renouveau économique*, les notes bleues de Bercy, 16-31 May 1994

⁵⁹Vietnam: *Policies for Transition to an Open Economy*, UNDP-World Bank Trade Expansion Programme Country Report, December 1993

Around one quarter of Vietnam's coal exports, which rose 35% in 1993, are handled by the Korean company, Samsung. Korean traders are also active in cross-trading urea, which is the fertiliser of preference for Vietnamese farmers: they bring it from Russia and Indonesia since Korean demand for fertiliser is mostly for NPK. Imports from Korea include some steel and capital goods as well as electrical equipment.

Vietnam's foreign trade is heavily geared towards Asia, with eight out of ten of the top trading partners from the region. Singapore, the second biggest trade partner, conducts a large amount of through trade since feeder ships plying back and forth from Ho Chi Minh City and other Vietnamese ports mostly trans-ship there. The bulk of

Banking and Capital Market Developments

Vietnamese banks and financial institutions are still described as the weak link in the chain that represents the economy today, yet enormous strides have been made in the last five years. A two-tier banking system was introduced only in 1988, whereby the State Bank of Vietnam gave up its combined central/commercial banking role to become the central bank with supervisory control over four other state-run commercial banks. Today, in addition to the original five state-owned banks, Vietnam's formal banking sector includes some 40 joint stock banks, three foreign-invested joint venture banks, nine foreign banks with branch status, and some thirty foreign bank representative offices. Appendix 7 lists the main players. Competition between the banks is reduced by government controls over interest rates. The failure of all of these banks to meet the financing needs of non-state enterprises and individuals has been mirrored by the growth of a vibrant informal credit sector over which the authorities have little control, and which from time to time suffers disastrous losses.

The State Bank wields enormous political power (its governor holds the same rank as the head of a ministry) but its level of technical competence remains very low. The May 1990 Decree Law on the State Bank empowered it to issue currency, set exchange rates, manage foreign exchange reserves, and regulate credit and banking transactions at commercial banks. The involvement of the Ministry of Finance in setting monetary and interest rate policy suggests the State Bank does not yet have the full powers of a true central bank.

State-run banks

According to foreign bankers, the state-run banks are severely under-capitalised for the range of tasks they execute. Until 1992, Vietnam's constitution held that banking was a function of government and that banks were an integral part of the State system⁶⁰. The banks became simple conduits for loans and other forms of financial subsidy passing from the government to the state-owned enterprise sector (i.e. another part of the government), and they had no role either in establishing the creditworthiness of their borrowers or in setting interest rates. The mismanagement of SOEs, and the difficulties involved in restructuring the sector (see the section on state-owned enterprises above, p.46) have impeded the restructuring of the public banking sector as well: banks cannot be asked to take responsibility for loans which all recognise will not be repaid. Non-performing loans are estimated at 60-70% of state banks' loan portfolios, although firm data are not available because non-tax deductible provisions discourage the identification of bad debts. High inflation in recent years and the uncertainties generated by the transition process have discouraged banks (with the exception of the Vietnam Bank for Investment and Development) from extending anything other than short term loans.

Each of the state-run banks holds a full foreign exchange licence but the leader in foreign transactions is clearly Vietcombank, which has a 70-80% share of the market via a chain of offices in cities throughout the country. Originally the specialist bank for foreign trade, it lost its monopoly over foreign transactions in early 1990. Initially it was the most strongly resistant of the banks to the concept of a foreign banking presence (an attitude no doubt linked to its poor record at the time on service, efficiency and ability to meet its commitments including recognising letters of credit) but it has now developed its services extensively in response to the competition. Vietnam's first dong-denominated credit cards were launched in 1993 by Vietcombank, building on its experience of cooperation with the French bank BFCE on the launch of the Visa card in Ho Chi Minh City in 1990. Its branches now work with a centralised treasury function, bringing to an end the days of branch autonomy where, for example, a dollar-rich office would hold on to its reserves despite dollar shortages at other offices. Vietcombank plans to open its first overseas offices in late 1994 or 1995.

⁶⁰ John Brinsden, *The Banking System in Vietnam*, The Standard Chartered Indochina Monitor, May 1994

The Vietnam Bank for Agriculture (VBA) has probably the most extensive network of branches, by virtue of its principle function: financing the rural economy. Nevertheless, only 20% of its loans reportedly went to farming households in 1992, most of the remainder financing farm cooperatives, industrial farms and other state-run rural industries. The Vietnam Bank for Investment and Development is reputed to be financially the strongest of the state-run banks.

Joint stock banks

The joint stock banks began to appear in 1989 with state-owned enterprises as their majority shareholders. Private individuals may also hold shares in joint stock banks, but their holdings are relatively small. Joint stock banks represent on the one hand an aspect of the drive by SOEs to diversify into profitable businesses outside their core operations using the assets of the SOEs as capital, and on the other hand the reorganisation of former credit cooperatives caught up in the 1990-91 credit debacle⁶¹. The vast majority of joint stock banks (seventeen by mid 1994) are based in Ho Chi Minh City. Excluding the two largest joint stock banks average capital was only VND15 billion in late 1993, prompting the State Bank to issue a decree requiring commercial banks to raise their minimum registered capital from VND30 billion to VND70 million. A second decree, dated December 1993, permitted commercial joint stock banks with legal capital of at least VND50 billion to raise up to 30% of their capital overseas but with a maximum 10% stake held by any one foreign shareholder. At the time of the Decree, only Vietnam Eximbank and the Maritime Bank met the capital threshold. A number of others intend to increase their size in order to participate in international markets. Foreign shareholders are required to hold their shares for at least five years, although it is possible that this ruling may disappear if a stock exchange is developed.

Since joint stock banks have not inherited the bad debt portfolios of their state-run counterparts, they can afford to be more aggressive in seeking new business. The World Bank expects them to play a disproportionately large role in the development of banking in Vietnam because they are demand-driven, innovative and have highly-motivated management teams. They cater mostly to the needs of the private sector, pursuing deals too small to interest foreign banks and with greater flexibility in the sort of collateral they are prepared to accept on loans. Maritime Bank, for example, has a warehouse to store Honda motorbikes pledged as collateral. While it is relatively easy to organise loans for the private sector, joint stock banks face similar difficulties to the state-run banks in attracting private savings.

The Maritime Bank (whose shareholders include Gemadept - the recently equitised freight forwarder - the state telecommunications company, Confectimex and Vietnam Airlines), Eximbank (run by the former head of the State Bank's international division) and Saigonbank (based in Cholon and managed mostly by Vietnamese Chinese, which has facilitated the building of business links with Hong Kong, Taiwan and Southeast Asia) are probably the largest and best-known of the joint stock banks. Maritime Bank, ranked number two among private sector banks, has grown to a six branch network since its establishment in 1991 and became the first to attract a foreign shareholder earlier in 1994, when the Vietnam Fund took a US\$2.4 million stake. Total assets of the bank by the end of 1993 were around US\$12 million⁶².

Private banks, like the commercial state banks, may set their own rates of interest within the (maximum loan/minimum savings) rate limits imposed by the State Bank. Interest rates on savings accounts have fallen substantially from the early days, when high real rates were offered to attract individuals' hoarded wealth. High interest rates tend to be viewed these days with caution by the public, who suspect they are offered as bait for high risk ventures.

⁶¹ *Commercial banks rise from ashes of collapsed credit cooperatives*, Vietnam Investment Review, 4-11 July 1994

⁶² Martin Adams, *Vietnam: The Ho Chi Minh trail to investing*, Asia Venture Capital Journal, November 1993

Most household wealth is still held in the form of gold, foreign currency and real estate and is thought to be worth around US\$1 billion. Only 6% of Vietnamese are thought to have had contact with the formal banking system in 1993. The State Bank recorded private deposited savings at banks of around VND3,000 billion during 1993, implying bank-held savings of less than VND50,000 (US\$4) per capita. While the volume of cash in circulation rose by some VND5,000 billion, the amount of money mobilised by commercial banks rose just VND1,360 billion - confirming the views of many that vast amounts of non-productive assets lie in the hands of the people. In part this poor showing stems from an intrinsic lack of confidence in banks, and in part from the limited range of services the banking system offers private businesses and individuals. It was not until September 1993 that private businesses were allowed current (cheque) accounts as well as savings accounts. Private citizens are to be extended the same service by the end of 1994. Such steps towards a free-market banking system should gradually permit the State Bank to take better control of inflationary trends: until Vietnam ceases to operate largely as a cash economy, interest rates can only be an ineffective tool.

The informal banking system

Informal credit circles (*hui*) are the most important alternative to the banking system for small businesses, whether for loans or to deposit money in savings accounts. It is estimated that up to 40% of credit in rural areas and as much as 60% in the cities is provided by *hui* groups⁶³, which have sprung up everywhere since the economic reforms began in response to the desperate shortage of capital faced by private businesses and farmers. Controls on credit expansion restricted total new bank credit in 1992 to just VND4,000-6,000 billion.

Credit circles vary enormously in size and scope, and may be interlocked. Members of a group pay regular amounts into a fund from which they borrow in succession, the order being determined by the rate of interest each member bids. In 1990 two pyramid borrowing schemes (operated by the Thanh Huong Perfume Company and the Xacogiva construction company) collapsed spectacularly, forcing hundreds of credit cooperatives out of business, the bankruptcy of many small businessmen and resulting in a loss of VND700-800 billion (US\$175-200 million at then prevailing exchange rates). Their spectacular failure prompted decree laws governing the activities of finance companies. Another web of unregulated credit cooperatives, headquartered at the Bamboo Garden Restaurant in Ho Chi Minh City, collapsed in mysterious circumstances in July 1993, this time causing losses estimated at VND 100-200 billion (US\$9.5 - 19 million) among mainly ethnic Chinese traders⁶⁴. This time the repercussions were not as dramatic, reflecting progress towards building a stronger credit system in recent years, but *hui* groups will continue to operate so long as the formal banking system remains effectively closed to those who use them.

The foreign bank presence in Vietnam

Joint venture banks

Vietnam's first opening of the door to a foreign banking presence was to approve the establishment of 50:50 joint venture banks. The first application was made as early as 1988, but as a joint venture under the foreign investment law rather than to the State Bank. The authorities took two years to consider the matter, largely due to general resistance to the concept, fears over the ability of domestic banks to withstand the competition, and acknowledged inexperience in critical issues for the banking industry. Indovina Bank, originally a partnership between Incombank and the Summa Group of Indonesia, was finally licensed in February 1991 after the personal intervention of President Suharto during a state visit to Hanoi. The bankruptcy of Summa Bank a year later and the need to find a new partner quickly for Indovina caused considerable loss of face for Vietnam. The new partner, Bank Da Gang Nasional Indonesia, has

⁶³ Murray Hiebert, *Chain lending*, Far Eastern Economic Review, 4 March 1993

⁶⁴ Murray Hiebert, *Pyramids of Risk*, Far Eastern Economic Review, 2 September 1993

helped to forge Indovina into one of the most respected banks in Vietnam. Having opened first in Ho Chi Minh City, it subsequently set up a branch in Hanoi and has just opened another branch in Haiphong.

Public Bank of Malaysia teamed up with VID Bank and, having opened only in May 1992, VID Public Bank became the first foreign-invested bank in Vietnam to have three branches. Its Da Nang branch opened in April 1994. The bank now boasts a close to 50:50 split between loans for local customers and those for foreign firms. Profits in 1993 reached US\$271,000. All three joint venture banks, including the Korean-invested Firstvina which only operates out of Ho Chi Minh City at present, claim to have been profitable since the first year of their operations - unlike the foreign bank branches, which are still struggling to move out of the red. They point to lower costs of operation (capital requirements are less severe) and fewer overheads due to smaller rental and expatriate expenses. While Indovina and VID Public Bank both serve the local community, Firstvina's main customer base appears to be the Korean manufacturers already established in Vietnam⁶⁵ although it does also lend to Vietnamese corporations. Joint venture banks are able to lend against notarised property more easily than foreign bank branches.

The government apparently intends to licence more joint venture banks. Siam Commercial Bank of Thailand will be the next to open a joint venture bank in Ho Chi Minh City and Hanoi⁶⁶.

Foreign banks and representative offices

The rush by foreign banks to enter the market since authorisation was granted in May 1990 has been astonishing, given the inadequacies of the legal framework and the almost complete lack of internationally recognisable banking practices. Bankers have also had to contend with unexpected changes to capital requirements and a less favourable tax regime than they had understood would be extended originally. Nevertheless, by June 1994 nine banks had full branch licences and many more held representative office status. Disappointment on the part of Vietnamese authorities over the reluctance of these banks to become involved in medium to long term project financing (perceived as too risky in the absence of adequate collateral) temporarily slowed the pace of new licences being granted. This may have been a relief to those already installed: more than one Western banker already feels the market is heavily over-banked. The State Bank has also needed time to assess the benefits and disadvantages resulting from full foreign bank operations: given their potential impact on the country, branch licences are approved only at the very highest levels of government. Despite the high entry costs and the presence of many major banks already, there is no shortage of banks applying for branch status. Several argue that the fear of the door being closed to further foreign banks - as has happened in other Asian countries - is too great to risk being left outside. Two or three European banks, one or two American and another Asian bank are expected to be licensed towards the end of 1994⁶⁷.

Foreign banks attracted to Vietnam fall broadly into two categories: those with a strong regional presence already - indeed, who may have been in Saigon before 1975 - and for whom Vietnam represents an extension of the network (Standard Chartered, Indosuez, ANZ Bank, and eventually Citibank, Bank of America...); and those which are trying now to build a presence in Asia and for whom Vietnam appears to offer serious potential (Barclays, BFCE...). In addition are the banks from the Asia Pacific region, such as Bangkok Bank and Cathay Trust, both of whose clients are mostly ethnic Chinese companies from throughout the region.

Bank of America was the first US bank to open a representative office in Ho Chi Minh City in March 1993, acting swiftly on the extra freedom granted to American companies to open offices and sign contracts granted by the outgoing President Bush. Citibank's Hanoi office was licensed in July 1993 and an application is pending for a second office in Ho Chi Minh City. Both Bank of

⁶⁵ Interview, Ho Chi Minh City, February 1994

⁶⁶ *The infants of Indo-China*, *The Banker*, June 1994

⁶⁷ Interviews, Hanoi and Ho Chi Minh City, August 1994

America and Citibank closed their Vietnam operations in 1975. Seven Japanese banks now have representative office status, having had none - out of deference to the US embargo - until April 1994. This leaves them apparently well behind the competition in the rush for branch office status, although for political reasons Hanoi is doubtless keen to have at least one Japanese bank on its books - the Bank of Tokyo is the most likely candidate.

Banque Indosuez and Bangkok Bank opened their branches in July 1992. Within two years nine banks had branches (including Standard Chartered, which received its licence in late 1993 but did not plan to open until mid 1994). Credit Lyonnais is the only bank to have branch status in both Hanoi and Ho Chi Minh City (although most of those with branches in one have a representative office in the other). It achieved this by agreeing to raise its legal capital in Vietnam from US\$15 million to US\$20 million, and for having opened its first branch in Hanoi. ANZ Bank, which also opened in Hanoi, expects to receive approval for a Ho Chi Minh City branch during 1994, now that the Credit Lyonnais precedent has been set⁶⁸.

In principle a banking licence is valid for 20 years and may be renewed thereafter for unspecified periods of time. Existing legislation makes no reference to what will happen to a bank's assets and goodwill at the end of its prescribed term.

Banking legislation remains ambiguous on many points, not deliberately designed to ensure that the State Bank maintains additional power over foreign banks, but because of lack of experience. Appendix 8 outlines the activities allowed under the terms of the June 1991 decree which governs foreign banks. Applicants are asked to define the range of activities to be undertaken and the bank licence will conscientiously set out in great detail what is allowed. The degree of flexibility in what is granted, however, is limited to the degree of understanding of banking held by State Bank officials. Foreign bankers in Vietnam are frequently called upon to comment on draft regulations, and so have the opportunity to influence the direction the industry may take - this consultation is also encountered in other industries where the regulatory authorities have little experience.

Nevertheless, foreign banks with branches have encountered some unpleasant surprises, notably that their US\$15 million capital requirement⁶⁹ could not be repatriated in full (as they had believed would be the case) and that the tax regime would not be that governing other foreign investments, i.e. that there would be no entitlement to a tax holiday and that they would be subject to a 50% profits tax and a 4-8% turnover tax like domestic banks. These facts emerged only after the first banks had been granted their licences. More recently the regulations governing turnover tax were altered to redefine taxable turnover as the difference between interest received and interest paid out (rather than the interest paid by borrowers) - but the rate applicable was changed from 8% to 15%. The change in definition was agreed in principle to be a rational one, but the rate changes were not welcomed. Turnover tax of 25% on forex transactions leaves little room for profit.

Both the ceiling of 10% of capital (effectively, US\$1.5 million) on loans to any one customer and the requirement that the 10 largest borrowers may not exceed 30% of total loans were removed in June 1993, with the aim of increasing project financing. A sliding scale of reserve requirements has also been introduced with the same aim⁷⁰, but most banks remain reluctant to conduct medium and long term loan business because of the lack of tangible assets against which the loans can be secured⁷¹ and the poor standard of financial information available on the companies seeking such financing. Thus, while domestic banks are limited in their ability to engage in longer term lending by their lack of hard currency resources, the foreign banks are reluctant to lend for

⁶⁸ Interview, Hanoi, February 1994

⁶⁹ For joint venture banks the minimum capital requirement is US\$10 million.

⁷⁰ Between 15% and 40% of initial capital is left with the State Bank on nominal deposit, the lowest percentage being applicable to banks making many medium and long term loans with long grace periods, the highest being for those involved only in the easier and less risky letters of credit.

⁷¹ In the absence of western style mortgage law banks are now making some loans against non-property assets such as company equipment.

the longer term because of the legal difficulties. This may change once the law on bankruptcy has been ratified; the new land law of July 1993 which establishes land use rights for farmers is already a step in the right direction.

Trade finance is the service on which foreign bank business in Vietnam is based, and through which banks expect to extend their client relationships. Representative offices can undertake trade finance business, and are also involved in the transfer of remittances from Vietnamese overseas. Increased competition and a relatively good track record among Vietnamese companies for short term credit - particularly since 1991 - has reportedly halved margins on 180-day Letters of Credit (L/C) to 5%. The State Bank in particular feels that domestic banks are able to provide a more than adequate service on L/Cs. Banks moving from representative office status to branch status initially faced difficulties dealing directly with the Vietnamese companies with whom they already had business contacts: the Vietnamese banks reportedly had instructed them not to do so⁷². Now, some Vietnamese companies hold accounts with both a Vietnamese and a foreign bank. This is more the case in Ho Chi Minh City, where more private companies are involved in export business, than in Hanoi, where the volume of business is smaller overall and a higher proportion is conducted by state firms which tend to keep their business with domestic banks.

Most bank branches are involved exclusively in wholesale banking. ANZ Bank, however, aims to carve a niche for itself in the retail market in Hanoi, where it focuses on high net worth individuals (of which there is a growing number). It has also been active in the market for Vietnamese government-backed commercial debt⁷³. Banque Indosuez has been reasonably active in project financing. It was, for example, the only bank syndicated in both the original five-year facility extended for the redevelopment of Hanoi's Metropole Hotel and the financing for the subsequent extension to the hotel which is now under construction. The extension is 90% debt financed, but nevertheless presents less risk than the original loan because the cash flow is already in place⁷⁴. Lenders have generally only been interested in financing property development, mostly hotels, where the borrower is an offshore joint venture entity. The foreign bank thus concentrates on the creditworthiness of the foreign partner.

Capital and foreign exchange markets

The development of a capital market in Vietnam is an issue of primary concern to the government because of its critical need to more effectively - and securely - mobilise funds for investment.

Vietnamese citizens have hesitated to buy bank and government bonds (issued with the primary intention of financing the budget deficit). Nevertheless, the Ministry of Finance and the State Bank are persisting, diversifying their offerings in a continued search for funds. VND2,400 bn (US\$222 m) worth of treasury bonds were sold in the first ten months of 1993. Public savings bonds issued to finance the north-south power line and a number of hydropower stations offered a rate of return lower than the savings deposit rate, were not transferable, and interest was payable only on maturity. More recently, bonds were issued with interest rates higher than those available on savings accounts⁷⁵. For example, new six-month Treasury bonds denominated in dong which were issued in November 1993 carried a monthly interest rate of 1.9% compared with 1.7% interest on six-month deposits paid by banks. Since April 1994, when 3-month bank deposit rates were reduced to 1.7% per month (20.4% per year), banks have seen only a slow increase in deposits because of competition from government bonds.

⁷² Interview, Ho Chi Minh City, March 1994

⁷³ Around three-quarters of the country's outstanding commercial bank debt is owed to a Japanese syndicate led by the Bank of Tokyo and the rest to a European syndicate. The secondary debt market has been relatively active since mid 1990, when it was trading at around 12% of face value. Its value rose fairly steadily to 50% by the end of 1993, then rose above 80% immediately after the embargo was lifted.

⁷⁴ Interview, Fontainebleau, July 1994

⁷⁵ At one stage banks were offering 24% interest on one-year savings at a time when inflation was just 7%.

The Ministry of Finance is now experimenting with longer term (two to five year) bonds. In June this year it issued a three year Treasury bearer bond with a 15% coupon in the first year and interest payable every six months. Ho Chi Minh City People's Committee was scheduled to issue three-year municipal bonds to pay for road-building schemes around the city in mid 1994. In another new development, the Ministry of Finance is authorising the sale on a trial basis of business bonds by enterprises in industries such as cement, aviation, electricity, and post and telecommunications. Vietnam's first corporate bond was issued by Hoang Thach Cement (one of Vietnam's largest cement producers) in July 1994. The company's director predicted that 40% of the VND 50 billion (US\$4.5 million) issue would be taken up by the company's employees, who are promised a discount on private purchases of cement if they are bondholders.

The State Bank is reportedly considering permitting the larger Vietnamese commercial banks to issue bonds to foreign investors in the near future. It remains highly nervous of the danger of an uncontrolled increase in foreign liabilities, provoking a widening of the gap between gross domestic investment and gross domestic savings.

The State Bank can now point to three short-term capital market instruments at its disposal for monetary control: the credit market, for transactions between commercial banks and their customers through deposits and short term loans; the foreign exchange market, which is conducted through foreign exchange transaction centres (FETC) in Hanoi and Ho Chi Minh City; and the interbank lending market, which began in July 1993 to undertake borrowing and lending between commercial banks in dong.

An interbank foreign exchange market is ultimately expected to replace the foreign exchange transaction centres, but foreign banks are sceptical that this will take place in the near future. The FETCs, which opened for business in 1991 in Ho Chi Minh City (meeting three times per week) and Hanoi (twice a week), have around 130 participants. They include trading companies (qualifying joint ventures with foreign partners would fall into this category) as well as foreign (5), joint venture (3) and domestic banks. There is evidence to suggest that the State Bank has intervened in the meetings of FETCs to ensure stability, but this has not been officially confirmed⁷⁶. This is unlikely to be such a critical issue today as it was when the exchanges first opened three years ago, when the State Bank was still fighting to keep parity between street and bank dealing rates. Because of the restriction that deals made through the FETCs have an underlying transaction obligation - presumably in order to discourage speculation - they handle less than 10% of the country's forex deals. Average monthly transaction volume is about US\$30 million⁷⁷. Vietcombank is the largest dealer in the market. Outside the FETCs the banks have a 0.5% spread either side of the official rate (the closing rate of the last FETC session) within which they must conduct foreign exchange business with customers.

As far as longer term capital markets are concerned, the creation of a stock exchange is scheduled for the end of 1994 despite the poor progress made in equitising state companies. The International Finance Corp. has been helping the State Bank to coordinate the establishment of an exchange and draw up draft legislation. Peregrine Capital Vietnam has been advising on the practical aspects of its functioning. The aggressive timetable which has been set for the opening assumes a degree of cooperation among the various government ministries and agencies which has not been achieved hitherto⁷⁸. In particular, there must be resolution of the conflict between the Ministry of Finance and the State Bank over who has control of the stock exchange (each agency is reported to be drawing up its own set of rules and regulations independently of the other). If all goes according to current plans, the first exchange will open in Ho Chi Minh City, and will be followed later by another in Hanoi.

⁷⁶ John Brinsden, *The Banking System in Vietnam*, The Standard Chartered Indochina Monitor, May 1994

⁷⁷ *Back to basics*, Asiamoney, July/August 1993

⁷⁸ *Development of the securities market*, Capital A\$IA, 9 December 1993

The exchange will deal initially in negotiable treasury bonds and will have no secondary market. The next phase will be to allow trading in the shares of 20-30 companies during 1995. State-owned companies such as Hanoi and Saigon Tourism, which dominate the hotel industry in Vietnam, and PetroVietnam are thought to be strong candidates for listing. Ho Chi Minh City itself already has close to thirty joint stock companies with negotiable and non-negotiable shares.

Foreign brokers will apparently be able to participate in the market a year after it is established. Conditions for their participation are very much at the draft stage, but at present seem to include a US\$1 million minimum capital requirement, a minimum capital of 2 billion dong as a guarantee if the broker is to buy or sell shares on its own account, the purchase of a seat (for those operating on the trading floor) and the payment of annual membership fees of the Securities Trading Department (STD) which will be fixed by the National Securities Commission. Another draft proposal suggests that the number of shares issued for purchase in foreign currency may not exceed 25% of the total issue. A final version of the laws is expected in the fourth quarter of 1994, when the Securities Exchange Commission will be established.

A variety of foreign brokerage houses have been active in running courses on the functioning of capital markets, in an effort to forge close ties with Hanoi. The government is targeting an initial membership of 20 brokerage houses on the exchange. Vietnamese banks are being encouraged to form joint ventures with foreign firms to establish brokerages. Maritime Bank is apparently preparing its application to establish its own brokerage operation.

Other financial services

Vietnam is gradually acquiring a portfolio of financial services to support its move to the market economy. The Vietnam Auditing Company (VACO) is an offshoot of the Ministry of Finance charged with helping state owned enterprises to prepare their accounts in a manner acceptable to banks and other potential stakeholders. Several of the world's major accounting and consultancy companies have established offices in Vietnam with the intention of assisting in this task, and to serve the needs of the foreign business community. Law firms have not been slow to follow suit.

A decree on the insurance industry issued in January 1994 in principle completely opened the insurance market, but the implementing regulations published a few months later indicate that foreign companies will not be allowed to participate until the third phase of the process, at some unspecified date in the future. First must come the opening of the domestic market (which will provide competition for BaoViet) and later the establishment of joint venture insurance activity. A number of western insurance companies already have some representation in Vietnam.

FOREIGN INVESTMENT IN VIETNAM

The arrival of new investors as various home governments relaxed their policies towards the Vietnamese government, has created significant changes in the composition of foreign investment data. American firms, of course, do not appear in the end-December 1993 rankings, but are expected to account for around 10% of the foreign direct investment anticipated by the State Committee for Cooperation and Investment (SCCI) in 1994 and 15% thereafter. Europeans, who came in the first wave, have seen their share of investment decline as the number of Hong Kong and Taiwanese manufacturers increased. Investors from ASEAN countries remained rather cautious about committing funds to Vietnam until 1992, and Japanese companies, despite their strong presence, were reluctant to become heavily involved until after multilateral financing became available to the country.

These progressive waves of FDI have in some respects allowed the Vietnamese government time to develop the package of legislation normally demanded by multinationals. It has undoubtedly made progress, but as any prospective investor will confirm, there remains much work to be done, especially in bridging the gap between legislation and implementation. Comparisons are inevitably made with China, particularly the first few years of that country's experience with foreign investors. While the similarities and contrasts should not be exaggerated, it is probably fair to say that Vietnam has a relatively good record.

Despite all the pessimistic news about the inadequate legal and physical infrastructure and the bureaucratic hurdles that must be overcome, individual businessmen and trade delegations (and tourists) have flocked to the country in ever-increasing numbers. Many companies have experience of business with the old South Vietnam dating back over 20 years, and are keen to revive those links.

The Investment Regime

The first regulations on foreign investment were passed in 1977, although few projects actually materialised owing to subsequent political events. In widely different circumstances the new Foreign Investment Law (FIL) was passed on 29 December 1987 and implementing regulations on 5 September 1988. Important amendments to the law were passed in December 1992 and were intended to streamline existing legislation and increase the attraction of investment in Vietnam.

A number of western advisory firms (see bibliography) have published documents explaining in some detail the legal framework for foreigners investing in Vietnam, including the types of document required to submit an application. It is not the purpose of the present paper to cover the same ground; however, a few basic points are worth stating.

1. Forms of investment: the three basic types of investment allowed are business cooperation contracts, joint ventures, and wholly foreign-owned enterprises. The amended law adds a fourth type, the 'build-operate-transfer' (BOT) form, to encourage investment in infrastructure⁷⁹. Representative offices may also be established, but with restrictions on activity similar to those in other countries.

2. Permitted business partners: since 1990 foreign investors have been allowed to form joint ventures with private Vietnamese companies as well as state-owned enterprises. Joint ventures may be created between several parties rather than just two as originally envisaged. Viet Kieu may join either with a local Vietnamese partner or with a foreign partner - and enjoy preferential tax rates.

⁷⁹ Regulations on investments in the form of BOT contracts were not issued until November 1993.

3. Duration: the amendments to the FIL extended the maximum duration of joint ventures and wholly foreign-owned enterprises to 50 years, with possible extensions to 70 years at the discretion of the SCCI.

4. Taxation: the basic rule is that joint ventures, wholly-owned foreign enterprises or foreign parties to a business cooperation contract pay a flat 25% tax on profits earned, except that firms engaged in oil and gas exploitation or the mining of other precious natural resources pay a minimum of 25%. A concessionary rate of 10%, 15% or 20% is applicable to investments meeting certain criteria (see below). A one-year tax holiday and a 50% reduction in tax for an additional two years is also contained in the basic rule (originally, wholly-owned foreign companies did not qualify for these concessions) with further privileges for ventures qualifying for the lower tax rates. Corporate taxes are generally levied either at a rate of 21-25% or, in the case of a priority investment (see below) at 15-20%. A withholding tax of 5-10% is levied on remittance of profits out of Vietnam, payable in the currency of the remittance.

5. Import duties, sales tax, business tax: varying combinations of these taxes are payable on all goods and services sold in Vietnam. Import duties on materials for use in exported goods are waived.

6. Protection against state action: not only are foreign investors protected against expropriation or nationalisation, but they are also covered during the life of the investment against unilateral changes to the terms existing when the investment is made. In the rapidly evolving body of Vietnamese legislation, this means that earlier investors will not be penalised by new laws - and they have the opportunity to switch to more favourable treatment (if any) proposed in newer rulings.

Priority areas for investment

Preferential tax rates are accorded to priority projects meeting the necessary criteria⁸⁰.

1) For a 20% tax rate, a two-year tax holiday and a 50% tax reduction for an additional three years, any two of:

- more than 500 people employed in the venture
- advanced technology used
- at least 80% of output for export
- the project is a business cooperation contract with capital of at least US\$10 million

2) For a 15% tax rate, a two-year tax holiday and a 50% tax reduction for an additional four years, projects must:

- enhance infrastructure
- involve exploration of natural resources (except oil, gas and precious minerals)
- be classified as heavy industry
- be located in mountainous areas with difficult conditions
- be transferred to Vietnam without compensation to the owners at the conclusion of the investment term

⁸⁰ East Asian Executive Reports, November 1993

3) For a 10% tax rate, a project must

- enhance infrastructure and be located in a mountainous area with difficult conditions
- enhance afforestation
- be of 'special importance'.

Banking, financial, insurance, accounting, auditing and 'commercial' projects are excluded from all these exceptions to the basic 25% rate. So are hotels, except where they are in mountainous areas with difficult conditions, or will be transferred to Vietnam at the end of the venture's duration. The concept of 'commercial' is not defined.

Another schedule of incentives was introduced in early 1993 to encourage foreign investors to locate in the north and reduce the imbalance in investment totals between Ho Chi Minh City and Hanoi. Basically in fact, incentives were offered for investments throughout the country except for Ho Chi Minh City and Vung Tau.

Although there is no legal minimum share that a foreign company must contribute to a joint venture, 30% of the capital is understood to be the effective bottom line. This has been established to prevent Vietnamese companies creating false foreign-invested companies in order to benefit from preferential tax rates.

Vietnam's package of incentives for foreign investors is relatively standard within the Asia Pacific region. World Bank recommendations that Hanoi move to a single 'negative list' system to replace its current priority lists (i.e. that certain industries may be completely closed to foreign investment for national security or other reasons, but that all other industries are completely open to investment) have yet to be accepted, but the passage of the Domestic Investment Law in June 1994 marks a step towards more equal treatment of domestic and foreign investors. Domestic businesses have long accused the government of discriminating against them by offering no incentives. This position has been rectified with the granting of various tax holidays and concessions. Ultimately the ideal would be to have a unified investment regime for domestic and foreign investors.

Land rental rates are periodically revised (every five years, according to the July 1993 circular, with a maximum 15% increase). Urban land is divided into five different categories, with minimum and maximum rates as set out below. The actual land rent applicable to any given project is calculated on the basis of the minimum rate shown, multiplied by a coefficient based on the quality of the site (downtown with a street frontage, downtown without a street frontage, etc.), multiplied by a coefficient based on the quality of the infrastructure, multiplied by a coefficient for the industry (infrastructural construction has the lowest coefficient, then heavy industries, then certain consumer goods and light industries, and so on). Projects which pay rent for the entire period of their licence in advance get a 10-15% reduction on the amount, and are protected from the five-yearly revisions.

The State Committee for Cooperation and Investment (SCCI) is the government department with responsibility for handling investment applications, evaluating projects and issuing licences (except for banks, which apply to the State Bank). However, other authorities, notably other ministries and the relevant local or provincial administration, are involved in the assessment of projects - leading to some confusion in the lines of authority. The SCCI is supposed to act as a 'one-stop shop' for investment, similar to the Economic Development Board of Singapore, but has yet to achieve such levels of efficiency. Inter-ministerial rivalry remains strong, effectively undermining its authority, and it is in any case overwhelmed by the volume of applications it has to handle. Local People's Committees also play a significant role in the process. Projects worth more than US\$20 million are evaluated by the Prime Minister's Office, rather than the SCCI.

Table 18: Land rental rates (as at July 1993)

Urban land category	Area affected	Applicable maximum/minimum rate
Category 1	Ho Chi Minh City	US\$2.25-\$18/m ² per year
Category 2	Hanoi	US\$2.00-\$16/m ² per year
Category 3	Haiphong, Hue, Da Nang, Vung Tau, Bien Hoa, Nha Trang, Can Tho, Da Lat	US\$1.50-\$12/m ² per year
Category 4	provincial towns of the 22 most developed provinces and district towns of the suburban districts of Hanoi and HCMC, e.g. Van Dien, Gia Lam, Cau Giay, Soc Son, Dong Anh, An Lac Nha Be, Hoc Mon, Thu Duc	US\$1.00-\$8/m ² per year
Category 5	remaining towns and townships	US\$0.50-\$4/m ² per year

There are increasing indications that projects worth less than US\$5 million will be rejected on the grounds that such projects can be carried out by Vietnamese companies alone⁸¹. Although a clear time frame for the approval process is laid out in the regulations, negotiations invariably extend that period by two or three times. Enquiries over the status of a project will only be entertained after three months following submission of the project's dossier.

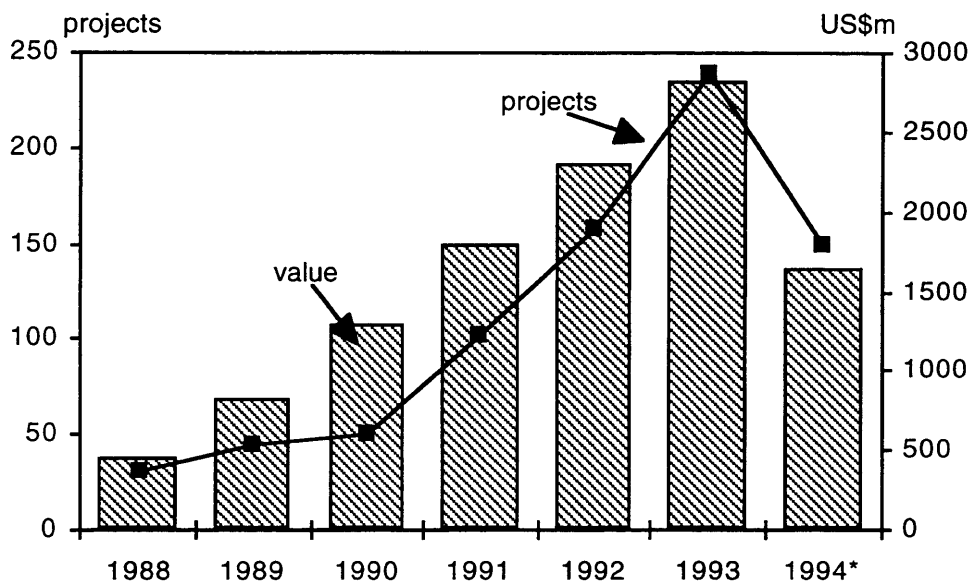
Government involvement in a joint venture project (80% of cases) will begin long before the dossier is submitted to the SCCI for approval: the Vietnamese partner (which in 95% of cases is a state-owned enterprise) must seek approval in principle from its parent organisation - a ministry in the case of a central government state firm, or the people's committee of the town or province in the case of a local government-run firm. A central government firm must also receive clearance from the appropriate people's committee for the project.

Current Investment Activity

Only 10,000 visitors came to Vietnam in 1986. In 1990 that number had risen to 100,000, and in 1994 the number of visitors is expected to have again risen tenfold, to one million if not more. Many of these are business people investigating opportunities in Vietnam, although not all do so seriously.

All this activity generated some US\$9 billion in pledged investment by June 1994, i.e. during the first six-and-a-half years of the foreign investment regime's life. Chart 3 overleaf shows the rapid escalation in (proposed) activity, and Table 19 the biggest players. In some respects this is a remarkable achievement for a country with such limited infrastructure, and is testimony to the depth of Vietnam's perceived potential. China took five years (1979-84) to accumulate US\$9 billion of pledged capital (admittedly the value of the dollar has declined in value since then), yet the size of its economy is many times greater. Vietnam and China do share one characteristic: a yawning gap between the amount of investment approved, and the amount actually committed. The amount of capital actually committed is only around 25-30% of the amount pledged. In Vietnam, as in China, the ink on a simple memorandum of understanding (MOU) may barely be dry before the proposed investment value is included in the statistics. In part this seems to be a publicity ploy, an attempt to stir up excitement among potential investors and stoke their fears of being left behind by the competition.

⁸¹ Interviews, Hanoi, August 1994

Chart 3: Annual growth in investment approvals

* Jan-June

Source: SCCI

Table 19: Top ten investors in Vietnam, cumulative basis

(as at 27 June 1994)

Rank	Country	No. of projects	Investment capital (US\$m)	Total legal capital (US\$m)
1	Taiwan	127	1629	769
2	Hong Kong	144	1246	604
3	South Korea	62	699	304
4	Australia	37	636	250
5	Singapore	60	567	323
6	Malaysia	26	510	274
7	Japan	53	501	365
8	France	50	487	248
9	Netherlands	13	382	315
10	UK	12	303	269
	Other	373	2440	
Total		957	9400	
less: Licences revoked		151	900	
Licences expired		8		
Operational projects		806	8500	

Source: SCCI

Table 20: Major investors in Vietnam, by region, end 1993

	Projects	Value	
		US\$ m	%
Taiwan	117	1,530	20.5
Hong Kong	172	1,300	17.5
South Korea	58	544	7
Japan	53	475	6
Malaysia	25	457	6
Singapore	55	390	5
Thailand	44	151	3
Philippines	11	118	2
Indonesia	11	59	1
TOTAL ASIA	546	5024	68
France	50	614	8
UK	16	308	4
Netherlands	10	283	4
Sweden	6	60	1
Italy	5	29	
Austria	1	27	
Denmark	4	23	
Germany	13	15	
Switzerland	10	10	
Other Europe	15	26	
TOTAL EUROPE	117	1,395	19
(of which, EC)	103	1279	18
GRAND TOTAL	836	7,505	100

Source: Calculated from SCCI data

That said, the bandwagon has been fairly slow to roll in the industrialised countries (excluding the US, for obvious reasons), to the sharp disappointment of Hanoi which is very keen to achieve a balanced portfolio of countries investing in Vietnam. The government is keenly aware of the pitfalls of becoming too dependent on any one country economically, as a number of southeast Asian countries have on Japan, particularly having fought at such great cost for political independence. It is therefore particularly disappointed in the reluctance of European firms to commit themselves in a major way to Vietnam. The overall impression is of a lack of aggressiveness or sense of purpose, despite the opportunities offered by the temporary absence of American multinationals. By the end of 1993, European firms accounted for just 19% of total pledged investment, compared with 68% from Asian companies including Japan (Table 20). At the end of 1989 they had held a 60% share of all foreign investment in Vietnam at the time. Even France has begun sliding down the rankings as larger scale projects from Korea, Taiwan and Singapore are agreed. American firms have not flooded in since the lifting of the embargo as rapidly as some commentators suggested, but nevertheless recorded US\$142 million of investment between February and the end of June 1994.

Table 21: Total licensed projects by economic sectors, 1988-93

	Projects		Capital	
	Number	%	US\$ million	%
Industry	454	54.3	3,037	40.7
Oil & gas	26	3.1	1,237	16.6
Agriculture, forestry & fishery	94	11.2	577	7.7
Transportation & communication	22	2.6	446	6.0
Hotels & tourism	104	12.5	1,533	20.6
Services	101	12.1	410	5.5
Finance & banking	13	1.6	156	2.1
Others	22	2.6	60	0.8
TOTAL	836	100.0	7,456	100.0

Source: SCCI

Noticeable since 1992 (i.e. not long after the Cambodian peace accords were signed) has been the surge in investments from ASEAN countries, including Indonesia and Malaysia as well as Singapore - and these investments have been welcomed by the Vietnamese government. Malaysia's Renong group is making substantial investments in an export processing zone close to Hanoi's international airport and a hotel in the capital city, Masscorp has a licence to build an EPZ at Da Nang, and Petronas has a stake in the Dai Hung oil field operated by BHP, while the national car company, Proton, has a stake in Mitsubishi Motor's passenger vehicle joint venture. The Keppel Group of Singapore has a broad range of projects at various stages of development, for example an office complex, a ship repair yard and in food processing. Thai companies have been less visible investors than might have been expected. The key sectors of their involvement are food processing, principally of seafood, and other agriculture-related projects - but a Thai company does have a golf course under construction in Ha Tay province near Hanoi.

European investment is largely concentrated in the oil and gas sector, which was the main focus of investor activity in the first two or three years that Vietnam was open to foreign investment. Undoubtedly British, French, Norwegian and other European oil companies would not have captured such a large share if American firms had been in competition, and if one effect of the embargo had not been to keep Japanese firms in low profile. The appearance of American firms on the scene, and the recent new oil discoveries by Mitsubishi Oil and Petronas, may stimulate further investment in the sector. British firms have been particularly involved in downstream oil activities. Outside the oil and gas sector, French companies are most active in food processing, soft drinks, telecommunications, banking and garment processing.

Australia has been consistently present among the top five investors in Vietnam thanks to the activities of Telstra in the telecommunications field (investments worth around US\$200 million) and BHP in the oil sector (US\$600 million over three years). Investments by these two companies dwarf other Australian projects in banking, mining, steel and construction-related areas.

The focus by foreign companies in the early days on investments in the oil and gas industry subsequently gave way to hotel and other property developments. Table 21 shows the cumulative position at the end of 1993 for the various fields of investment. By 1993 the hotel and tourism sector was the second largest by value, after investments in the manufacturing industry. With the exception of the Accor Group of France, hotel investment seems to be largely the domain of

Table 22: Major investment projects in Vietnam

Project	Capital (US\$m)	Foreign party	Activity
Chingfong-Haiphong Cement	288.3	Ching Fong Group (Taiwan)	cement
Phu My Hung	242.0	CT&D (Taiwan)	roads, infrastructure
Morning Star Cement Co	233.8	Holderbank Financier Glaris (Switzerland)	cement
Vedan Vietnam	216.0	Vedan Group (Taiwan)	starch, MSG
Hiep Phuoc Power Co	205.0	Power V Co (Hong Kong)	power plant construction
Orion-Hanel TV Tubes Co	170.6	Daewoo (Korea)	cathode ray tubes
Haiphong EPZ Co	150.0	Very Good International (HK)	build and operate EPZ
Vung-Tau Fairy Land	97.2	(Taiwan)	resort centre
Tan Thuan EPZ	88.9	PanViet, CT&D (Taiwan)	build and operate EPZ
Telecommunications Business Cooperation Contract Intelsat	86.0	Telstra (Australia)	expansion of telecom network

Source: SCCI, press reports

Singaporean and Hong Kong firms and so activity has intensified dramatically since relations between Singapore and Hanoi were reestablished. Manufacturing investments have bounded ahead to account for 40% of pledged capital compared with only 12% at the end of 1991 as a result of a number of very large scale projects announced during the last 18 months (see Table 22), notably by Korean and Taiwanese firms.

In addition to the slow rate of implementation of projects, nearly one in seven licensed projects (129 worth US\$630 million as of March 1994, rising to 151 projects worth US\$900 million by June 1994) have been cancelled or have expired. Most delays are blamed on the difficulty of the Vietnamese partner in a joint venture in obtaining the necessary land clearance permit to enable construction to begin. Some investors have cited fears over future changes in government policy as the reason for not implementing their projects. The SCCI does, however, plan to consider withdrawing licences if they have not been implemented within six months of granting "without legitimate reasons", citing the need to crack down on the "illegal activities of some investors who trade licences", i.e. those who apply for licences with the intention of selling them rather than implementing them⁸².

The average investment project size remains small, just US\$8.9 million, but this statistic masks wide differences between sectors. In the oil and gas sector, for example, the average size is US\$47.5 million while in the agriculture sector the average size is just US\$6.1 million. The average project in industry is a mere US\$6.7 million but, as noted above, there is a growing number of very large industrial ventures now under way. The gradual increase in size of project may reflect the government's wish to attract an improved level of technology as well as increased confidence in Vietnam as a host country for investment.

The geographic spread of investments has been changing. Ho Chi Minh City and the surrounding provinces remain easily the largest magnet for foreign capital but efforts to attract more investment to the north have succeeded in tipping the balance slightly. From a 75-80% share in 1992, the southern part of the country today attracts around 60-65 % of investment. Ho Chi Minh City itself still attracts some 40%, or US\$2.5 billion, of officially-recorded foreign investment in

⁸² Vietnam Investment Review, 14-20 March 1994

Vietnam⁸³, although the strong presence of the ethnic Chinese community in the district of Cholon has undoubtedly drawn a significant amount of unrecorded funds from Taiwanese and Hong Kong investors.

By December 1993, the city of Hanoi had managed to attract over 100 foreign-invested projects worth US\$1.4 billion, of which almost 60% was pledged in 1993 alone. Nearly 40% are investments in industry. This suggests that the government's drive to bring more foreign capital to the city, by offering enhanced incentives including longer tax holidays, more favourable land rental charges and lower utility rates, has been successful. Pride may well have been a factor in pushing the authorities to make such concessions (Hanoi is, after all, the capital city), but they are also keenly aware of the lessons to be learned from neighbouring ASEAN countries on the advantages of spreading foreign investment evenly through the country. When the differential in income levels between various regions becomes too great it inevitably causes an influx of people to the regions of perceived wealth, which places additional strain on already over-stretched infrastructure. Investors themselves have also recognised the potential benefits of establishing ventures in the north, with or without the attached incentives, particularly as the necessary infrastructural improvements are made.

A number of provinces in central Vietnam and in the northern highlands have yet to attract any foreign investors, which is a source of concern and of disappointment to the local authorities. Any foreign investor proposing a project outside the major cities is assured of a warm welcome by the SCCI. Even the province of Quang Nam-Da Nang, which includes Vietnam's fourth largest city, has managed to attract only around 30 investments, with capital of US\$163 million, and, in line with implementation rates elsewhere in the country, only one quarter of this has actually been invested. The potential for investment in Da Nang has been hampered by the conservatism and corruption of senior officials and army officers who control the region, both directly and indirectly: most business has been dominated by these interest groups. The forced departure of the regional party chief and the replacement of other officials at provincial and city level may henceforth help to make the area more attractive to outside investors.

The investment authorities have demonstrated remarkable openness to the concept of fully-owned foreign ventures. From a single wholly-owned venture in the textile sector in 1988 the number had risen to 119 by October 1993, or 15% of all business licences. They include some very large projects, including the Taiwanese Vedan Group's proposal for a starch and monosodium glutamate factory. Ching Fong's US\$55.6 million motorcycle investment (VMEP) and Hong Kong's Hiep Phuoc Power Company are other examples of large-scale wholly-owned ventures. More than a quarter of licences granted in 1993 were for wholly-owned ventures, reflecting the extension of preferential treatment to such projects in the December 1992 amendments to the FIL. 100% foreign owned business form obviously removes the problem of finding a suitable local partner and of continuing to see eye-to-eye over the venture's goals during the life of the agreement - particularly important in Vietnam since all decisions are supposed to be taken unanimously. Of course, not having a local partner may cut the foreign investor off from essential contacts and information. This is less of a problem for Taiwanese and Hong Kong companies, which tend to have their own networks among the local community, and may explain why they are the most in favour (and why most such ventures are in the textile sector). The form is most popular in HCMC, where 20% of all foreign-invested projects are fully owned, and in the adjacent province of Dong Nai. There were some indications that the government intended to make 100% foreign investments more difficult to apply for, from July 1994.

By March 1994 bilateral investment protection agreements had been signed with twenty countries and a further three were under negotiation. Agreements on the avoidance of double taxation have also been signed with a small number of countries.

⁸³ Investments in the oil and gas industry are not attributed to any specific locality.

Representative offices

The number of representative offices continues to multiply rapidly. 108 offices were licensed during the first half of 1994 in Ho Chi Minh City alone, bringing the total there to 542. More than 250 applications had been received for representative offices in Hanoi by the middle of 1993, but only 60% of these had been processed. US firms began opening such offices in 1993, following the loosening of the terms of the embargo. By December 1993 28 American firms had representatives in Vietnam and another 20 or so had licences pending. (The first two to receive licences, in January 1993, were a consulting firm and a law firm.)

Licences to open representative offices, which are issued by the Ministry of Commerce rather than the SCCI, can take a considerable amount of time to be granted. The Ministry of Commerce must liaise with the various ministries with authority over the type of business the representative office wishes to cover, and this process may take many months. Often it is not clear why a licence approval is being delayed.

The activities of representative offices may be viewed with considerable suspicion by the authorities, particularly if they are 'commercial' offices rather than bank representatives or companies in the course of implementing a project under the SCCI. Since representative offices are severely limited in the type of business they may conduct - they can provide support and liaison services for head office trade and investment activities, but may not conduct business for principals or sign contracts in their own name or carry out direct import/export business - the Ministry of Commerce frequently runs checks in an attempt to prevent alleged infringements of the regulations. While most companies of international standing insist that they stick rigidly to the rules, there are undoubtedly some which overstep the mark and may in consequence find the business environment becomes very difficult. A few representatives claim to have been kept under close surveillance for long periods of time, but those who adhere to the scope of permitted activities should have nothing to fear.

A hindrance for representative offices is the requirement to use official service companies to employ staff as employment contracts cannot be signed directly by the foreign side (although they do seem able these days to seek staff who must then be employed via the service company). This is in contrast to joint venture or wholly foreign-owned operations, which can recruit and employ personnel directly. Representative office employees lose around half of the salaries paid by the foreign companies to the service companies, which have an impressive range of deductions to make under various headings, including 10% to the government pension fund. Appendix 9 shows the minimum pay scales set by the People's Committee of Ho Chi Minh City in 1993, based on actual salaries offered by foreign representative offices. Foreign companies are obliged to pay salaries in dollars, while the service company pays the employees in dong. Representative offices are also strictly limited in the number of staff they employ, determined by the volume and scope of their business. The quota ranges between one and ten people. To want to employ too many people is to immediately excite the notion that the office is doing more than it should.

The representative offices of trading companies such as Marubeni, Samsung and Jardine act as the focus point in Vietnam for their sister companies or subsidiaries which want to be involved in the market but do not wish to set up their own offices. Many trading companies such as these wish to set up full branch offices but have so far had little success in their negotiations with the Ministry of Commerce. In early June 1993 some representative offices were reported to be receiving authorisation to upgrade their status, but these did not include trading companies or service companies. Vietnamese law still does not recognise 'distribution' companies.

Opinion remains divided between those foreign investors who recommend establishing their representation in Ho Chi Minh City first, or those who favour Hanoi. Proponents of the Ho Chi Minh City approach believe that business economics dictate setting up in the south. Good business partners are probably easier to find in Ho Chi Minh City than in Hanoi - although many may already have formed a venture with another foreign firm. Office space is marginally more readily available in the south and facilities for expatriates (especially those with families) are

better, even if the city does already show the signs of too-rapid, unplanned growth of the type found in Bangkok.

Those who favour Hanoi point out that the principal role of a representative office is be aware of what is going on and to transmit that information back to the home base; Hanoi remains very much in charge of events, and all the relevant ministries and government departments are there. It is easier for foreign representatives to become well known in government circles if they are *in situ*, and those based in the south invariably find themselves travelling to Hanoi once or twice a month to negotiate a point. There also tend to be more northerners than southerners among political cadres, and these may favour entities which choose to base themselves in Hanoi.

Some foreign firms have adopted the face-saving approach - albeit a costly one - of establishing a small operation in Hanoi, designated as the headquarters in Vietnam, and a much larger office in Ho Chi Minh City nominally dependent on Hanoi but actually carrying out most of the business activity. This, for example, is the way that both Indosuez and Inchcape have organised their Vietnamese operations. Jardine has recently based a representative in Hanoi, having begun by establishing its trading operations in the south, because the company is moving into developmental mode and therefore needs to be in constant negotiation with the authorities. The big Japanese and Korean trading houses all have offices in both north and south. The oil companies, too, tend to have offices in both locations: in Hanoi, to take care of the regulatory environment and the downstream operations; and in Ho Chi Minh City or Vung Tau to manage exploration and drilling activities. This solution may be an expensive one for head office to swallow; however, it really is the advice of those with experience of the country.

The Business Environment

One foreign investor is quoted as saying, "Expectations are far too high all round". There has been so much coverage of the progress Vietnam has made in turning into a market-oriented economy, and so many foreign business people coming to investigate the opportunities, that Vietnamese people all expect rapid improvement in their standard of living. Visiting foreigners, too, may have overly high expectations of the system, despite everything that has been said about the still inadequate infrastructure.

Regular visitors to the country in recent years will be aware of substantial improvements in certain areas: the speed at which arriving passengers are cleared through the immigration and customs desks at the airport, the freedom to travel practically anywhere without the need of a permit, the availability of meter taxis in Hanoi and Ho Chi Minh City, and the greater range of services - photocopying, film processing, places to eat. They will also speak of the exponential increase in road traffic and the fact that the entire country seems to have become a building site.

Some elements do not change. Norman Lewis, an English visitor to the country in 1950, wrote that "the Vietnamese....has a competitive soul, is a respecter of work for its own sake, and strives to increase and multiply"⁸⁴. Visitors to Vietnam today would recognise that description immediately. The people are enthusiastic about education: night schools are packed with students learning languages, computer and other skills. They are also clever and resourceful (if sometimes lacking in flexibility), and avoid conflict: consensus is an important part of life. Certain parallels with Japanese behaviour have been noted by a Japanese businessman pointing out the bottom-up approach to change: the most senior level of authority plants the seed of an idea, which the bottom levels begin to organise and implement and push up through the organisation.

Some things do not change so quickly. The decision-making process on a proposed investment project remains highly complex and time-consuming. A total of eight approval agencies at the central level (the SCCI, the State Planning Committee, the Ministry of Trade, the Ministry of

⁸⁴ Norman Lewis, *A Dragon Apparent*, 1951

Science, the Ministry of Construction, the State Bank and 'other Ministries relevant to the subsector in question') may be involved in evaluating the project. A completely separate, but equally important, authorisation circuit covers the local authorities. Each level in the maze of bureaucracy has its own agenda. The local people's committees have been identified as a major cause of delay in the implementation of planned ventures, because of their insistence on conducting their own project evaluations and feasibility studies. Individual authorities have been known to impose their own regulations which do not coincide with Vietnamese national laws. Ho Chi Minh City's People's Committee was reported to be adding all sorts of new criteria for approval towards the end of 1993. The result was that they drove potential investors away, into the nearby provinces of Song Be and Dong Nai⁸⁵. Hanoi seems to have limited success in curbing such abuses.

There is some support for the idea that projects located in the north will be more quickly approved than those in the south. This may reflect the government's desire to attract a higher percentage of investment to the north; it may equally reflect the fact that the Ho Chi Minh City branch of the SCCI will not be involved in conducting its own project evaluation before sending the dossier to Hanoi for a repeat of the process. It is quite probable that political friendships made in the course of negotiating in Hanoi will be more beneficial over the long term.

From the above it is clear that relationships with officials in the government need to be forged as soon as possible after the idea of investing in Vietnam has been conceived, rather than waiting until the formulation of plans is well advanced. As elsewhere in Asia, the building of good relationships with the bureaucrats is critical to the success of an operation - Japanese and Korean companies fully realise this. It may take months to negotiate the specific terms of a deal - at least eighteen months, from the first point of contact to actually getting the licence, according to some. The process is slowed by the consensual nature of decision-making, and the related difficulty of identifying the key players. (This also suggests that bribery, which some investors seem to believe is necessary in this part of the world, is ineffective: either you pay off one person and nothing happens because it was the wrong one, or you try bribing them all and end up paying several times more than necessary with still no guarantee of progress.)

Because personal relationships are the foundation of any business transaction, a foreign company cannot make the first contact and then hand over negotiations to a lawyer to complete. A contract may be important - even useful should there be a dispute since arbitration clauses are written in - but the relationship with the business partner is the crucial element in the joint venture. Some western companies appear slow to learn this lesson, even though it is a common characteristic of the Asia Pacific region. In any case, for a Vietnamese company a contract is an indication of preliminary plans rather than a binding commitment (this is redolent of attitudes in China) and the foreign investor must be prepared to renegotiate the terms - while not forgetting that this offers an opportunity to both sides to make changes. This situation may change as the concept of a legal contract takes better hold, although there is evidence that, throughout the Asia Pacific region, relationships usually override contracts.

The legal infrastructure continues to evolve but implementing guidelines remain absent or vague. Further, because each ministry in the past has been responsible for issuing its own implementing regulations which are not necessarily routed through the Ministry of Justice, gaps and anomalies have arisen which the MOJ is only just beginning to streamline. The new land law, for example, creates the potential to solve many difficulties over land use rights, except that the regulations governing urban commercial land - which is most likely to be of interest to foreign investors - remain unclear. Confusion lingers over legal rights to land, because there has previously been no concept of private ownership rights. It is nevertheless necessary to credit the authorities for assiduously attempting to write practical and relevant laws - frequent consultation, sometimes ill-coordinated, leads to frequent amendments.

⁸⁵ Interviews, Hanoi and Ho Chi Minh City, February-March 1994

The bankruptcy law of December 1993⁸⁶ similarly leaves vague the creation of a statutory framework within which to apply the basic concepts of bankruptcy and thereby resolve commercial disputes arising from such situations. Nevertheless it is described by foreign lawyers as "an admirable effort by the Vietnamese authorities to sketch out a preliminary framework for commercial bankruptcies"⁸⁷. Implementation of the law requires effective training of technical staff who will administer it - and the lack of adequate technical staff is a barrier which all government agencies face. (An additional problem is that many of the best and the brightest are being tempted away from the administration by better-paying or more challenging jobs in the private sector.) The laws themselves must be enforced to be effective, and that requires a public education programme as well since the people themselves do not know their rights and responsibilities - Vietnam is not the only country in Asia to face this problem.

The bankruptcy law is the result of extensive consultation with legal authorities around the world, and specific guidance from Australia in drawing up the draft documents for presentation to the National Assembly. It is indicative of the pragmatic approach of the Hanoi authorities, who acknowledge that overseas authorities have greater experience in such matters than they do, and that they therefore should be able to learn something from them. Foreign company representatives based in Vietnam are often asked to comment on draft proposals of laws which will affect them, and so have a valuable opportunity to contribute to the building of the legal system - it is an opportunity that few other countries in the world would offer. A pragmatic approach may also hide strong national pride: the government is quite prepared to promulgate legislation knowing that it is not perfect, but confident that it is uniquely Vietnamese.⁸⁸

Changes to the FIL in December 1992 have improved some features of the operating climate for investors. In particular, the longer investment terms automatically provided for⁸⁹ allow time to recoup investments, even for larger scale projects. This has had a positive effect on financing prospects, which in any case became easier with the availability of offshore bank accounts for the repayment of overseas loans. Previously, only the Metropole Hotel had been allowed to have such an account, in order to make debt payments on its US\$5.3 million loan. Now, any company needing to pay off such a loan can have such an account, which protects it from any shortage of foreign exchange within Vietnam. Nevertheless, the shortage inside Vietnam of financing possibilities of more than 1-2 years duration continues to force investors to finance projects overseas, which adds not only to transaction costs but also delays implementation of the project. Financing will remain a critical issue for some time: as more than one experienced investor has pointed out, unless the project financing plans are already in place, there is no point in even signing a memorandum of understanding with your venture partner.

Land and office rental costs in Hanoi and Ho Chi Minh City reflect the overwhelming shortage of quality space available - a shortage which is expected to endure for several more years as demand continues to rise. Additional pressure has been created by the entrance of American firms since early 1993, when they were first allowed to open representative offices, but dire predictions of the market being swamped under the weight of demands from newly-arrived companies such as Motorola have probably not been fulfilled - yet. Current asking prices in Ho Chi Minh City range from US\$27-40 a square metre per month, excluding service charges and turnover tax. This is more than double the going rate of eighteen months ago. In Hanoi, where the shortage is even greater, rent may reach US\$47⁹⁰. The slump in property prices in Ho Chi Minh City in 1993 - the result of a highly speculative construction boom - had little effect on prime residential and commercial properties. Four new office buildings with a floor space of 70,000 m² are scheduled

⁸⁶ The Law was scheduled to come into effect on 1 July 1994

⁸⁷ International Financial Law Review, April 1994

⁸⁸ A source of some resentment in the Vietnamese business community is the access foreigners have to senior officials that is not possible for an equally qualified Vietnamese, simply because the credibility of an expatriate is automatically higher (shades of former discrimination against private business remains).

⁸⁹ Licences of more than 20 years' duration were previously available only on negotiation.

⁹⁰ Vietnam Investment Review, 27 June 1994

to open in Ho Chi Minh City in 1997-8. Many companies are forced to operate out of renovated villas or to set up offices in hotels. The strain on corporate resources becomes acute when a team of ten people arrive from head office to work on a project or a feasibility study and require accommodation and office space for six months. Complaints about excessive land rental prices charged by local authorities over and above the scale set by the Ministry of Finance are also frequent. Land prices around Ho Chi Minh City are around seven times the level of Shanghai, making Vietnam an unattractive location for investments that require large areas⁹¹.

Praise for the diligence of the workforce is commonly expressed, but equally frequent are the comments bemoaning the lack of good calibre middle managers as well as those with commercial skills, or knowledge of banking, accounting or law. (Various programmes aimed at differing managerial levels offered by institutions such as AIT Bangkok, the University of Basle, Hong Kong Polytechnic, INSEAD and Swinburne are eagerly attended by local participants.) The only solution appears to be to hire people and train them from scratch in the specifics of the industry. This is easier now that foreign companies are allowed to recruit staff directly⁹², either by advertising in the local press or by word of mouth among current employees. Vietcochamber and the local people's committee may also introduce staff if requested. A labour contract needs to be authorised by the local labour office (which is different from the labour service company).

One bank based in Hanoi adopted the advertising approach and discovered that their most appreciated banking floor employee after several months of training was a former waiter at the Metropole Hotel⁹³. The calibre of the staff that have been recruited may be high, even if not versed in the particular skills required: young high-flying expatriate staff may need to be reminded occasionally that the local staff is highly intelligent and lacking only in experience. A large foreign company in the south commented on the salutary experience of some of its staff who were put in a classroom with older locally-hired staff from other industries in order to learn something new to all: the Vietnamese staff picked up the techniques at least as quickly as the foreigners.

Minimum wages for unskilled labour remain at US\$35 per month in Hanoi and Ho Chi Minh City, US\$30 elsewhere. Although labour unions have been pressing for a US\$50 minimum wage (i.e. a return to the level of a couple of years ago) they have not been successful. A number of foreign companies are reported to be paying less than the minimum in any case, or else paying the bottom rate for skilled work. This, and alleged abuse by managers, underlie the spate of wildcat strikes hitting various manufacturing operations, although state firms have not been immune. The right to strike as a last resort in a labour dispute was enshrined in the country's new labour law, passed in June 1994. One difficulty in ensuring that minimum rates of pay are observed is the vast pool of eager, unutilised workers seeking employment.

A source of constant amazement, to Americans especially, is the welcome they are given, despite the war and Vietnam's enforced international isolation. The United States still epitomises the West in the eyes of the average Vietnamese, and the pop culture is embraced with open arms. Media coverage surrounding the lifting of the embargo suggested that the whole country would be flooded by American investment. While it is true that numbers of visiting businessmen have risen since February, all the major companies with serious intentions had thoroughly investigated the possibilities in advance; those that came for a look this year have mostly gone away, disappointed at the unexpected difficulty of setting up operations in Vietnam.

⁹¹ Interview, Ho Chi Minh City, March 1994

⁹² Foreign airlines are still obliged to take staff on secondment from Vietnam Airlines, even though Vietnam Airlines was itself growing fast and urgently seeking good staff. Staff from VA are either inexperienced or need retraining in techniques compatible with the foreign airline's. They may also be reclaimed by VA after 2-3 years, leaving the foreign airlines as training grounds for the national carrier's staff.

⁹³ Interview, Hanoi, February 1994

Issues related to the local partner

Perhaps the first problem to arise is, how to find a good local partner? There is an increasing range of possibilities for advice in this respect: the Vietnamese Chamber of Commerce has developed a variety of advisory services with a countrywide database and is a good first port of call; the line ministry relevant to the investor's intended project will have many potential contacts; the local People's Committee is able to put foreign companies in touch with firms in the locality - although this approach assumes the potential investor has already decided where the business is to be based; and there is a band of investment advisory services which grows daily in size. This last category ranges on the Vietnamese side, from the government-licensed investment service organisations such as Investconsult and Forincons (these organisations are usually sponsored by a ministry or a people's committee), via splinter services from government agencies or think-tanks, to private companies of varying degrees of reliability but much enthusiasm for the foreigner's cash; on the foreign side, several western law and financial services firms now have representation in Vietnam; some companies which have set up operations and gained two to three years of experience in Vietnam now offer advisory services; individuals have left such companies to set up their own consultancies (usually in their home country); and many other private individuals with varying degrees of knowledge about Vietnam also claim expertise in establishing operations there.

It can be very difficult to find a good partner on the first visit to the country. Any foreign investor will receive a warm welcome and be made to feel that he has got to know his counterpart very well. At the same time he is likely to feel under pressure to make his first mission a worthwhile one. It is, however, very important to spend time conducting painstaking background checks with the help of a locally based consultant or one of the foreign banks, but there is still no guaranteed method of checking on a potential partner's credit-worthiness.

Sometimes a partner may be imposed on a foreign investor. This is often the case if the foreigner is considering a venture which figures on the "projects looking for investment" lists which most localities maintain, as a domestic partner is usually attached. The advantage of this is that it presupposes the support of the local people's committee - and therefore all the necessary local approvals and land use rights - for the project; the disadvantage is that the partner, for all its political connections and land, may lack commercial experience and/or knowledge of the industry in question⁹⁴.

The choice of partner in some industries may be very limited because it is subject to a quasi-monopoly.

The preceding comments relate to state firms. An alternative is to find a suitable private company, but these are very few and many again lack the necessary expertise and influence to sustain a project on their own. They should not be ruled out, however. Similarly, the joint stock companies (mixed state and private capital) which have appeared in recent years offer another option.

Critical issues to consider in choosing your own partner include:

- does the proposed partner have authorisation to a) talk to foreigners and b) invest in the proposed sector/project?
- what is the status of the proposed partner company? Since the state-owned sector, which has so far provided about 95% of all joint venture partners, is currently in a state of flux investors should beware of SOEs that are about to go into liquidation and see a foreign company as a saviour. They should also be on their guard against false or shell companies set up to ensnare foreign financing. If the company is state-owned, will it remain so or will it be privatised, and in that case what will be the position of the joint venture and to what extent can the foreign

⁹⁴ Business Asia, 20 June 1994

partner influence the outcome of the decision? Try to check the status of the company with a higher authority, and try to get the latest set of accounts (though these are unlikely to meet western accounting standards).

- what is the relationship of the company to the authorities? How important is it to the ministry/local people's committee?
- how compatible are the aims of the proposed joint venture with the various levels of authority? The bureaucratic environment in Vietnam remains very much a feudal one, where personal interests must be protected. A good venture on paper might fail to receive the necessary licence because it will compete directly with one of the ministry's own projects, or because a critical piece of authorisation will not be given by a ministry whose company was not selected as the partner.
- how strong is the personal motivation of the director of the proposed partner company, and of his employees? If it is a state company, what are the risks of the current director being transferred to another company?
- how well does the Vietnamese side grasp the financial considerations and intentions of the foreign investor? His main interest may be in the cash brought by the foreigner, while the latter is working on the principle of a carefully constructed plan of investment.
- how good are the proposed partner's networks? In the case of a private textile company, for example, does it have the necessary connections in Hanoi to negotiate quotas for the joint venture? Is the partner able to acquire the raw materials the venture may need, or give access to or create distribution systems?
- what authority does the proposed partner have to contribute a specific piece of land to the joint venture? A common reason for the failure of a joint venture proposal is the land issue. Land is the major (often the only) contribution that the domestic partner will make to a joint venture, and in itself constitutes problems of valuation. (The foreign partner's contribution of equipment and technology also provokes debate on valuation.) Additionally, the Vietnamese side may have no rights at all, or conflicting claims, to the proposed land and will only begin to try to arrange authorisation and land clearance once the SCCI licence has been issued. Companies under the auspices of the Ministry of Defence tend to be more reliable than most, because of the large tracts of land owned by the army. It has also been suggested that land clearance is less of an obstacle with this partner.

It is extremely important for there to be sound understanding between the foreign and the local partners. Above all this is because of the obligation enshrined in the Foreign Investment Law for all decisions by the board of directors to be taken in unanimity, irrespective of the number of shares held by one side or the other, including decisions on annual and the long term production plans, borrowings undertaken by the joint venture, any change in managing director, his deputy or the finance director, etc. Even a majority shareholder may therefore not be in a position to manage the company as best desired. Foreign investors who have accepted an enforced match may not have time to develop the working relationship necessary to achieve their own goals.

A good partner is invaluable to the foreign investor in handling all the necessary arbitration at the human level. Cultural differences mean that the Vietnamese workforce may not understand signals given by foreign managers: paying group bonuses for work well done will not be understood because there is no notion of collective responsibility; similarly there may be problems in the transfer of knowledge if only one person receives training: such knowledge is not passed on to colleagues. One joint venture firm has successfully achieved collective recognition of the need and intention to raise production quality, by linking the notion of quality to that of dignity.

Finally, in spite of all the issues involved in finding a partner, ventures do not necessarily fail because the local partner is bad. Sometimes the project may simply not be of interest to Vietnam.

The Asian business approach to Vietnam

Vietnam has succeeded in attracting investment from around 50 countries in total, but the top ten investors account for 61% of all projects and for nearly three-quarters of the capital. Commentators in the West tend to confine their observations on foreign investment in Vietnam to the activity of European and American firms, with an occasional reference to Japanese activity. Missing from their analysis is a discussion of the approach of ethnic Chinese investors (whether from Taiwan, Hong Kong, Singapore, Malaysia, Indonesia and so on) or of Korean firms, even though these are the very countries at the head of the list of foreign investors in Vietnam. It is perhaps worthwhile considering whether there are any lessons that European or American firms can adopt from the way that such investors proceed.

Japanese investment characteristics

The Japanese approach is essentially organisational. It is unemotional (in distinct contrast to the often irrational approach of French investors, who may be blinded by their knowledge of what Vietnam was in the past and remain attached to that image despite the enormous changes that have taken place in the last 40 years). It is also highly professional, in the sense that good preparation is always taken to be essential. There will be numerous information-gathering trips before any investment is made: it is no accident that more Japanese delegations have visited Vietnam than from any other country, even during the time when the Japanese government was still supporting the US embargo (which it did more out of concern for repercussions on Japanese investment in the United States than for any heartfelt belief in the continuing use of the embargo). By nature they are also conservative investors. There is a strong feeling that there is no great need to rush into Vietnam, that Vietnam perhaps has greater need of them. The result is that, in the very early days of Vietnam's open door policy, it was only the second tier trading companies such as Nissho Iwai and Tomen, and the specialised subsidiaries of the big *sogo shosha* such as Mitsubishi Corp's Meiwa Trading which had extensive experience in countertrade with the former Soviet Union, who were prepared to set up offices. Japanese companies back in Japan were then able to use the trading companies to establish a variety of technical licensing agreements. JVC, for example, sent TV kits in CKD form via Nissho Iwai to several electronics companies in Hanoi and Ho Chi Minh City for assembly. When the model changed, a technician would come from JVC's operations in Singapore to give the workers the necessary technical training. The readiness of Japanese companies to give professional help, whether in the form of personnel training or of technical assistance, even if there is no immediate intention to make a financial commitment to the country is typical of the long term perspective: the Japanese manufacturer demands a high quality product and will not compromise simply because it is from Vietnam.

Top Japanese companies are only prepared to assume risk where multilateral funding is available (their own in-house limits on Vietnam country risk have generally been very small, US\$10 million in the case of one very large *sogo shosha*). This has not stopped Nissho Iwai and Marubeni, to name but two, from preparing feasibility studies on many different infrastructure projects against the day when such financing from international institutions did become available. And in the face of reluctance or lack of competitiveness of Japanese construction and equipment firms they have forged contacts with other countries to participate in a number of projects. Nissho Iwai for example, made US\$120 million in soft financing available (against future oil revenue) for the north-south power line, only US\$20 million of which was used by Japanese companies, the rest going to a number of firms including Koreans and Ukrainians.

The underlying theme to the preparatory phase of Japanese investment which we have seen to date, is the emphasis on the building of relationships. These they will be able to use to exploit opportunities that arise, even if they do not intend to make the investment themselves. Several such examples have already emerged: Mitsubishi Corp has introduced Mitsubishi Motors and through them, Proton of Malaysia, for a car manufacturing joint venture with the Ministry of Transport. Mitsui & Co was responsible for bringing British Gas to Vietnam, having worked in partnership with it elsewhere in the world, and also made the necessary connections for Unisys to become involved in undertaking for the government a strategic review of the development of the

information technology industry in Vietnam. Working with its Vietnam offices, London-based Mitsui Europe organised a mission of European businessmen to Vietnam to examine investment opportunities (Marubeni recently arranged a similar mission for European auto component manufacturers to China). The lack of emotion and sense of fierce competition which are hallmarks of Japanese corporate competition is evident in the fact that the trading companies are intent on sourcing the best possible suppliers for the contracts they take on. ABB and Alstom have supplied turbines to Vietnam's power station projects under the auspices of Nissho Iwai; now that the embargo is lifted, Marubeni expects to cooperate with US companies to supply equipment for thermal power stations (since US technology is apparently better than European or Japanese technology).

Asked their view on the lifting of the embargo, Japanese trading companies overwhelmingly reply⁹⁵ that it presents an opportunity for them: they can collaborate with US companies in Vietnam by plugging them into the network of contacts and relationships they have assiduously built up over the last six years or so. In contrast to Western firms, which generally try to build a relationship around the business they are hoping to create, Japanese firms will concentrate first on building the relationships and later see what sorts of business can be generated from them.

Making relationships with senior government officials and bureaucrats has been less of a problem than it sometimes appear to be for Western firms, by virtue of the fact that the head of a Japanese company's representative office, or the person sent to conduct negotiations, is unfailingly a senior person in his own organisation, even though Vietnam may be only at a very early developmental stage. This contrasts with common Western practice of sending someone relatively junior to the organisation (who may be of high calibre, with good qualifications - but nevertheless, youthful) to make the first contacts: it may be difficult for that person to demonstrate that his company holds due respect for the senior officials he is meeting. The seniority of staff at offices of Japanese, Korean, Taiwanese, Hong Kong....companies is a common feature between them.

Very many Vietnamese managers and officials have been invited to Japan (and Korea) for educational and instructional purposes, not only creating goodwill but forging relationships which may (or may not) yield good business in the years to come.

Korean investment characteristics

Compared with Japanese firms, Korean firms are more opportunistic. Korea desperately wants to catch up with Japan and therefore has to take risk (which is why Korean firms are more heavily invested than Japanese in regions such as Eastern Europe and Siberia, too). They feel themselves to be latecomers, in the same way that Vietnam feels itself a latecomer among its southeast Asian neighbours. Because Vietnam is one of the few places left where Japanese companies are not already strongly present, Korea is ready to accept the challenge. There is also a certain affinity of circumstance, as Korea also emerged, utterly wrecked, from war in the 1950s. Being driven by a sense of survival, Korean firms tend to be less sophisticated in their attitudes than the Japanese, and more nationalistic. They also have the political backing of their government to invest in Vietnam. Even for large infrastructure projects they prefer to carry out the programme in-house. Although the biggest of the Korean *chaebol*, Samsung, which is also closest in style to a Japanese trading house, has been fairly discreet in its approach, second tier traders such as Kolon and Sungkyong have seized the opportunity to make significant commitments. Perhaps the best example of the risk-taker's approach to Vietnam is Daewoo, which at a very early stage drew up a list of over twenty major projects in which it wished to invest. These included a number of electronics related ventures (including, at the time, Vietnam's largest project, a US\$170 million cathode ray tube joint venture with Hanel), an hotel, an automobile manufacturing project (with the Ministry of Defence), a pesticide plant, a glass factory renovation, participation in a bank, and a road-building project.

⁹⁵ Interviews, Hanoi and Ho Chi Minh City, February-March 1994

The level of Korean technology in many sectors is recognised by the Vietnamese government to be appropriate to the country's needs (but note that in certain specific areas, Korean industry may in fact be a world leader). Since Korean companies, for the reasons cited above, are generally more ready to commit rapidly to projects and where necessary to compete on price⁹⁶ they can make ideal counterparts. The Pusan Pipe factory just outside Haiphong will be a much-needed supplier of general utility pipes for infrastructure work. Hyundai won the contract to build the underwater gas pipeline from Bach Ho to the shore on price.

Korean companies tend to create different networks to those created by the Japanese. They are generally good 'inside' players, with relatively few inhibitions about what makes the world go around. Like the Japanese, they are ready and willing to spend a lot of time and effort training people from the agencies or organisations with which they expect to work in future. They also have a reputation for being tough employers. A number of the strikes that have recently taken place at foreign-invested factories were at Korean ventures, where workers protested claiming unacceptably severe working conditions⁹⁷. So far, many more small and medium sized firms seeking lower labour costs than at home have come from Korea than from Japan.

Overseas Chinese investment characteristics

The independent nature of the Overseas Chinese investor allows him to act with many fewer constraints than, for example, the Japanese investor. Companies from Hong Kong and Taiwan, for different reasons, are effectively stateless: the former because of the laissez-faire nature of the government; and the latter because of its exclusion from most diplomatic channels. Vietnam now represents the third largest destination for Taiwanese investments, behind China and the United States. Indeed, the Taiwanese government is strongly encouraging companies to invest in Vietnam, in an effort to reduce the flow of funds heading for the Chinese mainland.

Overseas Chinese business is conducted on the basis of the broad family network. Membership of this network implies complete trust in each other's ability and readiness to meet business obligations. Money changes hands - and flows across borders - without contracts. It is a very unbureaucratic 'common market'. It is a difficult network to enter, and a non-ethnic Chinese is unlikely to ever be completely accepted though past relationships will be taken into account. A member of a family network who violates the basic principles of trust will be ostracised forever, and his immediate family with him.

As remarked on before, there is a large indigenous Chinese base in Vietnam which has provided the basis for many an official or not so official business deal with Overseas Chinese. Both Taiwanese and Hong Kong Chinese claim good connections, particularly in Cholon (a district of Ho Chi Minh City), although it may not always be obvious whether or not a contact is a good one (what was that person's profile during the former Saigon regime, for example). Business deals have been allowed to flourish, and such private enterprise is tolerated, even encouraged by Hanoi (ever pragmatic), as long as it does not impinge on politics.

As is clear from the list of major investment projects above, Taiwan's investments are not confined to backstreet sweatshops - the stereotyped image in the west - they have invested large sums of money. The French company Total has as its partner in the refinery project Chinese Petroleum Co, which will open up useful financing possibilities. A much smaller example of the powers of Taiwanese financing, and the degree of trust that may be extended in the right circumstances, is the role played a Taiwanese shoe company in the development of Biti's, the privately owned Vietnamese shoe manufacturer: the Taiwanese firm transferred a substantial sum

⁹⁶ The Vietnamese government is sometimes seen to be too keen to take the best price rather than the most appropriate technology where the superior technology results in a higher price.

⁹⁷ A Korean manager at one such factory was reported to have said that, when Korea was as poor as Vietnam is, everyone worked very hard and did not expect free weekends, but that the state-owned system had spoiled workers by letting them take it easy.

to Biti's at a very preliminary stage of negotiations towards what eventually became the first legal joint venture formed between a foreign company and a private Vietnamese company. On a more official level, Taiwan has significant sums in its development fund which could be used for Vietnam's infrastructure development. For example, they are responsible for building a crucial section of the Hanoi-Haiphong trunk road. Taiwanese institutions have also shown themselves more willing to act as sponsors for offshore loan guarantees - a type of financing arrangement which Europeans are not prepared to become involved in.

Singapore presents an interesting contrast to Overseas Chinese from other countries, in that it does not seem to have natural networks of connections to the same extent and therefore has to work at building them in a more official manner. This may be because the Singaporean government exercises tight discipline, and was a fierce opponent of Vietnam until 1991. A high-powered government delegation from Singapore was touring Europe recently, offering the services of Singapore as an intermediary in deals with Vietnam (among other countries). Singapore aspires to a somewhat similar role for Ho Chi Minh City as Hong Kong has played for Guangdong province in China, but it is hard to see it achieving the same degree of critical importance for the whole country. It is too far from Hanoi, to begin with. Nevertheless, it seems to be increasingly the hub of choice for multinationals to manage their activities in Vietnam from. While Hong Kong may continue to provide stiff competition now, because of its proximity to Hanoi, this may change after 1997 when the territory reverts to Chinese rule. Thailand seems to have completely lost any advantage it may have originally had in maintaining air links from Bangkok.

So what, then, are the potential strategies for western firms to leverage the extensive presence of Asian companies in Vietnam?

One possibility is to collaborate with a Japanese trading company. This is not a strongly recommended strategy. Any relationship would require significant senior management attention to ensure that the full interests of the western company are satisfied, and to avoid surrendering control.

A second, more promising strategy is for a company to examine its existing network of relationships in the Asia Pacific region. While Singapore has expressed an explicit interest in forming partnerships with European companies to invest in Vietnam, they should certainly examine all the alternatives. A satisfactory joint venture partner in one country may prove to be an ideal partner in Vietnam too. This strategy appears to have worked well for Heineken, whose joint venture with Fraser & Neave of Singapore, Asia Pacific Breweries, has successfully built a brewery in Saigon in partnership with Ho Chi Minh City Foodstuffs Co #2 and is now selling large volumes of Tiger Beer.

The third alternative, is to take a leaf out of the books of all the countries in the region: focus on building a wide network of contacts, forging long-term relationships with senior people, and eventually establish your own venture, with or without a local partner.

The indirect approach: investment funds

The Vietnam Frontier Fund launched in July 1994 is the fourth country fund established to allow foreign equity investment - essentially venture capital - in Vietnam. Other offerings from US-based organisations are rumoured to be nearing the market. While it is no longer a major problem for such funds to raise money from investors (some early attempts failed to attract interest from the financial community), the fund managers themselves continue to face considerable difficulties in identifying suitable investment projects in which to take stakes.

The first fund on the market, the Vietnam Fund, struggled to raise US\$10m when first launched in October 1991 but was oversubscribed for a secondary offering worth US\$45 million in July 1993. Careful evaluation over the last three years of hundreds of proposals - primarily in commercial and residential property, food processing, agriculture and manufacturing - have

resulted in the rejection of the vast majority of them. Given that companies in which the fund would participate are foreign-invested ventures and are therefore very much in the start-up phase, and that their total capitalisation is probably less than US\$10 million, full investment of the fund is likely to be a lengthy process. In June 1994, after one year of operation, the US\$65 million Beta Vietnam Fund had one investment actually in operation (producing knitwear) and another awaiting licensing from the SCCI - and many others under investigation. Beta Vietnam has also focused on Vietnamese debt instruments. The Keppel Fund operates somewhat differently from the other funds so far in operation in that it focuses entirely on Keppel Group projects in Vietnam.

A different approach to indirect investment is provided by SG Warburg, which at the end of 1993 created an investment warrant on a basket of seven foreign companies whose activities in Vietnam are expected to make an impact on their future earnings. Templeton Investment recently announced its intention to form a new country fund, to be listed on the New York Stock Exchange, which will buy passive equity stakes in Asian firms investing in Vietnam.

Domestic Market Potential

A survey by the EIU in 1994 of Western businessmen interested in investment in Vietnam, showed that the country is increasingly viewed as a new market in its own right, rather than simply as another low cost manufacturing base. This suggests a marked change in perception over the last couple of years. In 1991-2, while the future potential of Vietnam as a consumer of goods was not ignored (beer and soft drinks producers, pharmaceuticals companies, lubricant manufacturers clearly identified the opportunities), it was not the major priority of investors at the time.

What has changed in the last two years? Vietnam is still a desperately poor country, and the majority of its inhabitants still earn less than one dollar per day. As indicated before, substantial amounts of savings lie outside the banking system and a portion of these have been used in a wave of consumer spending on TVs, videos, motorbikes and similar status symbols. Money will also be found for vital medicines for the sick whenever possible. In the urban centres, particularly in Ho Chi Minh City, a wealthy - and highly visible - class of entrepreneurs is emerging. Status-oriented conspicuous consumption has begun (Mercedes already has a distributor in Ho Chi Minh City). Firm statistical data on income and expenditure, preferences and attitudes are still in short supply, although a number of western market research firms have been actively trying to fill some of the gaps in the picture. Brand awareness in the south appears to be relatively high (many goods theoretically barred from the market were regularly smuggled in recent years) for such names as Castrol, Honda, Sony and Coca-Cola.

Three-quarters of all homes in the southern city have a TV set; in Hanoi, over 40% of households are reached by TV. Media advertising has therefore become big business too although the value of print advertising is still more than twice as high as print-based publicity. According to Dataconsult, average monthly expenditure in the second half of 1993 on print-based advertising was nearly US\$450 million, compared with slightly less than US\$200 million spent on TV advertisements. Major electronics (Sony, Casio), beer (Tiger), foodstuffs (Vedan, Nestlé), lubricants (Castrol, Shell) and motorcycle (VMEP) manufacturers regularly head the lists of corporate advertisers on TV, encouraging further the growth of the consumer products industry.

Private Vietnamese companies have also recognised their own market's potential. Southern textile company Huy Hoang used to manufacture padded jackets exclusively for export, but is now launching sales in the northern part of the country where winters can be very cold. The shoe manufacturer, Biti's, has been selling half its output in Vietnam but intends to raise that share to 60% because it is more profitable than export business. The company has managed to establish brand awareness by producing a quality product and now has no fears of competition from cheap footwear smuggled in from China.

Distribution is of course a key element to production for the domestic market. The rigid distinction of the past between production and distribution firms in the state sector has disappeared, making it easier to sell goods using one company rather than a whole series. Not all sectors are well served, though. The pharmaceuticals industry, for example, relies on retailers coming to wholesale markets, where they haggle over prices, making brand loyalty difficult to build and limiting the scope of the wholesaler to influence buying decisions. Direct importation of pharmaceutical products by foreign companies is still banned, and the absence of national distributors for certain products means that countrywide distribution will require negotiations with several distributors.

Swedish ball-bearing manufacturer SKF has to have two distinct distribution networks because of the different characteristics of the market in north and south. The northern market comprises a few large state-run companies in steel, coal-mining, cement, and so on; in the south potential customers include the Steel Union, a few other large companies and thousands of smaller ones. Whereas SKF is managing with a single (state-owned) distributor in the north at present (there is less choice of distributor there also), it has ten distribution outlets in the south. Northern companies find the concept of paying US\$50 for a high quality SKF product, compared with US\$10 for a Russian-made ball-bearing, difficult to accept. It becomes an education process, since the price of a ball-bearing to the end-user (a cement production facility, for example) is tiny relative to cost of the plant breaking down. SKF's aim is to forge direct contacts with its end customers to be able to put that argument to them.

Examples of foreign ventures adopting differing approaches to the distribution issue include operating their own fleet of delivery trucks (Coats Tootal Phong Phu, Castrol) and forming a manufacturing venture with one of the principal distribution companies (the Vietnamese side of Vietnam Brewery, HCMC Industrial Foodstuffs Co, is one of the main distributors of the product in the south). Different approaches have been taken to the problem of parallel imports (i.e. smuggled goods). Heineken, whose beer has been widely available for years (indeed, one of the reasons the Vietnam Brewery was established was to capitalise on strong name recognition) has acted internally, reducing supplies from Singapore to its Cambodian wholesaler. Castrol has also reduced supplies of its lubricants to certain wholesalers outside Vietnam. One of the American cola producers made a temporary drastic price cut to force the smugglers out of business. Coats Tootal Phong Phu won its battle against illegal imports by demonstrating the consistently better quality, colour and variety of its sewing thread, and by efficient distribution. Counterfeiting will continue to be a problem in certain areas, although Hanoi seems to be taking a more robust - and therefore long term - approach than many emerging countries by attempting now to encourage the concept of intellectual property rights. It no longer turns a blind eye to the pirating of trade names and packaging by state companies⁹⁸.

A second aspect of the domestic market to become more attractive is heavy industry and capital goods, including cement, steel and power generation, as the country's infrastructure development begins to move forward. To these can be added other industrial manufacturing projects such as fertilisers, glass making and transportation equipment. Such projects, which require potentially large financial commitments, did not exist except at the planning stage two years ago.

Consumer-related investments

Per capita consumption of beer is still estimated at just 3 litres per year, compared with, for example, 26 litres in the Philippines. Domestic capacity has been increasing (and quality improving) as a result of new investments by Vietnamese breweries, such as Saigon Brewery, in an attempt to meet competition from foreign-invested joint ventures. 220 million litres of beer were produced in 1993, excluding 'street beer' (*bia hoi*); the 1994 production estimate is 350 million litres. Saigon Brewery, which makes the 333 brand, claims a 40% share of the domestically-produced beer market. Asia Pacific Breweries, a Heineken/Fraser & Neave joint

⁹⁸ Business Asia, 5 July 1993

venture in Singapore, was the first to form a foreign-invested joint venture. Its newly constructed factory in Ho Chi Minh City, Vietnam Brewery, has been producing Tiger beer since October 1993 and is about to begin making Heineken beer. Several other beer-producing joint ventures, including the Danish brewer Carlsberg in Hanoi (with Viet Ha Brewery), the French BGI in both Da Nang⁹⁹ and Tien Giang (where the partner is Tien Giang Vegetable Export Co), and San Miguel of the Philippines in Nha Trang (with Vinagen), have entered or soon will enter the market and a restriction on new ventures for beer manufacturing has now been introduced. Tiger beer's home base is in the south of Vietnam, where it competes with BGI, whose Tien Giang brewery distributes as far as central Vietnam. Distribution of Tiger began later in Hanoi. Carlsberg's main market is in the north. The market is highly competitive, although the foreign beers are too expensive for everyone to drink. Tiger and Carlsberg are sold mostly in cans, while BGI and 333 are sold in bottles. The arrival of the new breweries has apparently helped to expand the total market size (since small local producers remain in business) and to supplant much of the beer that was previously imported - not all of it legally.

Restrictions have also been placed on new entrants to the soft drinks industry. Both Coca Cola and Pepsi launched major sales campaigns with great fanfare as soon as the embargo was lifted in February 1994. Both products have been widely available throughout Vietnam for several years via wholesale imports from neighbouring countries. Pepsi-Cola has been producing Pepsi and 7-Up at the Ho Chi Minh City plant of IBC practically since the moment the embargo was lifted¹⁰⁰. Coca-Cola has signed a contract with Vinalimex, which is under the auspices of the Ministry of Light Industry, to establish a bottling facility in the north, but has recently been refused a licence for a similar plant with Fraser & Neave/Chuong Duong in the south because of the already crowded market there.

A related effect of the investments in beer and soft drinks has been to spur development of the local packaging industry. In 1993 Vietnam imported 170 million empty cans and millions more empty plastic bottles, since existing storage containers available in Vietnam are mostly made of poor quality glass unsuitable for carbonated drinks. Two small PET plastic bottle lines have been set up in Ho Chi Minh City to service mineral water plants, while two much larger scale foreign investments will supply aluminium cans to the beer and soft drinks industry. A joint venture between Saigon Brewery and CarnaudMetalbox has begun work on a production facility with capacity of 460 million cans a year, to supply the southern market, while a recently announced four-way joint venture between Swire Pacific of Hong Kong, Crown Cork and Seal of the US, Vinalimex and Ha Tay Foodstuffs will begin supplying the northern part of the country with more than 400 million cans a year from 1996. Another joint venture between Tonyi of Taiwan, Tomen of Japan, and Vegetexco of Ho Chi Minh City will supply cans for BP/Petrolimex lubricants.

Two French pharmaceutical companies remained in Vietnam throughout the 1980s and were well placed to take advantage of market reforms. French products as a consequence enjoy a high reputation (counterfeiters prefer to produce French language packaging for this reason). Gateway Pharmaceutical of Australia also demonstrated the initiative of Australian enterprises in several fields by establishing an early presence in the Vietnamese market. Estimates of pharmaceutical consumption levels vary between US\$1 and US\$3 per capita per annum. Whichever is correct, Vietnam has a long way to go to catch up with Thailand, where the average person spends US\$12 a year on drugs, and large numbers of foreign firms have begun to establish themselves in Vietnam. Private health care has become an increasingly important market. More than thirty foreign drugs companies have either a direct presence in the form of a joint venture or a representative office, or through an agent. American companies are now trying to catch up lost

⁹⁹ Once the Danang brewery becomes operational in 1995, most of its production will be for the export market.

¹⁰⁰ International Beverage Co (IBC), whose general director is a dynamic 37-year old, is a joint venture between Macondray in Singapore and SP Company of Ho Chi Minh City, which already produces Schweppes soft drinks under an agreement with Cadbury Schweppes of the UK. SP is an affiliate of Tribeco, one of the two largest soft drinks distributors in Vietnam. The other, Chuong Duong is best known for its lemonade and soda

ground. The market in Ho Chi Minh City is very crowded, suggesting that latecomers would do better to establish themselves in Da Nang which has been relatively neglected.

Car and motorcycle showrooms stand out in Ho Chi Minh City and to a lesser extent in Hanoi because they are among the few shop fronts with western styling - large sheets of plate glass to allow passers by a good view of the models inside. The status symbol for the average Vietnamese person is a Honda motorcycle: Honda dominates the market with an estimated 81% share even though it opened a representative office in the country only in 1994¹⁰¹: bikes have been imported both legally and illegally from other countries in southeast Asia. Although only 15 in every 100 families in Vietnam own a motorbike (at the last count in 1992), two thirds of families in Ho Chi Minh City and 63% of families in Hanoi had one. Over 2 million motorbikes were on the roads of Vietnam in 1992. An additional 250,000 were legally imported in 1993. With demand estimated by the Ministry of Commerce's Market Research Centre to grow by one million units per year until 1997, Vietnam wishes to develop its own motorcycle industry. It has now banned the import of secondhand bikes and restricted imports to 230,000 per year (130,000 in CKD¹⁰² form for local assembly and 100,000 complete units). High taxes already mean that new motorbike prices are substantially higher than in other markets; for the same reason secondhand bikes have been selling at twice the price elsewhere. The first and only licence for domestic assembly of motorcycles is held by the Ching Fong Group of Taiwan which has established two CKD assembly plants under the name VMEP since 1992, in Hanoi and in Bien Hoa, outside Ho Chi Minh City. Annual production capacity is 540,000 bikes per year, but the company has so far struggled to compete against the might of the Honda name, even though its Bonus MB 125A and Angel 80 models are cheaper than equivalent Honda offerings. Despite these difficulties the company is reported to be planning a joint venture for components which would raise local content from the current 25% to 40%. The market for motorbike parts and accessories, worth around US\$20 million a year, is currently only served through imports. Both Honda and Suzuki (the latter jointly with the Salim Group of Indonesia) have indicated interest in manufacturing bikes locally.

A blueprint for the development of the automobile industry drawn up by Mitsubishi Corporation at the request of the Ministry of Heavy Industry in 1993 caused a furore among European and American car manufacturers fearful of seeing another southeast Asian market fall to the Japanese car industry. The Japanese company estimated that the total park of cars in Vietnam in 1991 was 210,000 units. Demand is currently estimated at around 5,000 cars per year, rising to 15-20,000 units by the year 2005. Daewoo of Korea won a licence in March 1994 to produce passenger vehicles in a joint venture with the Ministry of Defence, and a Mitsubishi Motors/Proton venture to assemble minibuses was licensed shortly afterwards. Despite an announcement by the government to limit the number of assembly plants it will authorise, Peugeot, Renault, Volkswagen, Mercedes-Benz, Chrysler and General Motors have expressed their interest in having some form of manufacturing operation, whether by licensing production or by establishing a joint venture. Toyota already has three companies handling its imports: Toyoda Tsusho, Salim Group of Indonesia, and Sumitomo Corp, which has constructed very modern showrooms for the cars in both Hanoi and Ho Chi Minh City. Isamco of the Inchcape group has already established an after-sales service.

The country's two existing auto assembly plants are Mekong, which has been producing four-wheel drive vehicles in Ho Chi Minh City since 1992 and is a Japanese and Korean invested joint venture with two people's committee companies; and Vietnam Motors Corp, a joint venture between Columbia Motors of the Philippines and the Ministry of Transport which assembles Mazda, Daihatsu and Kia cars in Hanoi. A new production line to handle BMW cars has just been installed at the VMC assembly plant and output is forecast to be 100-200 cars in 1995. A version of the Renault 19 is apparently to be added to VMC's product line up from early 1995. Mekong

¹⁰¹ Pressure from Washington is widely believed to have prevented Honda from implementing plans to build a motorcycle assembly plant in Ho Chi Minh City several years ago.

¹⁰² CKD: completely knocked down

has a bus and truck assembly plant near Hanoi, in cooperation with Iveco. Sales of passenger vehicles by both Mekong and VMC have been slow because of the number of secondhand vehicles imported from Japan and Singapore, even though the tariff on imported cars has been progressively raised.

Industrial investment

The construction boom sweeping across Vietnam is apparent at practically every turn. Not only in city centres but along roadsides, private houses, hotels, shops and offices are being built. Foreign construction companies such as Daewoo, Taisei, Ohbayashi, Campenon Bernard, Laing, Transfield, Gammon, and many others are already active in Vietnam while Vietnamese companies are also competing strongly for a share of the market.

Demand for building materials far outstrips supply, particularly for steel and cement, but also for glass, sanitary ware, ready-mixed concrete, and so on. Locally produced materials are of relatively low quality. Foreign investors from Japan, Korea, Taiwan and Australia have identified the potential of the market and established production facilities. Japanese sanitary ware producers are already big suppliers to the construction industry in Vietnam, via their production plants in Thailand (an indication of the interest Japanese manufacturers based in Thailand and other nearby countries can generally be expected to demonstrate in this new market).

Domestic demand for construction steel, estimated at 600,000 tons for 1994, is double the country's total capacity, and three times the actual output in 1993. Per capita steel consumption, at 3kg, is a tiny fraction of the 500kg used in Taiwan or even the 70kg used in China. By the year 2000 annual demand is expected to reach 1.5 million tons. Excessive amounts of steel imported in 1993 disrupted local market conditions. To reduce dependence on imports, Vietnam has licensed several projects in steel production. Government policy generally is to allow foreign participation in the steel industry only in the form of a joint venture. The Vietnam Steel Corporation, which was established in 1990 to bring together disparate production facilities in an attempt to raise the quality of steel manufactured locally, has recently signed agreements for two steel rolling mills. The first, with a Japanese consortium comprising Kyoei Steel, Mitsui & Co and Itochu, will eventually produce 240,000 tonnes of steel per year at its site near Vung Tau; the second venture, in Haiphong, has Korean partners, POSCO and Keohang, and will produce 200,000 tonnes of steel. Funding of these and similar ventures the government wishes to see established is problematic, since Vietnam Steel is reported to be unable to raise the necessary loans from domestic banks to pay its non-land contributions. POSCO already has a share in two much smaller investments: a steel pipe making venture with Pusan Steel Pipe and Vietnam Steel, and a galvanised sheet-making operation with the Union of Steel Mills. Singapore's Natsteel is the other foreign investment of significant size, with a 56.5% stake in the redevelopment of the northern Thai Nguyen steel complex. According to press reports, Japanese steelmakers are interested in setting up plants in Vietnam over the longer term to service the demand for seamless steel pipes from the offshore oil industry. An example of specialised activity is a 100% owned venture for roofing sheets and roof support structures by BHP of Australia. Production began at the site in Bien Hoa, near Hanoi, in March 1994.

Two foreign invested cement plants are among the largest investment projects Vietnam has attracted to date - and in spite of the shaky legal infrastructure in which foreign investors must operate. They will bring some relief to the hard pressed domestic market when they come on stream in around 1998. Current capacity of some five million tonnes is unable to meet present demand of 6.5 million tons, while high import taxes on cement have forced importers to sell at a loss since purchase prices in neighbouring countries were already high because of the construction boom sweeping the area. The Ching Fong cement plant in Haiphong will be built by Taisei Corp of Japan in a joint venture with the Ministry of Construction and is scheduled to begin production in 1996. Annual capacity at the plant is 1.4 million tonnes. Holderbank of Switzerland is the partner of Ha Tien Company #1 in Kien Giang province west of Ho Chi Minh City. Nihon Cement and Mitsubishi Materials have also conducted a feasibility study for a cement plant in the north of the country.

The Oil and Gas Industry

Several American oil companies moved swiftly to participate in Vietnam's oil and gas industry as soon as circumstances allowed. These include Mobil (the original discoverer of oil off the coast of southern Vietnam in the early 1970s), which is now exploring the Thang Long field in an area under dispute with China; Occidental Petroleum, which acquired a 45% stake in a block 300 km offshore awarded to PT Astra of Indonesia; and Atlantic Richfield, which has a 50% share in the adjacent block held by British Gas. Both of these blocks are to the north of the Thang Long field. The presence of American companies has been welcomed by the Vietnamese authorities because of the additional technical expertise and experience they offer - and at the same time Hanoi hopes for some political cover in the long-running battle with China over oil exploration in disputed territorial waters.

Foreign oil and gas companies were kept waiting until 1993 for a law to govern the sector, although the final contents of the document were anticipated since they were developed after extensive consultation with foreign members of the industry, overseas industry officials - in Malaysia and Indonesia amongst others - and other interested parties. Because of its strategic importance to Vietnam the exploration side of the oil and gas industry, handled by PetroVietnam, has been under the direct control of the Prime Minister since April 1992. PetroVietnam itself is considered to be pragmatic but tough, which is justifiable given the significance of oil for the country's future. The nature of the production sharing contracts that it has formed with foreign companies in the various exploration blocks entitles it to trigger its partnership right when a find becomes commercially viable. Until now it has acted as only a regulatory authority, but with the coming on stream of the Dai Hung field, on which BHP is the operator and Petronas, Sumitomo Corp and Total are all shareholders, it will have to be both regulator and partner.

The oil sector was the scene of most of the early foreign investment activity in Vietnam, but a relatively small share of the money invested has accrued to the country itself in the absence of domestic expertise in such related service areas as geophysical and seismic surveys, well planning, technical evaluations and production technology. Companies such as Swire Pacific Offshore operate offshore supply vessels which tow the oil rigs out to the field, anchor them, handle equipment and so on. The US company Baker Hughes has also begun bidding on service contracts since early in 1994. Foreign companies have been working in the dark in the absence of readily available seismic data, although PetroVietnam plans to step up its geological studies in waters 500 to 1,000 metres deep. Disillusionment over the country's potential as an oil producer as a result of the poor showings from most wells drilled in the last four years has been tempered by the recent find announced by Mitsubishi Oil close inshore near Vung Tau, but Vietnam may yet prove to be a more significant producer of natural gas than of oil.

Both the Ministry of Heavy Industry and the Ministry of Energy are involved in the future development of the gas industry, however a lack of consensus between the two has caused frustration among interested foreign companies. Opinion, for example, is divided over the wisdom of using the gas brought in from Bach Ho to build a fertiliser plant (an option which interests the Ministry of Heavy Industry which supervises the fertiliser industry) or in development of a gas-based power industry to reduce the need to continue burning lignite and building dams in the south. Gas companies have made a variety of proposals for the use of gas resources.

The Ministry of Commerce continues to manage the downstream activities of the industry. Petrolimex and Petechim are the state companies which handle them operationally, but the demarcation line which used to separate the two (Petrolimex handled domestic marketing and storage facilities for export/import facilities, while Petechim traded crude oil for finished products) has all but disappeared. The two state companies now actively compete in the setting up of domestic marketing channels. Even PetroVietnam has become involved in downstream activities via a subsidiary, forming a joint venture with Shell for lubricants.

The market for lubricants has become highly competitive. Castrol has been the longest in the market, first as an importer and then in partnership production with SaigonPetro, a state company under the auspices of the Ho Chi Minh People's Committee. Since then both BP and Shell have been working to establish production facilities with their respective partners, Petrolimex and Vidamo (an offshoot of PetroVietnam), and in the meantime have imported finished products from Singapore. Other companies such as Total are similarly importing lubricants but have no current plans for manufacturing. Intense advertising campaigns to enhance brand awareness have been going on for many months. In the future companies hope to establish petrol stations, of which there are currently around 400: up to 150 in the south, 80 in central Vietnam, and the rest in the north including 80 in the Hanoi area. These are currently the domain of Petrolimex and Petechim, with SaigonPetro stations also operating in the south. These petrol stations are already important sales outlets for lubricants, and could become market outlets for other goods distributed nationally.

Other downstream activity relates primarily to the refinery project for which Total is now preparing the feasibility study. The refinery project itself is under the auspices of PetroVietnam which handles all upstream business. However it is not yet clear whether distribution of the output will be handled also by PetroVietnam or by the Ministry of Commerce. Shell is also working on a bitumen project which will supply the country's roadbuilding schemes.

Hotels and Tourism

Vietnam as a tourist destination has ample attractions, not the least of which are its beautiful, sandy beaches. About 100km east of Ho Chi Minh City is Vung Tau (formerly Cap St Jacques), now fast-developing as an oil exploration base and where rich Saigoneses have weekend villas. In the north near the port of Hong Gai is Halong Bay, Vietnam's other scenic attraction and beach 'resort'. In between are 2000km of glorious, unspoilt coastline which rival anything Thailand can offer. Other tourist attractions include the royal palaces of Hue on the Perfume River, the ancient town of Hoi An just south of Da Nang, the hill station of Da Lat and the Cu Chi wartime tunnel networks. However, infrastructural limitations act as a considerable barrier to development while improvement may, ironically, in turn destroy the charm which visitors find so appealing today. The impact of bulk tourism on the environment, and of a failure to curb environmental pollution on tourism, are both issues which Vietnam will be obliged to take very seriously in the coming years. Responsibility for the tourism industry belongs to the General Department of Tourism, and answers directly to the Prime Minister, following criticism of uncoordinated development of Do Son beach (near Haiphong) and Halong Bay when the industry was still operated under the auspices of the Ministry of Commerce and Tourism.

The advent of direct flights to Dien Bien Phu makes it easier for tourists to visit this battle site in the northern mountains - until 1994 it required a minimum of five days to travel there and back. Vietnam Airlines has added several new domestic destinations to its timetable during 1994.

Around 670,000 visitors came to Vietnam in 1993, but it is not clear how many of these were tourists. Business delegations are likely to continue to exceed tourist parties for some time. 480,000 foreigners visited Ho Chi Minh City and 300,000 went to Hanoi in 1993. In the first six months of 1994 430,000 visitors came to Hanoi. This compares with 1990-91, when only 50,000 foreigners visited the capital city. The Taiwanese are the most numerous visitors at present, but fastest growth is reported to be among westerners. In 1993 54,000 French tourists (and business people) came to see the Vietnam evoked in a recent spate of films about the country, and Americans are increasingly eager to visit. The country expects to welcome one million visitors in 1995, and hopes for three million by the year 2000.

These actual numbers and future estimates indicate the huge pressure on accommodation and services throughout the country. Hotel occupancy rates are close to 90% in most cities, and 80% in Ho Chi Minh City. By early 1994, for example, Hanoi had added only one world standard hotel, the 108-room Sofitel Metropole, compared with four years earlier. This increased the pool

of internationally acceptable rooms in the capital city to 710 - around 15% of which are occupied by long-stay business people. The next five-star accommodation to open in Hanoi will be the Sofitel's 135-room extension, but that will not be complete until end 1995 at the earliest. Ho Chi Minh City had 1,320 international standard rooms in 1993, a supply which has increased with the opening of the 250-room Omni Saigon and several smaller hotels during the last few months. The Hong Kong-invested New World Saigon adds a further 544 rooms and the Singaporean/Malaysian Equatorial Hotel 352 rooms when they open later in 1994. The situation in Da Nang is even worse. The central Vietnam city will have its first three-star quality rooms in October 1994, when a hotel renovation is completed; for the time being, there are fewer than 200 one and two star grade rooms available.

The severe shortage of adequate rooms¹⁰³ has driven the country's hotel rates to disproportionately high levels compared with tariffs prevailing in other parts of the region. Visitors are expressing growing dissatisfaction with the expense, and the low levels of comfort and service in return. It is likely to be 1996 before supply has risen sufficiently to make an impact on prices, according to travel industry experts. A growing number of tourists are arriving on cruise ships; fortunately these bring their accommodation with them.

Although there are numerous hotel projects in the pipeline - principally involving Asian investors, but including European operators such as Accor - many will not see the final light of day and others will be completed far behind schedule. The key elements to any property development project are land rights, and the cost of land clearance. Many potential investors have seen their plans die after months of negotiations, when their local partners finally admit they have yet to ask for the rights to use the land offered as the Vietnamese contribution. (In the eyes of the foreign party to a project, the land is usually over-valued anyway to reach the preferred 30% minimum local share; in addition, the assets of the joint venture will revert to Vietnam at the end of the term. After 20 years of use, however, a hotel is generally in need of extensive renovation anyway.) Even if a plot of land is agreed upon, and it is empty when the contract is signed, it will not still be empty when construction is due to begin: people will have moved onto the land and will require compensation to be moved off - a lengthy and costly process. EPZs have faced similar problems. Leaving aside the land issue, the glut of hotels some observers fear will hit Vietnam in the next five years is, according to others, unlikely to materialise because of financing difficulties. Banks are unwilling to mortgage buildings because land use rights cannot be transferred to foreigners, forcing most developers of most major projects to take an equity stake in the venture. Environmental and cultural concerns over some projects are also causing delays. A proposal by Burton Engineering of Singapore to build a luxury twin-tower hotel and office complex on the site of the Hoa Lo prison (known to American prisoners of war as the Hanoi Hilton) provoked considerable opposition from Vietnamese veterans, many of whom had been imprisoned there by the French in colonial times. The matter was finally resolved by the decision to turn one-quarter of the area into a museum and use the remainder for the hotel-office complex.

Such factors contribute to the long time lag between the approval and the implementation of a project. The New World Hotel provides an example of the difficulties of bringing a major development plan to fruition: the site the hotel occupies was originally to be developed by the Holiday Inn Group, which was unable to arrange financing in the time-frame allowed. The licence then passed to Hong Kong's New World Development Company, which formed a 75/25 joint venture with Saigon Tourist and undertook to raise the US\$65 million required for the development. The loans were to be guaranteed by Vietcombank. Construction began in early 1992, but renewed difficulties over financing have been largely to blame for the sporadic progress made since. The hotel's scheduled opening is August 1994, twenty months behind the original plan, during which time a number of other units have been built or modernised. These include the

¹⁰³ According to Vietnam's tourist authorities, total supply of hotel accommodation in Ho Chi Minh City and Hanoi is currently 10,430 rooms, and 26,195 are planned for the year 2005. However, most of these are not suitable for foreigners.

Omni Saigon which, together with the Saigon Floating Hotel, is seen to provide the most up-market foreign-invested competition for the New World Saigon.

A questionmark over the renewal of the Saigon Floating Hotel's five-year operating licence, due in September 1994, has caused concern over among some potential investors. When the hotel was first towed up from Australia in 1989, it was welcomed by Ho Chi Minh City since it provided almost the only quality accommodation in town for visiting foreign businessmen and also provided office space for a number of companies. The contract with Saigon Tourist gave EIE International, which is the hotel's effective owner, the option to extend the term of operation. However, the authorities are reported to be demanding substantially higher rent for the mooring in the city's centre than the near US\$1 million the hotel pays every year - effectively giving the Vietnamese side control in practical terms over the decision whether or not to stay. The floating hotel has been offered alternative sites on the other side of the river or further from the city centre, where there are no facilities and a much smaller potential market. The hotel has made substantial investments to build the pier and necessary shoreside infrastructure at its current site. Another alternative would be to move the hotel to a different location altogether - by no means simply a matter of weighing anchor. Hotel operators say Da Nang would be an ideal site for a floating hotel. Apart from its dearth of suitable on-shore hotel rooms, the city's most attractive quarter abuts the waterfront.

State-owned Saigon Tourist is the dominant hotel operator in Ho Chi Minh City, owning 53 hotels with 2,300 rooms in addition to assorted other tourist services and associated manufacturing and trading operations. It has 10 joint projects with foreign investors, as a result of an early decision (which no longer holds good) to direct all foreign proposals in the sector in Ho Chi Minh City to the company. In addition to the New World Hotel and the Saigon Floating Hotel, it has shares in the Century Saigon Hotel, the forthcoming Meridien Hotel, the renovated Chains Caravelle Hotel, and also Pacific Airlines and Eximbank. The group has been rocked recently by suggestions that its hotels should be hived off to run independently. In Hanoi, Vietnam Tourism and Hanoi Tourism are the largest operators. In keeping with the practices of the market economy, each state-owned unit is no longer confined to a specific geographic region of operations. Thus, Saigon Tourist can and does compete with Hanoi Tourist in Hanoi, Da Nang and elsewhere.

The main market for city centre hotels in Hanoi, and to a lesser extent in Ho Chi Minh City, is the business traveller. This is the target group for the Accor group's planned chain of hotels throughout the country. It is working hard to make the name 'Sofitel Metropole', rather than simply 'The Metropole', stick in Hanoi. Another six firm projects (three with licences approved, another three awaiting approval) will be in the Novotel or Ibis category. Vietnam currently represents Accor's third most important market for development in Asia, behind China and Indonesia, although in the longer term it is expected to slip behind India.

Although Accor may not be targeting the tourist and resort market, other companies are: Club Med has signed a memorandum of understanding to build a resort at Nha Trang in partnership with Khanh Hoa Tourism, the local state-run tourist company. An American-backed company has signed an agreement with the authorities in Da Nang to develop a resort at the place American soldiers during the war used to call China Beach (although some people claim the company has the wrong beach). A number of projects are proposed for the Halong Bay area, which is particularly popular with French tourists.

Golf course developments are also springing up to cater mostly for resident expatriates. Three are close to Ho Chi Minh City (the Singapore-invested Song Be course is already open), a Taiwanese-invested course is near Hanoi, and another (also partially open) is in Da Lat. Other projects are under discussion. Developers are demanding high membership fees for the clubs, which generally include other facilities such as hotels, swimming pools and tennis courts.

Vietnam has yet to draw up a comprehensive master plan for the development of its tourism industry. A report prepared by the World Tourism Organisation proposes that Vietnam should

aim for slow development in order to create the right environment for long-lasting high class tourism, rather than cater to what may turn out to be a transient boom of medium class tourism. Industry observers point to Thailand and Spain as examples of how not to let the tourist industry develop. It will require considerable internal discipline for Vietnam to limit tourist arrivals, and to differentiate between quality over quantity, given that the average growth in the number of visitors registering at hotels in 1991-3 was 30% annually. Driven by the need to earn foreign exchange, the Vietnamese tourist authorities have until now preferred simply to attract as many visitors as possible, without paying attention to the revenue-earning potential of each tourist.

CONCLUSION

Vietnam in 1994 is a very different place from Vietnam even in 1993. Two big events have taken place in the last twelve months which fundamentally alter the basis on which the economy will develop in the future: the lifting of the US veto on multilateral lending to Vietnam, and the lifting of the trade embargo. The next two to three years will be a critical period for the government, during which it must demonstrate an ability to drive forward the reform process while at the same time preventing any further deterioration in the socio-economic fabric of the country and administering efficiently the inflow of multilateral aid funds. Development of the physical infrastructure, with as small a degree as possible of 'leakage', is essential if Vietnam is to continue to attract foreign institutional and business interests.

The lifting of the embargo most importantly gives Vietnam access to the US-made technology which it has been barred from acquiring for the last nineteen years, allowing companies to purchase European and Asian equipment with a significant US component content (for example, the European Airbus) as well as equipment made in the United States. Fears that the country would be swamped by American investors have proved to be grossly overstated - Asia Pacific investors are and will remain the most important force in Vietnam. Moreover, as long as American MFN (Most Favoured Nation) status eludes Vietnam, exporters will be obliged to seek markets other than the United States for their goods and may thus achieve a balance and diversity of trade partners lacking among other Asian exporters.

For the foreign and domestic business communities alike better policy coordination between ministries will be necessary if Vietnam's industrial potential is to be fully realised, for example by better tailoring import duties to encourage the development of a domestic production capability in preference to manufactured imports without inhibiting the flow of new products into the country. Equally important is the political will to allow natural development of the private sector in Vietnam, unhampered by discrimination or interference from the state. The stalling of the privatisation programme is an indication of continued intense debate within the government over the merits and demerits of reducing the scope of state business interests. At the social level, the authorities must demonstrate the ability to handle forthcoming demographic issues, notably a potential population shift from the countryside to urban centres, and unrest caused by widening income disparities. The success and sustainability of economic reform as a whole depends on the unequivocal commitment to the process of top leaders, whose hesitations over sensitive aspects of state policy (for example, the reform of state enterprises and of the public administration) create uncertainty and confusion at all levels of government and society. Political stability will not be sacrificed to economic reform.

As far as foreign investors are concerned, further progress must be made on the streamlining of the investment application process and the elimination of the hiatus between the promulgation of laws and their implementation - although this is less of a problem for Asia Pacific businessmen than it is for the legally-oriented western business community. Increasing numbers of investors are expressing concern over the apparent desire of the government to extract the maximum financial benefit from their presence, usually because they represent a visible and therefore easy target for the tax authorities (for example). Vietnam is already more expensive a place to invest than the raw figures on monthly wages would suggest, and the authorities could run the risk of deterring further large-scale foreign commitments to the country if this is not controlled. Hanoi's leadership nevertheless remains sufficiently pragmatic and realistic to address issues of concern as they occur.

Vietnam still has a long path to travel before it can aspire to full NIE status alongside its neighbours. Beyond political and economic stability it must develop the sound infrastructure and reliable legal and administrative framework necessary if the diligent and hard-working population is to maximise the country's potential. A great deal of emphasis has been placed thus far on finding solutions to immediate problems; the country now needs to develop its vision for the future.

APPENDICES

Appendix 1: Cabinet and Politburo members, February 1994

Cabinet Position	Name	Politburo member
President	General Le Duc Anh	yes
Prime Minister	Vo Van Kiet	yes
Deputy Prime Minister	Phan Van Khai	yes
Deputy Prime Minister	Nguyen Khanh	
Deputy Prime Minister	Tran Duc Luong	
Minister of Agriculture & Food	Nguyen Cong Tan	
Minister of Commerce & Tourism	Le Van Triet	
Minister of Communication & Transport	Bui Danh Luu	
Minister of Construction	Ngo Xuan Loc	
Minister of Culture, Information & Sports	Tran Hoan	
Minister of Education & Training	Tran Hong Quan	
Minister of Energy	Thai Phung Ne	
Minister of Finance	Ho Te	
Minister of Foreign Affairs	Nguyen Manh Cam	yes
Minister of Heavy Industry	Tran Lum	
Minister of the Interior	Bui Thien Ngo	yes
Minister of Justice	Nguyen Dinh Loc	
Minister of Labour, War Invalids & Social Welfare	Tran Dinh Hoan	
Minister of Light Industry	Dan Vu Chu	
Minister of National Defence	Gen. Doan Khue	yes
Minister of Population & Family Planning	Mai Ky	
Minister of Science, Technology & Environment	Dang Huu	

Appendix 2: Selected Asian Countries: Social and Economic Indicators

		China	India	Indonesia	Japan	S.Korea	Malaysia	Taiwan	Thailand	Vietnam
Population (m)	1991	1150	866	181	124	43	18	20	57	68
	2000	1290	1017	206	127	47	22	23*	65	82
	2025	1569	1365	265	126	53	31	24†	82	n/a
Av. annual pop. growth (%)	1970-80	1.8	2.3	2.4	1.2	1.8	2.4	2.0	2.7	3.5
	1980-91	1.5	2.1	1.8	0.5	1.1	2.6	1.5	1.9	3.4
	1991-2000	1.3	1.8	1.4	0.3	0.8	2.2	1.0	1.4	2.0
Urban population (%)	1991	60	27	31	77	73	44	80	23	20
Age structure of population (%)										
Under 15 years	1991	27.0	35.8	35.8	18.1	25.1	38.6	26.2	32.4	39.6**
	2025	21.2	23.9	23.6	15.1	18.2	23.9	19.9*	21.8	
15-64 years	1991	66.4	60.2	60.2	69.6	71.0	58.5	67.1	65.9	55.9**
	2025	67.1	68.1	68.4	59.2	66.6	67.6	69.4*	68.5	
Life expectancy (years)										
Education levels										
Adult (>15) literacy rate	%, 1990	73	48	82	100	93	78	94	93	88
Literacy rate - male	%, 1990	84	62	88	100	99	87		95	92
- female	%, 1990	62	34	75	100	94	70		91	83
Literacy as % of 15-19	1990	93	66	95	100	100	94		99	93
Primary school students	million, 1991	122.42	126.00	29.45	8.95	4.50	2.45	2.29	7.20	11.90
Middle school students	million, 1991	51.05	17.80	9.90	5.04	4.40	1.37	1.87	2.30	0.55
Secondary sch. students	million, 1991	2.06	2.50	1.76	2.29	0.80	0.07	0.61	0.88	0.13
Students completing primary school,										
% of Grade 1 entrants	1988	80	n/a	79	100	99	96		59	57

Notes: * 2002; † 2010; ** 1990; # Percentage of school age children enrolled in school

Source: World Bank World Development Report 1993, UNDP Human Development Report 1993, EIU, FEER Yearbook 1993, Council for Economic Planning & Development (Taiwan), General Statistical Office (Vietnam)

Appendix 3: Production sharing contracts between PetroVietnam and foreign oil companies, 1987-94

Licence #	Date	Company	Location	Capital Invested (US\$m)
07	04/05/88	ONGC Videsh (India) & BP Exploration (UK)	Blocks 06, 12, 19	41.0
12	17/06/88	Shell-Petrofina (Netherlands & Belgium)	Blocks 12, 14, 16	71.0
45	17/02/89	British Petroleum (UK)	Blocks 117, 118, 119	56.0
52	15/04/89	CFP (France, UK)	Block 17	30.0
53	15/04/89	CFP (France, UK)	Block 21	30.0
54	28/02/90	SECAB (Sweden), Clyde (Scotland), IPL (Bermuda)	Block 115	25.9
55	28/02/90	SECAB (Sweden), Clyde (Scotland), IPL (Bermuda)	Block 10	19.5
83	23/05/90	Sceptre Resources (Canada)	Block 111	44.7
85	29/05/90	Petro Canada, Husky Oil & KUFTEC (Canada)	Blocks 3, 12, 20	45.0
105	07/08/90	Petrofina (Belgium)	Blocks 45, 49, 50, 53	47.0
149	11/01/91	BHP Petroleum (Australia)	Blocks 120, 121	52.2
239	10/09/91	Petronas (Malaysia)	Blocks 1, 2	65.0
357	28/04/92	Shell (Netherlands)	Block 10	79.0
363	20/05/92	PEDCO (Korea)	Block 11-2	74.0
369	05/06/92	Teikoku Oil (Japan)	Block 5-3	42.4
371	10/06/92	BP (UK) & Statoil (Norway)	Block 5-2	48.0
384	10/07/92	Norskhydro (Norway) & Marubeni (Japan)	Block 11-1	69.0
406	20/08/92	Lasmo Vietnam (UK) & CIECO (Japan)	Block 04-2	71.0
427	01/10/92	Idemitsu (Japan)	Block 102-91	26.0
431	07/10/92	JVPC (Japan)	Block 15-2	47.0
444	23/10/92	PT Astra Petronusa (Indonesia)	Block 04-3	26.5
445	29/10/92	British Gas Exploration & Production (UK)	Block 04-1	19.5
581	16/04/93	BHP (Australia), Petronas (Malaysia), Sumitomo (Japan) & Total (France)	Block 05-1A	57.575
640	23/07/93	ANZOIL (Singapore)	Hanoi Basin	22.0
664	20/08/93	OMV Exploration (Austria)	Block 104	15.0
	19/04/94	MJC (US)	Block 05-1B	

Source: PetroVietnam, Vietnam Investment Review

Appendix 4: Offshore Oil and Gas Production in Asia, 1993

	Oil (m tonnes)			Gas (bn m3)		
	1992	1993	% chge	1992	1993	% chge
Australia	20.4	19.8	-2.9	16.0	15.7	-1.9
Brunei	6.4	6.6	3.1	8.0	8.5	2.5
Cambodia	-	-	-	-	-	-
China	3.6	4.6	27.7	0.1	0.5	400.0
India	17.0	15.8	-7.0	6.2	6.5	4.8
Indonesia	20.4	20.4	-	8.4	8.8	4.8
Japan	0.3	0.3	-	0.5	0.5	-
Malaysia	31.4	30.7	-2.2	18.6	19.9	6.9
Myanmar	-	-	-	-	-	-
New Zealand	0.9	0.9	-	4.3	4.9	13.9
Papua New Guinea	-	-	-	-	-	-
Philippines	0.7	0.8	1.4	-	-	-
South Korea	-	-	-	-	-	-
Taiwan	0.1	0.1	-	0.2	0.2	-
Thailand	1.1	1.1	-	8.5	9.6	12.9
Vietnam	5.2	5.9	13.4	-	-	-
TOTAL	107.5	107.0	-0.4	70.8	74.8	5.6

Source: Mackay Consultants

Appendix 5: Estimated annual production of crude oil, to the year 2000

(for Bach Ho, Dai Hung and Rong fields)

('000 tons)	1994	1995	1996	1997	1998	1999	2000
Bach Ho	6800	7000	7000	7000	6800	6700	6200
Dai Hung	300	1100	2400	4900	8100	11200	11100
Rong	470	1000	2600	2400	3300	3800	3800
Total	7570	9100	11000	14300	18200	21700	21100

Source: PetroVietnam

Appendix 6: Production of major industrial goods

	1986	1987	1988	1989	1990	1991	1992	1993
Electric power (m.kwh)	5863.0	6213.4	6954.8	7948.4	8789.9	9306.8	9824.8	10928.0
Coal (m.tons)	6.4	6.8	6.9	3.8	4.6	4.7	5.0	5.4
Steel (thous.tons)	64.4	69.5	74.1	84.5	101.4	141.6	196.0	236.0
Fertiliser (thous.tons)	515.8	485.0	501.5	371.9	354.2	450.3	529.1	661.0
Insecticides (th.tons)	6.8	10.8	13.0	4.8	9.2	12.8	11.5	9.0
Cement (thous.tons)	1526.0	1665.0	1953.8	2087.5	2534.2	3127.1	3926.0	4413.0
Crude oil (m.tons)	0.0	0.3	0.7	1.5	2.7	4.0	5.5	6.3
Paper (thous. tons)	89.6	88.0	88.0	65.8	78.8	108.8	117.9	127.6
Sea fish (thous.tons)	563.4	591.6	629.1	622.7	615.8	614.6	677.9	737.0
Sugar (thous.tons)	345.9	323.0	366.0	375.5	323.5	371.6	365.2	341.0
Fish sauce (m.litres)	158.4	154.8	176.0	158.5	131.2	150.9	147.0	131.0
All fabrics (m.metres)	365.7	361.4	383.5	337.3	318.0	280.4	272.2	225.0

Source: Economy of Vietnam, Reviews and Statistics, Statistical Publishing House, Hanoi 1994

Appendix 7: Banks in Vietnam**a) Locally-invested Banks in Vietnam**

State-owned banks	Headquarters
State Bank of Vietnam	Hanoi
Bank for Foreign Trade of Vietnam (Vietcombank)	Hanoi
Industrial and Commercial Bank of Vietnam (Incombank)	Hanoi
Vietnam Bank of Agriculture (VBA)	Hanoi
Bank for Investment and Development of Vietnam (VID Bank)	Hanoi
Joint stock banks (non-exhaustive)	
Saigon Thuong tin Commercial Joint Stock Bank	Ho Chi Minh City
Que Do Commercial Joint Stock Bank	Ho Chi Minh City
Dai Nam Commercial Joint Stock Bank	Ho Chi Minh City
Dong A Commercial Joint Stock Bank	Ho Chi Minh City
Building Development Commercial Joint Stock Bank	Ho Chi Minh City
Gia Dinh Commercial Joint Stock Bank	Ho Chi Minh City
Nam A Commercial Joint Stock Bank	Ho Chi Minh City
Viet Hoa Commercial Joint Stock Bank	Ho Chi Minh City
Tan Viet Commercial Joint Stock Bank	Ho Chi Minh City
SFC Finance Joint Stock Bank	Ho Chi Minh City
Saigon Industrial and Commercial Bank (Saigonbank)	Ho Chi Minh City
Saigon Finance Company	Ho Chi Minh City
Seaprodex Joint Stock Finance Company	Ho Chi Minh City
Vietnam Eximbank	Ho Chi Minh City
Vietnam Maritime Commercial Joint Stock Bank	Haiphong
Housing Development Bank of Hanoi	Hanoi
Vietnam Commercial Joint Stock Bank for Private Enterprise	Hanoi
Thach Thang Rural Commercial Joint Stock bank	Thach Thang, Can Tho Province
Tay Do Commercial Joint Stock Bank	Tan Ap, Can Tho Province
Dong Thap Commercial Joint Stock Bank	Cao Lanh, Dong Thap Province
Mai Phuong Commercial Joint Stock Bank	Thu Dau Mot, Song Be Province
Vung Tau Commercial Joint Stock Bank	Vung Tau

Appendix 7 (cont.)

Joint venture banks (domestic/foreign partner)	
First Vina Bank (Vietcombank/Korea First Bank & Daewoo Secs.)	Ho Chi Minh City
Indovina Bank (Incombank/Bank Da Gang Nasional Indonesia)	Ho Chi Minh City
VID Public Bank (VID Bank/Public Bank Malaysia)	Ho Chi Minh City

b) Foreign Banks in Vietnam

Banks with branches (country of origin, year established in Vietnam)	Principal Office (other office, status)
ANZ Bank (Australia, 1992)	Hanoi (HCMC - rep office)
Bangkok Bank (Thailand, 1992)	Ho Chi Minh City
Banque Indosuez (France, 1990)	Ho Chi Minh City (Hanoi, rep office)
Banque Française du Commerce Extérieur (France, 1989)	Ho Chi Minh City (Hanoi, rep office)
Banque National de Paris (France, 1989)	Ho Chi Minh City (Hanoi, rep office)
Cathay Bank (Taiwan, 1992)	Hanoi
Credit Lyonnais (France, 1990)	Hanoi (HCMC - 2nd branch)
Standard Chartered Bank (UK, 1990)	Hanoi (HCMC - rep office)
Thai Military Bank (Thailand, 1992)	Ho Chi Minh City (Hanoi, rep office)
Banks with representative status (country of origin, year established in Vietnam)	Office (secondary office)
Albis Bank (Switzerland, 1993)	Hanoi
ABN Amro (Netherlands, 1992)	Hanoi (Ho Chi Minh City)
Bank of America (US, 1993)	Hanoi
Bank of Tokyo (Japan, 1993)	Ho Chi Minh City
Barclays Bank (UK, 1993)	Hanoi*
Berliner Bank (Germany, 1993)	Hanoi*
BHF Bank (Germany, 1993)	Ho Chi Minh City
Citibank (US, 1993)	Hanoi*
Deutsche Bank (Germany, 1992)	Hanoi (Ho Chi Minh City)
Hongkong & Shanghai Bank (UK, 1992)	Ho Chi Minh City (Hanoi)
ING Bank (Netherlands, 1992)	Ho Chi Minh City (Hanoi)
ICBC (Taiwan, 1993)	Ho Chi Minh City
Korea Eximbank (Korea, 1992)	Ho Chi Minh City
Krung Thai Bank (Thailand, 1993)	Ho Chi Minh City
National Bank of Kuwait (Kuwait, 1993)	Ho Chi Minh City*
Lippobank (Indonesia, 1993)	Ho Chi Minh City*
Shinhan Bank (Korea, 1993)	Ho Chi Minh City*
Société Générale (France, 1989)	Hanoi (Ho Chi Minh City)
United Overseas Bank (Singapore, 1993)	Ho Chi Minh City

* Licence issued but office not yet open

Source: various press reports

Appendix 8: Activities allowed by foreign banks, according to Decree 189/HDBT of June 1991

Foreign currency operations

receive deposits
make loans
make investments
buy and sell bonds denominated in foreign currencies
effect import-export payments
issue guarantees
convert foreign currencies
buy and sell foreign currencies for its own account or for the account of its clients
discount negotiable paper
act as payment agent for credit cards denominated in foreign currencies
act as agent to convert foreign currencies and negotiable paper into foreign currencies
engage in such other operations as authorised from time to time by the State Bank

Vietnamese dong operations

receive short, medium and long-term deposits
make short, medium and long-term loans
discount negotiable paper
trade in bonds
make payments upon clients' instructions
engage in such other operations as are approved

Note: At present foreign banks are not permitted to undertake business in local currency. Dong transactions are allowed only where they relate to immediate settlement of forex or foreign trade obligations.

Source: International Financial Law Review, October 1993

Appendix 9: Salary scales for Vietnamese working in foreign representative offices

Type of work	Minimum salary level (US\$/month)			
	1	2	3	4
Menial	80	100	120	150
Servant	100	120	150	180
Gardener	100	120	150	180
Guard	120	140	160	200
Cook	150	180	200	250
Driver	150	180	200	250
Office worker	180	200	220	260
Secretary	200	250	300	320
Interpreter	250	280	320	350
Assistant	300	350	400	450
Representative	500 or over			

Note: pay scales 1 to 4 depend on skill levels and experience

Source: Vietnam Investment Review

Bibliography, sources of information on Vietnam

Sources of information on Vietnam have expanded considerably in the last two to three years. Following is a non-exhaustive list of potentially useful publications, not all of which are available outside Vietnam.

Western consultants, brokers, advisers

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 KPMG Peat Marwick, *Investing in Vietnam*
 EIU Country Report, *Indochina: Vietnam, Laos, Cambodia* (quarterly)
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 Aduki Pty, *Vietnam: Economic Commentary & Analysis* (quarterly)
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 W.I. Carr
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Asian Development Outlook (annual), Asian Development Bank
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Socialist Republic of Vietnam Constitution 1992, Foreign Languages Publishing House
Industrial Data 1989-1993, Statistical Publishing House, Hanoi, 1994
Economy of Vietnam: Reviews and Statistics, Statistical Publishing House, Hanoi, 1994
Statistical Yearbook 1992, Statistical Publishing House, Hanoi, 1993
Vietnam Socio-Economy 1991-1992 and the first half of the 1993, Statistical Publishing House, Hanoi, 1993

Vietnam-specific newspapers and magazines

Saigon Times (weekly magazine)
 Vietnam Business Journal (bi-monthly magazine)
 Vietnam Investment Review - semi-official publication by SCCI (weekly newspaper)
 Vietnam News (daily newspaper)
 Vietnam Today (monthly magazine)

International newspapers and magazines

Asian Wall Street Journal
 Business Asia
 The Economist
 Far Eastern Economic Review

Books

Börje Ljunggren, *The Challenge of Reform in Indochina*, Harvard Institute for International Development, 1993

Michael Williams, *Vietnam at the Crossroads*, Pinter Publishers, London, 1992

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