The Last Dragon

A Vietnam may become prosperous tomorrow, but is it ready for ASEAN today?

Beautiful Ha Long Bay, set along the dramatic northern Vietnamese coastline, holds little allure for Alan Taylor, managing director of Australia's Bulk Materials (Coal Handling) Pty. Ltd. Taylor's company was building an $11.1 million plant near there to process anthracite coal until Hanoi became concerned the facility might be too close to a neighboring resort. "If properly handled, this is the richest deposit in the world, with excellent export potential," Taylor says. But even after the company obtained an environmental clearance, the all-powerful Quang Ninh Province People's Committee changed its mind about the plant's location. Ignoring pleas to the contrary, the apparatchiks forced a relocation to Cau Trang that cost $15 million and added $5 per ton to transport fees. The disruption delayed the plant's completion by two years, with the opening now scheduled for this month. For better and sometimes for worse, in the final weeks before joining ASEAN in July, Vietnam is still mastering the complex skills of dealing with foreign investors. To be a meaningful part of Asia's economic in-crowd, and attract bigger investors, Vietnam has to get its act together, and soon. It must realize that the prosperity it craves will not come from the small Asian investors who dominate its economy today. Vietnam needs the big players to create sustained growth, and the big players want to play by different, internationally recognized rules. "Greater transparency will push the carpetbaggers out," says a U.S. lawyer. One Asian trader operating in Vietnam agrees: "We like this opaque structure because we know exactly who to deal with and how. Once the transparency that the multinationals want comes in, we'll be off to another country." Despite the obstacles in its path, Vietnam certainly has the vibrant feel of an economy on the verge of a boom. Foreign investors pack its hotels, cranes dot the urban landscape and advertising billboards proliferate after decades of absence. Says Gary Voon, chief representative of Singapore's United Overseas Bank in Ho Chi Minh City: "Vietnam is like Malaysia. It has oil and gas, and energetic young people. It has a good chance to be the next tiger. "But will it? How long will Vietnam and its "market socialist" economy take to evolve into an investor's promised land? To be sure, Vietnam has 72 million hardworking people. But it is naive to extrapolate the entrepreneurial vigor of Ho Chi Minh City's 4 million citizens to the rest of the emerald Mekong Delta, to the jagged terrain of the central highlands, or to the vast plains in the north, where time, like Vietnam's bureaucracy, seems to stand still. At a seedy Ho Chi Minh City bungalow, Singapore's United Land &AMP Trading Pte. Ltd. has plastered the peeling walls with framed panoramic "artist's impressions" of office towers it hopes to erect in what is billed as a $700 million industrial township in Anphu An Kanh. But the group has been waiting nearly three years for State Committee for Cooperation and Investment (SCCI) approval, without which investing in Vietnam is like throwing money into the South China Sea. The oil giant Shell International Petroleum Co. seems to be doing just that, having spent $150 million drilling off Vietnam's southeast coast. While three other companies have found some oil in Vietnamese waters, Shell hasn't located a drop and is reassessing its exploration there. It has greater hopes for the retail oil and gasoline market, since Shell had a 70 percent share of the South Vietnam market before the 1975 reunification. How long might it take before Shell gas stations dot the map again? "Perhaps 10 years," estimates Shell Vietnam General Manager Howard Gatiss. New investors who want things done in 10 minutes are ill-advised to prod snail-paced bureaucrats by reminding them of how smoothly such things run in other countries. "Some Vietnamese have a frustrating reluctance to accept good advice," says consultant Adrie van Gelderen of Business Alliance for Vietnamese Education, a non-profit coalition of U.S. businesses helping devise curriculum for Vietnamese schools. Others are less charitable and call it "the Dien Bien Phu Syndrome," referring to the climactic 1954 siege and bloody victory over an isolated French garrison, which effectively ended that country's rule in Vietnam. One Vietnamese admits: "We strut around like cocks because of thousands of years of fighting wars. We think we don't have to listen to anybody." Vietnam is justifiably proud of its history, of having rolled back Chinese rulers, French colonialists and the U.S. military. But while major changes are most often welcomed by younger leaders, even Vietnam's old guard is looking ahead to advancement instead of back to its heroic, battle-scarred past. The hero of Dien Bien Phu, Gen. Vo Nguyen Giap, told a rally: "My generation washed away the shame of losing our country's independence, and now it's your turn to wash away the shame of a poor and backward country." Another obstacle to a smooth entry into the ASEAN way of life are the Stalinist troglodytes in government who feel duty-bound to exert complete control over the economy. Vietnam is changing, but it is evolving from a Soviet-style collective system into a Nehruvian mixed economy: the India of yesterday, where one needed permits and licenses to do everything. There are ways to bypass that: One can find powerful local partners, disregard the law or make under-the-table payments. But hotelier Steven Ng feels the best way is to offer the right product. Ng ignored advice from his Singapore friends to join the rush into Ho Chi Minh City and now runs the successful and expanding Heritage Hotel on the outskirts of Hanoi. The right ventures, right now, lie in areas where Vietnam has a shortage (hotels, office, commercial and residential properties and business services), resources (agribusiness and labor), or pressing needs (waste management and infrastructure, especially telecommunications). For example: Singapore's Keppel Corp., better known for ship repair, began by opening a business center and later launched a mobile-phone network. It is now building office towers and apartments. Keppel also runs Vietnam's biggest shipyard, Keppel Bason Shipyard &AMP Engineering Ltd. Says shipyard General Director Wong Fook Seng: "With its long coastline and oil and gas reserves, Vietnam can double its GDP (estimated at $16 billion for 1994) in no time with marine-based industries." Across the Saigon River on a 300-hectare plot, seven new companies have begun to make plastics, towels, travel bags and other goods at the $89 million Tan Thuan Export Processing Zone, Vietnam's largest private non-oil investment so far. By the end of 1995 more companies should be operating, making floppy disks, machinery and bicycles. Of the 200-odd lots available, 68 have been taken up, all by Asians. The Taiwanese developers are already planning an expressway and a nearby $242 million township called Saigon South. Ho Chi Minh City generates 3,000 tons of garbage daily, much of it non-combustible organic waste. "It is a crisis situation," says Anand Menon, director of Far East Western Pte. Ltd., an affiliate of India's Western Paques Ltd., which plans to use its proprietary technology to convert the garbage to power, while transforming the residue into fertilizer. The city will deliver half its garbage to the company's yet-to-be-built $45 million plant. Garbage treatment may not be glamorous, but it is profitable. In contrast, some glamorous investments have yet to show any return. Take the Do Son casino, set up by Tom Diep, an ethnic-Chinese Vietnamese. With backing from Macau gambling tycoon Stanley Ho, Diep convinced the government that casinos are like Robin Hood -- they fleece the rich to help the poor. But the plan has failed so far. These days the casino sits virtually empty, its vacant roulette and baccarat tables flanked by sullen staff awaiting customers. For many investors, finding staff who can speak English and interact confidently with foreigners is an expensive challenge. As employers chase a dwindling pool of English-speaking Vietnamese, salaries have soared from $80 a month to $500 a month. When a U.S. consulting company in Hanoi courted a graduate Vietnamese working in the state sector, the candidate sheepishly admitted he was too busy. As it turned out, the man was already moonlighting for a foreign financial institution. Like that employee, Vietnam is trying to catch up fast. But in their hurry, officials are trying to do too many things simultaneously -- even conducting their own market studies. Coca-Cola Corp. was not allowed to set up a Ho Chi Minh City plant because local officials determined that the market was saturated. An impartial consultant says: "If it is saturated, that should be Coke's problem, not the bureaucracy's." Vietnamese bureaucrats, not unlike their colleagues elsewhere, seem to be intoxicated by power. Many issue contradictory decrees, sometimes overturning approvals granted previously. In Ho Chi Minh City, for instance, a Western developer building a premium office address was nearly forced to lop five existing stories off the structure because it overshadows a nearby Party headquarters. Asian investors' experience with bureaucratic idiosyncrasies has helped them dominate the list of SCCI-approved projects, whereas Western investors, unfamiliar with such terrain, remain understandably wary. Of the 1,000-some projects cleared since Vietnam adopted the policy of doi moi (loosely translated as economic rejuvenation) in 1986, some two-thirds are from Taiwan, Hong Kong, Singapore, South Korea and Japan. The American trade embargo, lifted in February 1994, also made it difficult if not illegal for Western companies to do business in Vietnam. At present, Taiwan is Vietnam's biggest investor. Despite the lifting of the trade embargo, Americans are not yet there in full force. Vietnamese-made products do not yet enjoy most-favored-nation status, and U.S. companies cannot get export credits for Vietnam from the U.S. Export-Import Bank. Also, memories of their humiliating war still prevent many Americans from dealing objectively with Vietnam. Asian investors are free of such trauma as they crowd Ho Chi Minh City's karaoke bars and French restaurants. In the rooftop bar of the kitschy Rex Hotel, formal deals are clinched high above the energy, heat and noise of Nguyen Hue Street. Ho Chi Minh City fairly crackles with Vietnamese hustling a huge volume of blackmarket offerings -- observers say $2 billion circulates outside Vietnam's formal economy -- amid the incessant buzzing of the city's ubiquitous fume-belching motorbikes. It is easy to see in that raw energy the seeds of a middle-class revolution. But Christopher Bruton, a director of Dataconsult Ltd., a Bangkok-based consulting company, cautions: "Talk of an impending boom in Vietnam is premature. You have to be prepared to be in it for the long haul." Bruton has a point. Advertising agencies grumble at regulations that change like a Hanoi water puppeteer's sleight of hand. A puzzled diplomat asks: "What is it that makes people think Vietnam will be the next tiger? It has some potential, but it is a long, long way from getting there." Seen from the bar of the Saigon Floating Hotel, the neon signs of Samsung, Panasonic and Aiwa make it is easy to imagine a future Vietnam rubbing shoulders with Singapore, Hong Kong and Malaysia. But at the next table a salesman may well be explaining why that day could be a distant one. A Western telecommunications company recently held an impressive signing ceremony to announce a Vietnamese purchase of equipment, only to be asked by local Party members afterwards: "Now how will you arrange the financing?" The perplexed salesman said: "I just sold you the equipment; it is for you to arrange the financing." The cadres replied, "But we have no money." In the Vietnam of doi moi, laws are still being written and tested; and seasoned businessmen try to make the most of every whisper of a deal. There is an art to it. Says Indrajit Ghosh, managing director of JF Trading Co., part of the $1.5 billion Bangkok-based G. Premjee Group, one of the world's largest buyers of Vietnamese rice and coffee: "When you negotiate with the Vietnamese you don't sit across the table; you sit with them. You see things from their point of view. Then the rewards are enormous." JF Trading is developing property, engaging in agricultural research, processing food and planning to make pharmaceuticals in several country-wide ventures. There is no dearth of deals in Vietnam. Consultants say provinces have hundreds of projects for investors. But few are worth serious scrutiny. Mutual funds scrounge around for opportunities, eagerly courting promising businesses and zealously guarding their contacts. Nonetheless, judging from recent success stories, there are some promising opportunities. For example: Huy Hoang Co.: Cadre Le Van Kiem found his government paycheck lacking, and in 1989 set up a garment factory with 580 workers in Ho Chi Minh City. Today he employs 3,000 who earn about $60 a month making jackets that fetch $250 each in German boutiques. Huy Hoang's sales hit $43 million last year. Vinataxi Ltd.: Hong Kong's Allan Ho invested more than $2 million in 1992 to launch a radio taxi service in Ho Chi Minh City. Today his fleet has grown almost six-fold to 170, raking in about $3 million last year. Vinamilk: The state-run dairy is setting up an $18 million joint venture with Ashta International Inc., a Hanoi-based investment company that receives technical help from U.S. companies, to make dairy products for domestic consumption. Though Vinataxi and Vinamilk are successful, few foreign investors are targeting the local market. Says Robert Driscoll of the U.S.-ASEAN Business Council: "Vietnam is not yet a market." It is an economy in which less than 1 percent of the people earn more than $700 a year. But brand awareness is high. Cartons of Panasonic and JVC products are displayed along streets like Ho Chi Minh City's Huynh Thuc Khang, which overflow with televisions, VCRs and pirated karaoke videos and CDs. Says Linh Nguyen, a New Zealander of Vietnamese origin who returned to head the Vietnam operations of market research company Survey Research Group (SRG): "Vietnam is undergoing a paradigm shift in lifestyle."Still, there would seem to be an inconsistency in the presence of some 2.2 million Honda scooters retailing at $3,000 each in an economy where the official and clearly understated annual per capita income is about $250. Says Jan Standaert, general manager of SRG Vietnam: "Sure Vietnam is poor, but the poverty is not worse than elsewhere in Southeast Asia. Each household has two or three income earners. Electricity is cheap, education is free, medical care is subsidized and rent is low. So the disposable income of each household is high." Relatives who fled in 1975 for the U.S. as the North Vietnamese Army marched into Saigon regularly send gifts or remittances, swelling the economy by nearly $600 million a year. Says Yuji Miura, representative of the Japan External Trade Organization: "The informal economy is moving much faster than the formal sectors." All of that helps to give Ho Chi Minh City a per capita income of nearly $810. But beware of mirages. A cruel joke doing the rounds at bars has a foreign banker, seeing a farmer being swallowed by a crocodile, exclaiming: "Vietnam can't be poor. The people can afford LaCoste sleeping bags." According to the World Bank, 51 percent of the people live below the poverty line, most of them in the north. To correct that imbalance, Hanoi encourages new investments north of the 17th parallel -- the former border that split the country -- to reduce the dominance of Ho Chi Minh City. Investments in Vietnam's priority areas are being approved faster than those elsewhere. Explains Shantanu Srivastava, the Ho Chi Minh City-based regional director of Singapore's Namita Industrial &AMP Trading Concepts Pte. Ltd.: "Agribusiness, garment exports, light manufacturing and other industries that can engage the rural poor and relieve the pressure on land will succeed." Vietnam may be approving selected foreign investments rapidly, but there still remains a large gap between commitment and disbursement. Of the approved investments totaling $11 billion cleared by the SCCI since 1986, less than $4 billion has actually arrived, much of it in the oil and gas sector. Of the committed aid of nearly $1.8 billion, less than $400 million has been disbursed so far. But Bradley Babson, resident representative of the World Bank Resident Mission in Hanoi, says: "Vietnam was not used to handling a large number of large projects simultaneously, and the officials are learning fast." Considering the country's bridgeless rivers and erratic power supply; a creaking, meter-gauge rail network; an airline that flies aging Russian Tupolevs lacking spare parts; and egalitarian roads that give all creatures great and small the right of use; Vietnam needs massive investments -- some say $20 billion -- to improve its infrastructure. Today, Vietnam is poised at the takeoff stage. Once a hyper-inflation-prone country that depended on rice aid from India, it is now the world's third-largest rice exporter, with an inflation rate that's enviably controlled. It has so far succeeded in reforming its economy without the overheating of China or the shock therapy of Russia. Predictions are that Vietnam will hold inflation at 10 percent in 1995 while increasing GDP growth to 9 percent. Such macroeconomic stability is a necessary condition for growth but not a guarantee. The kind of growth that could transform Vietnam into a worthy member of ASEAN will require an even more promising environment -- one that in five years would allow market activity under globally recognized rules, and a level playing field for Asian, Western and local players alike.