

Show of Force

China silent over Vietnam's naval intervention

By Nayan Chanda in
Hong Kong

It's practically a rite of summer. Each year, when the weather turns clear, Chinese destroyers, frigates and submarines steam out of their bases to hold exercises in contested waters of the South China Sea. This periodic flexing of Chinese naval muscle does not seem to have impressed Vietnam, however. In an incident in April, which went unreported at the time, Hanoi risked armed confrontation by chasing Chinese vessels away from a disputed oil-drilling area in the south-west of the sea.

Le Minh Nghia, chairman of the border committee of the Vietnamese Council of Ministers, summed up the incident in an interview with a Japanese newspaper last month: "The Vietnamese navy gave an expulsion order to a [Chinese] research boat . . . which invaded our territorial waters, and the Chinese boats followed the order."

Western intelligence sources confirm that in April, a Chinese seismic research vessel chartered by Crestone Energy Corp. — an American oil company — was surrounded by five Vietnamese gunboats and escorted to international waters. The sources, who monitor the area, were intrigued by China's total silence on the incident. "The Vietnamese waited several months to break the news, but they seem to be daring the Chinese," commented a Washington analyst.

Seeking to explain China's muted response, Western analysts stressed that Beijing is anxious to avoid a military confrontation that would frighten Asean countries. A military analyst added that the presence of foreigners aboard the seismic research vessel may have made the Chinese more cautious; they are aware that the death or injury of a foreigner could frighten off international oil companies.

But nobody is counting on a continued show of restraint by China. According to the military analyst, the passing of China's ageing leader Deng Xiaoping from the scene may remove the diplomatic constraints fettering the Chinese navy. Deng



has set a pragmatic tone for China's foreign policy, keeping the focus firmly on economic growth and cooperation with Asian and Western countries.

Crestone announced on April 19 that it was beginning work in the Wan'an Bei 21 field, a concession it had leased from China in 1992. The timing was remarkable: it was just hours before a consortium led by Mobil Oil signed a deal with Vietnam to explore the Blue Dragon field, just west of Crestone's block. Hanoi, which insists the Crestone concession lies on its continental shelf, promptly protested against the company's decision. "Crestone will have to take all responsibility for consequences caused by its activities," Vietnam warned.

Now, it seems Vietnam did carry out its threat. Crestone President Randall Thompson was left fuming. "The vessel was supposed to be backed up [by the Chinese navy], but they didn't go," he told a newsagency.

In a clash, Vietnam's navy would be no match for China. But Hanoi may be trying, according to one Western diplomat, to improve its tactical advantage by extending an existing short landing strip on one of the approximately 20 Spratly islands that it controls. Unless its exercises are under way, China usually maintains two frigates in the South China Sea, along with two or three supply ships, Western military sources say. Shows of strength, for both the Chinese and Vietnamese, are usually limited to escorting foreign fishing vessels out of waters they claim.

Adm. Archie Clemins, commander of the United States' 7th Fleet, says that none of the countries that claim the Spratlys appears to have achieved a dominant position, though they have sent more warships into the area. Asked about the U.S. navy's policy on American oil companies drilling in the area, he replied with a chuckle: "Nobody asked my permission . . . so I have no position on that." But asked if the navy was required to protect American lives in the area, he said: "We are certainly prepared to do that if we have to." ■

COLONEL CHARLES SHELTON WAS the last official Vietnam War POW: the one missing American still designated as being alive by the Pentagon. Shot down during a reconnaissance mission over northern Laos on April 29, 1965, the 33-year-old pilot managed to parachute safely from his RF-101C jet and make radio contact with his home base after he hit the ground. But he was grabbed by Pathet Lao fighters and vanished. Unable to verify his fate, the Air Force listed Shelton as "known captured alive" for 29 years.

On Sept. 20, the Air Force, at the request of Shelton's children, finally put the question to rest and changed his status to "killed in action." Last week, as a bugler played taps, the Pentagon held a memorial for Shelton at Arlington National Cemetery. His name will be carved on the back of the headstone marking the grave of his widow who, deeply frustrated by so many dashed hopes, killed herself four years ago.

Even decades later, many families of Americans who might have been left behind in Southeast Asia when the war ended have never felt satisfied that the U.S. did everything it could to find them. As the last POW was symbolically buried, TIME was piecing together the tale of the one attempt the U.S. made after the war to rescue American prisoners. The bare outlines of that 1981 plan have appeared in occasional press stories over the years. The CIA still refuses to discuss the case. Pentagon officials today say the Defense Department never had reliable intelligence on whether Americans were still alive. But here is a full report of that abortive effort, as uncovered in government documents and more than 20 interviews with military, intelligence and Reagan Administration officials involved in the rescue planning:

"W/1" was one of the most sensitive sources the CIA ever developed in Laos: an elderly woman with close ties to the communist leadership in the capital of Vientiane. Only a handful of senior officials in Washington were privy to her information. According to CIA documents, on Nov. 14, 1980, W/1 gave her CIA handlers a startling report: about 30 U.S. pilots were working on a road gang near the central Laotian town of Nhommarath. Those same summaries reported that a spy-satellite photo confirmed that a prison camp had recently been built near the town.

Military officials on the Pentagon's Joint staff in Washington thought that some pilots shot down over Laos were being held captive and could be at the camp. Two months after receiving W/1's report, the Pentagon began preparing Operation



WILFRED LEE-AP

■ SOUTHEAST ASIA

THE AMERICAN

As the nation's last Vietnam POW is declared dead, c

Pocket Change, a top-secret plan to retrieve the airmen. It was the only postwar rescue the U.S. government ever considered in Southeast Asia. The leads that Americans might be at the camp "were the best we ever got," says retired Vice Admiral Jerry Tuttle, the man in charge of the Defense Intelligence Agency's hunt for POWs in 1980.

After the war ended in 1975, reports kept trickling into the CIA's Bangkok station that Americans had been seen among the prisoners working on Laotian road and irrigation projects. In 1979 a Laotian informant

for the DIA named Phimmachack claimed that 18 Americans had been moved to a cave north of Nhommarath. He identified one of them as Lieut. Colonel Paul W. Mercland, but no Mercland was listed as missing. There was, however, a Lieut. Colonel Paul W. Bannon who had been shot down over Laos in 1969. Pentagon intelligence analysts suspected Mercland was a garbled version of the word American, erroneously assumed to be the officer's last name. Phimmachack passed a polygraph test, and satellite photos analyzed in the Pentagon confirmed the cave's location.



LAID TO REST: Colonel Shelton's five children look on at their father's memorial service 25 years after he was shot down in Laos

Vietnam, that American POWs were still alive in Laos. He was also persuaded by a Dec. 30, 1980, satellite photo of the camp that showed a large "52" carved on the ground near the compound's perimeter. He thought it might mean B-52 for a bomber crew. Photo interpreters also pointed to what they believed was a "K," a standard distress signal pilots on the ground used, next to the 52. Other analysts who have seen the photo subsequently argue that the 52 was simply an accidental image, caused by shadow or vegetation. But a Feb. 23, 1981, DIA memo said satellites photographed the camp for a month, and the 52 was always visible in the same place.

Burned by the failure of the Desert One attempt to rescue U.S. hostages in Tehran the year before, senior military officers were in no mood to try again in Laos. But never before had photographic, electronic and human intelligence all pointed to one site where POWs might be alive. National Security Adviser Richard Allen was convinced and relayed the evidence to President Ronald Reagan. The camp was in a remote jungle, and any rescue attempt would be risky, Allen warned. But, he says, Reagan was eager to try.

The CIA was ordered to provide the necessary intelligence. Spy satellites watched the camp 24 hours a day. At one point, according to a CIA source, the agency considered kidnapping a Nhommarath guard to sweat him for information but rejected the idea as too dangerous.

In January 1981, the Joint Chiefs of Staff told the super-secret Joint Special Operations Command (JSOC), which oversees counterterrorist units like the Delta Force, to devise a rescue operation. Tuttle says the DIA built a tabletop-size model of the Laotian camp based on satellite photos and took it to Fort Bragg in North Carolina to help the JSOC with its planning. Members of the Delta Force say the commandos then planned to construct a full-scale mock-up in the Philippines to practice its raid; as cover, it would pretend to be a Hollywood company shooting a commando movie. The JSOC sent intelligence officers to scout a remote airstrip in Thailand, where cargo planes carrying MH-6 helicopters would land to stage the airborne assault. Officers then in the unit say the plan was to have about 40 Delta commandos swoop down on the camp, armed with machine guns, breaching charges and chain saws to cut through doors.

But before the JSOC's Brigadier General Dick Scholtes would risk the lives of his troops, he insisted that Delta conduct its own reconnaissance to confirm that

S LEFT BEHIND

ils emerge on an effort to save captured servicemen

That information, coupled with W/1's November report, convinced some Pentagon intelligence experts that Americans might be at the camp. On Dec. 30, according to a CIA cable from Bangkok, a Thai signal unit called Team-213 alerted the Bangkok station that it had intercepted a radio message from a top Laotian military leader ordering American POWs to be flown from the southern province of Attopu to central Laos. In the same cable, the CIA dismissed the report as fabricated, on the grounds that Team-213 was poorly trained and had not made a tape of the intercept.

But Pentagon officers who had worked with the Thai unit considered the report an important bit of evidence. DIA documents say the National Security Agency confirmed that a plane had left Attopu on the day reported. Another CIA cable from Bangkok said the agency's source in Vientiane, W/1, had delivered a similar report: "starving" prisoners were being moved out of the province because the Laotians were worried that "foreigners" might detect them.

These reports convinced the DIA's Tuttle, who had served as a naval aviator in



CONFUSED OPERATION: Was pilot Paul Bannon the lost American erroneously called Mercland by a Laotian informant?

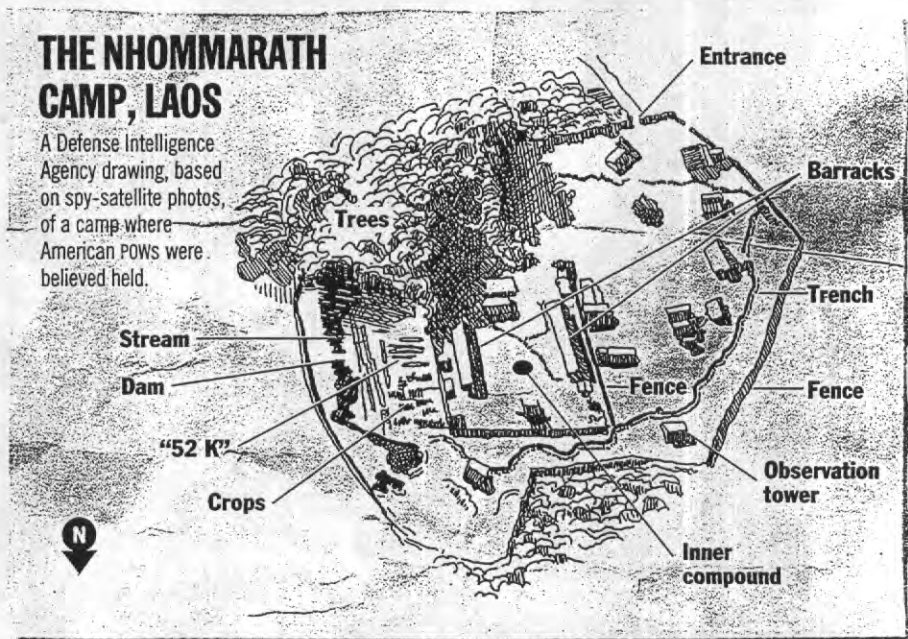
American POWs were really at Nhommarath. According to former CIA officials, the agency argued that it should carry out any ground reconnaissance since Americans would stand out in the Laotian jungle, and Washington needed to retain plausible deniability. CIA officials demanded that Laotians on their payroll carry out the mission. National Security Adviser Allen sided with the CIA after the officials assured him there would be at least one American accompanying the team to view the target.

ALLEN NOW SAYS HE REGRETS THAT decision because the CIA's reconnaissance team performed poorly. No Americans were included. The team was led by a former Royal Laotian Air Force pilot with no commando experience; his main qualifications for the job seemed to be that the CIA trusted him and he was familiar with the Nhommarath area. The team's radios were antiquated. CIA and Delta Force officials say agency staff members who went to a Chicago mountaineering shop to outfit the team with climbing equipment purchased white rope; JSOC officers sent them olive-green rope that would not be spotted in the jungle.

Operation Pocket Change was supposed to be one of the Pentagon's most secret missions. But the Joint Chiefs of Staff did not want to repeat the mistake made in the Desert One fiasco when senior Pentagon officials kept too many key officers in the dark. Tuttle says he was ordered by the Chiefs to expand the circle of officers informed about this operation. On March 18, members of the congressional POW task force were briefed on the Nhommarath sightings. The result was a flood of leaks to

THE NHOMMARATH CAMP, LAOS

A Defense Intelligence Agency drawing, based on spy-satellite photos, of a camp where American POWs were believed held.



the press. Colonel Ronald Duchin, then head of the Pentagon's news division, says he had to persuade half a dozen news organizations to hold their stories until the operation was over.

On March 29, the 13-man CIA reconnaissance team crossed the Mekong River into Laos and almost immediately ran into trouble. According to CIA officials monitoring the team at the time, Laotian army patrols pinned it down for more than a week. One member accidentally shot himself. Another fell ill and had to be evacuated. Though Nhommarath was just 40 miles

they did not. Duchin told *Post* editors that they could go ahead.

The story, which reported that a CIA team had visited a Laotian camp but turned up nothing, appeared on May 21. Duchin sensed that senior civilian officials in the Pentagon were almost relieved that the story was out, and the CIA reconnaissance had proved nothing. "Nobody was eager to launch this operation," he recalls. The Pentagon reacted to the *Post* story by closing the entire operation down.

But inside the military special-operations community, the debate continued over whether the brass had been scared off too soon. Congressional staff members looking into the aborted mission two years ago learned that the CIA team had spent only two hours actually observing the camp, not two days as the agency first reported. The team leaders quickly snapped photographs from positions at least 500 yds. from the camp's perimeter, and most turned out to be blurry; they saw none of the prisoners believed to be housed in an inner compound before they were frightened away by barking guard dogs. The entire operation, Allen now concludes "was a flat-out failure. We missed the best chance we ever had to find POWs still alive."

“It was a flat-out failure. We missed the best chance we ever had to find POWs still alive.”

—Richard Allen

from the Thai border the team took more than a month to reach the suspect camp and finally returned safely to Thailand on May 13. A week later, say CIA documents, the agency reported to the Pentagon that the team had spent two days at the camp observing about 160 prisoners, but none were Caucasians.

By then Duchin had learned the *Washington Post* was planning to print its story about the proposed rescue raid. He says he conferred with senior Pentagon officials on May 20 to see if they had any objection, and

Last February Laos finally let a Pentagon team into the country to inspect the Nhommarath prison. Americans in the party say nervous Laotian officials rushed them through their tour of the camp and gave them little time to read the prisoner logs. No photographs were allowed. Investigators were permitted to interview only two elderly villagers from Nhommarath who claimed they never saw POWs. The team had to report back that there was "no evidence" Americans had been held there. ■

Just Looking, Thanks

Vietnamese firms tout their wares at American show

By Michael Zielenziger in San Francisco

Jeweller Thai Huu Nghia was doing what businessmen do the world over as he opened his sample case at a San Francisco exhibition hall. But history was made as he handed out business cards and brochures to those who came to view his rubies and sapphires. Nghia, who owns a gemstone business in Ho Chi Minh City, was part of the first Vietnamese trade show ever held on American soil. The event, which brought around 50 firms from Vietnam, was another milestone on the road towards normal relations between two former adversaries.

Vietexpo '94 took place just seven months after President Bill Clinton ended America's embargo on trade with Hanoi. Eight hundred businessmen, Vietnamese emigres and former American servicemen turned up on the first day. They were greeted by companies peddling cotton shirts, frozen shrimp, folk art, furniture and even golf-course memberships.

They also found what investors now roaming Vietnam for business opportunities are discovering: high prices. These, combined with risky prospects, place Vietnam

at a severe disadvantage to other trade and investment-hungry countries.

"Their prices aren't competitive with Chinese-made goods," says John Mullady, chairman of New York-based American Vietnam Trading Corp., who went to the trade fair looking for contacts. "If you're trying to compete in a global market, you're going to have to go in at the beginning with a lower price, and then establish some credibility in the market."

Moreover, the tags don't include import duties. Vietnam doesn't yet benefit from the lowest tariffs available under the most-favoured-nation (MFN) trading status that the United States grants most countries. Until Washington extends MFN to Hanoi, many Vietnamese goods will be priced out of the U.S. market.

Vietnamese textile makers face another obstacle: They haven't been allocated an import quota by the U.S. "We are already

selling cotton shirts to Sears in Canada," says Christina Tra, who represents Vicotex, a state-owned garment maker based in Ho Chi Minh City. "But without an [import] quota for Vietnam, we can't sell into this country."

Normal trade relations, as well as full diplomatic recognition for Hanoi, await Washington's politically sensitive ruling that Vietnam has done all it can to help resolve the fate of American soldiers listed as missing in the Vietnam War.

In the meantime, Vietnamese businessmen are preparing the ground for friendlier trading days ahead — much as Americans did in Vietnam before their government allowed them to do business there. Nghia, who launched his privately owned

gem firm in 1989 and now has 30 employees, says he came to the U.S. trade show not to sell goods but to learn more about American technology. "I'm not yet ready to sell into this marketplace," he explains. "I'm here to meet the people with the technology and know-how in gems so that my company can benefit from American expertise."

So far, he has been dealing with a Bangkok-based supplier of jewel polishers. But whenever the firm sends him brochures, it cuts out the

names and addresses of the American manufacturers. "We have excellent raw stones, but I need this equipment to improve the quality of our work," says Nghia.

Le Van Phat, general director of Seaprodex, which exported more than US\$100 million in seafood products last year, mostly to Japan and Europe, would like to find U.S. partners, too. "We know it takes time," he says. "We're here just to get our name known and maybe meet people we can make partnerships with."

As welcome as the businessmen were, the trade show — co-sponsored by the City of San Francisco and the Vietnam Chamber of Commerce and Industry — didn't go without incident. Hundreds of anti-communist protesters waving the yellow-and-red flag of the former South Vietnam beat drums, screamed "Down with Communists" and tried to keep visitors from attending the show. ■



The price might come as a shock to U.S. traders.

Haunted by History

U.S.-Vietnam ties develop at snail's pace

By Nigel Holloway in Washington

The issue of American soldiers missing-in-action during the Vietnam War (MIAs) continues to dominate President Bill Clinton's policy towards Hanoi. In the eight months since the United States economic embargo on Vietnam was lifted, there have been technical talks between the two sides on a range of subjects, but "the MIA issue is the key area where we are developing a relationship," says a State Department official.

During a trip to Washington, Vietnamese Foreign Minister Nguyen Manh Cam reiterated his government's willingness to account for MIAs, but progress in forming closer ties is slow. It seems that Clinton does not want to move too fast for fear of upsetting veterans' associations.

The most notable group is the National League of Families of American Prisoners and Missing in Southeast Asia, led by Ann Griffiths. Cam made a point of meeting her in Washington on October 3 and outlined how a Vietnamese research team under the Ministry of the Interior was now working to investigate reports of U.S. servicemen missing in action. Griffiths described this as "very encouraging."

She regards the "unilateral" efforts of the Vietnamese to search for missing Americans as crucial to making quick progress on the matter. The joint efforts of U.S. and Vietnamese investigators to account for MIAs have been slow to yield results, even though the State Department official says that cooperation by the Vietnamese has been "quite phenomenal."

The official reckons that the two governments will have set up liaison offices in each other's capitals by the end of the year. At the same time, the U.S. and Vietnam continue to negotiate a settlement of their respective claims on frozen assets and to work towards an agreement on settling Vietnam's external debts. In addition, they recently held a dialogue on human rights, the second in six months.

The State Department was trying to set up a meeting between Cam, who was in the U.S. to attend the United Nations General Assembly, and Secretary of State Warren Christopher. But full normalisation, the official says, will depend on efforts to resolve the MIA issue. ■

Foreign Help Wanted

By Michael Vatikiotis in Bangkok

Vietnam's rush to catch up with the rest of the region's economies has made the development of an efficient banking sector a priority. Reflecting this, Vietnam's banking sector has grown exponentially. Not only have over a dozen foreign banks been granted licences to date, but domestic banks are now allowed to acquire the capital and skills they so badly need through foreign partnership.

The result has been a proliferation of banks. "Vietnam has gone from a monolithic banking system just a few years ago, to a very complex market of over 70 players in a very short space of time," observes Rick Martin, country manager of ANZ Bank in Hanoi.

A late 1993 State Bank of Vietnam edict has helped fuel this growth by permitting the establishment of joint-stock domestic banks with foreign partners. The ruling allows joint-stock banks to sell up to 30% of their capital to for-

foreign investors — in 10% blocks.

The move was seen not only as an opportunity for foreign investment, but a cathartic shot in the arm for the domestic banking sector. "The clear intention is to encourage foreigners to play an active role in helping banks to develop," says John Brinsden of Standard Chartered Bank in Ho Chi Minh City. "The government wants foreign investors to breathe new life into the banking system," agrees local economist Hoang Ngoc Nguyen.

To ensure this happens, and reportedly acting on suggestions made by the Asian Development Bank, the State Bank stipulated that foreign partners in joint-stock banks must play an active role in management. Foreign shareholders can't gain control of the board, but can hold managing-director status. The state bank also decreed that shares bought by foreign investors must be held for five years before selling.

TRAINING NEEDS

New business course highlights skills shortage

Two months ago, Tran Thanh Man was peddling axle grease, screwdrivers and oil filters in a tiny yard off his modest home in downtown Danang. Today, he's mastering the principles of corporate accounting in a classroom at the University of Danang.

By Ho Tien Dung

The energetic 31 year old is one of about 50 graduates, undergraduates and just plain working folk who have just embarked on a gruelling, 17 month business course designed to groom business talent for the province's future.

The need is huge. With better prospects in the south of the country, many of Quangnam-Danang's brightest and best are streaming to Saigon in search of a job with a well-run state firm or, better still, foreign joint venture.

The result? A dwindling pool of qualified young people and a potential headache for any foreign investor wondering how many qualified people the province might be able to provide.

But even for those who stay,

prospects are still dim in a province that has yet to attract big foreign money.

The course that Tran is following - sponsored by the BP and STATOIL Alliance in Vietnam - may go some way to alleviating an across-the-board shortfall in all disciplines.

"The idea is that while they're building the infrastructure [in Quangnam-Danang] we're building some skills which will make people ready to operate when things are ready," says Victor M San Gil, the 46 year old accountant who masterminded the programme and who teaches it himself in English, on campus.

- * In 1993, 800 students graduated from tertiary education
- * About 300 graduates from medical school
- * Accountants: 85

Source: Education Dept of Quangnam-Danang Province

Foreign banking sources in Vietnam attest to a considerable amount of foreign interest in joint-stock banks, but cite slow bureaucratic procedures for the lack of any announced tie-ups to date, though at least two prospective deals have reached the doors of the state bank for approval. "The process is slow and involves a careful vetting process," notes Brinsden.

One possible hitch could be an apparent contradiction with Vietnam's foreign investment law, which bars foreigners from buying shares in Vietnamese companies. When it was drafted, the foreign-investment law envisaged foreign participation in new companies set up as joint ventures, while the joint-stock banks are all existing Vietnamese entities. "It probably amounts to an oversight, not an exclusion," said a foreign banking source.

Once foreign interest in joint-stock banks translates into actual partnerships, the effect on the domestic banking system could be quickly felt, especially for those banks which have the branch networks foreign banks or joint-venture operations have yet to secure.

By far the biggest impact, however, could be on the capital base of the domestic banking system. Vietnam's banking system is grossly undercapitalised. Behind the government's opening of the domestic banking sector to foreign equity participation lies the state bank's goal of doubling the capital of existing banks by the end of 1995 — with foreigners most of it.

The problem is not only the widespread public mistrust in banks which has slowed the growth of deposits, but steep tax rates of over 50% which cut deeply into earnings. "People are still reluctant to borrow from banks," says economist Nguyen, highlighting exorbitant bank charges and inefficient, or worse, non-existent facilities for inter-branch banking.

Another way the government is trying to drive more money into the banking system is by forcing Vietnamese to use their own currency. The government has decreed that as of October 1, all domestic transactions must be conducted in the Vietnamese dong.

Currently, the U.S. dollar is widely used, and despite earlier attempts to persuade Vietnamese to park their for-

eign exchange in approved bank accounts, unofficially it is estimated that some US\$2 billion, mostly in U.S. dollars, is circulating outside the national banking system.

There are new funds the banks can tap into. With the increase in official loans and foreign direct capital investment since the U.S. trade embargo was lifted, foreign reserves are expected to rise to a maximum of US\$350 million by the end of 1994 from an estimated US\$200 million at the end of 1993.

But while the intention to wean Vietnamese off a dual-currency economy may be laudable, foreign bankers are concerned that the new regulation could affect foreign exchange held on deposit by foreign investors. Details of the prime minister's decree, issued in early August, failed to distinguish between foreign and domestic enterprises when requiring them to convert all foreign currency not being used for

The speed with which foreign banks have been able to establish themselves in Vietnam is amply illustrated by the case of the U.S.-owned Citibank. Before the U.S. trade embargo was lifted in February this year, Citibank's five-year-old Indochina operation was managed out of Bangkok. Soon after the embargo was lifted, Citibank opened two representative offices; one in Hanoi, the other in Ho Chi Minh City. According to Tony Cailao, who manages Citibank's Ho Chi Minh office, a full branch licence is expected "in a matter of weeks."

But with a total of 13 foreign banks now operating in Vietnam, and another five expected to be licensed soon, Cal is worried about the business prospects. "I think the place is a bit over-banked," he told the REVIEW.

Against this must be set the tardy entry of Japanese banks. While two-way trade between the two countries will exceed US\$1.3 billion in 1994, and Japanese aid will top US\$500,000, none of the seven Japanese banks represented in Vietnam have moved to secure branch licences because of the vexed question of Vietnam's outstanding debt to Japan, an issue still being negotiated.

While there is no doubt that the steady increase in foreign investment in Vietnam — totalling more than US\$1 billion in the first six months of 1994 — has created trade-financing opportunities, the underdeveloped legal environment concerns the foreign

banking community. The lack of a functioning commercial code and bankruptcy law, for example, severely hampers the profitable loans and security business. It is possible to grant mortgages and cash cheques even without the legal back-up, foreign bankers say, but the risks are higher.

"A lot of the borrowing is done on a name basis only," says Bangkok-based merchant banker Eugene Davis. Davis argues that this sets an unfortunate precedent for the future. When regulations are enacted, he predicts, many people will already be used to securing loans without collateral.

No one doubts that these problems are well known at the higher levels of Vietnam's leadership. The challenge for the government is whether it can deliver the legislation needed to address them sooner rather than later. ■



Hanoi bank: more capital wanted.

import or export purposes into dong. "A lot of people have parked large sums of foreign exchange on deposit in Vietnam for investment purposes. Will they be required to convert it into dong?" asked a foreign banker in Hanoi.

The best guess in the foreign banking community is that the state bank will follow up with a clarifying circular to differentiate between accounts held by foreigners and Vietnamese. Under Vietnam's foreign-investment law, foreigners are granted the right to hold foreign-exchange accounts in Vietnam.

Meanwhile, business for the foreign banks operating in Vietnam has been picking up, as they began to find their feet in the local market. "Foreign bankers, though still on the periphery, have made their presence felt in trade finance and some transactional banking," says ANZ's Martin.

GUIDELINES FOR LITIGATORS

by Fred Burke

Vietnam has always been a trading nation, even during its modern socialist period - and where there is trade, there are disputes, so trade disputes are nothing new to Vietnam. But with the introduction of economic reforms and the creation of a mixed-market economy, a strong judiciary has become a necessity and foreign investors, in particular, have been wary of its absence. Following the 1992 Constitution's commitment to the Rule of the Law, Vietnamese legislators have seen the need for establishing a judicial system that will perform the vital function of applying the law to the resolution of commercial disputes. In the coming years, foreign traders and investors will have to assess how well this system is working and whether it provides a fair safeguard for their legal rights and interests.

On July 1, 1994, two of the cornerstones of this new system went into effect: (1) the Law Amending and Adding a Number of Articles to the Law on Organization of the People's Court (adopted by the National Assembly on Dec. 28, 1993, the "Law on Economic Courts), and (2) the Ordinance on the Procedures for Handling Economic Cases (adopted by the Standing Committee of the National Assembly on March 16, 1994, the "Procedures for Economic Cases"). While it is too early to assess the efficacy of these important new laws, it is worthwhile examining the role envisaged for the courts in Vietnam's economic development.

Background

Prior to the adoption of the reform policy of "doi moi" (renovation) in 1986, the Vietnamese economy was predominantly State-owned and State-managed, and there was therefore little need for the type of commercial legal principles which underpin a market economy. The People's Court system was primarily concerned with the settlement of criminal, civil and matrimonial disputes. As a result, the People's Courts are still staffed by judges who are largely unfamiliar with commercial legal principles, and who share their authority with "people's assessors" who enjoy "equal footing" with judges.

The first attempt to institute the type of resolution mechanism required by the reforming economy was made in 1991 with the introduction of the stand-alone hierarchy of Economic Arbitration Tribunals, the State Economic Arbitration Committees, established at the national, provincial, and city levels under the authority of a Chairman appointed by the Prime Minister (then the Chairman of the Council of Ministers). However, in addition to the lack of adequately trained and experienced commercial arbitrators, the State Economic Committees lacked effective means of enforcing their arbitration awards.

Economic Courts

The Law on Economic Courts provides for the establishment of a new set of courts within the existing People's Court system and supplants the old system of State Arbitration Committees (though the

Vietnam International Arbitration Center will continue to function and develop). In essence, the Law on Economic Courts simply broadens the subject matter competence of the People's Courts to include, specifically, hearing "economic" cases.

At the highest level, this means that an economic court has been added to the Supreme People's Court, which already consists of a Supreme Council of Judges, a Committee of Judges, the Central Military Court, a criminal court, a civil court, and appeals courts. The appointment of judges to the new Economic Courts is the responsibility of an "appointment committee" operating under the auspices of the Ministry of Justice. In addition to the other powers enjoyed by the Economic Courts, they are empowered to make interim orders to secure property, including the freezing of assets of a defendant.

"Economic Disputes"

The Procedures for Economic Cases define "economic disputes" as disputes which arise out of business relations of economic entities as distinguished from criminal cases arising out of economic activities. The Procedures for Economic Cases specify that among the types of cases defined as "economic" disputes are disputes involving economic contracts between legal or natural persons; disputes between companies and their members or between members of a company, on its establishment, operation, and dissolution; disputes relating to securities and by other type of economic disputes stipulated by the law.

Time Limits

The Procedures for Economic Cases were drafted in a manner intended to avoid undue delays in the administration of economic cases. Persons who desire to bring actions in an economic court must make a petition to the appropriate court within six months from the date the dispute arises. Courts at one of three levels may hear economic lawsuits depending on their nature and venue of the case. Appeals must be made within ten days.

Jurisdictional Issues

The Economic Court has authority to adjudicate first-instance cases not within the subject matter jurisdiction of the district level People's Court, such as disputes between a company and its members, disputes among company members in connection with the establishment, operation, and dissolution of a company, and disputes in connection with the trading of securities. It has authority to consider appeals where the decision of the district level People's Court has not yet taken effect. Finally, it may review judgments and reopen economic cases where the decision of the district level People's Court has already taken effect.

The Supreme People's Court has the authority to consider appeals in connection with economic cases where the decision of the provincial level People's Court has not yet taken effect. It may review judgments and reopen cases where the decision made by the lower courts has taken effect. Finally, the Supreme People's Court handles appeals of decisions made by the provincial level People's Court on bankruptcy matters.

Venue

In general, the court of the residence of the respondent is responsible for adjudicating an economic case. Nonetheless, the petitioner may choose a court in a different venue under a variety of circumstances. For example, where the location of the office or residence of the respondent is unknown, adjudication may be sought in the court of the location of the property in dispute or place of last known residence of the respondent. Where the dispute arises from a breach of a contract, the place in which the contract was to be performed may be chosen. Where multiple respondents are involved, the court of the locality of any respondent may be used, etc.

In handling an economic case, the court is responsible for proposing an initial conciliatory arrangement to be agreed upon by the parties involved. Where the parties involved fail to conciliate, the court may then proceed with a preliminary hearing.

Rights of Litigants

The Procedures for Economic Cases place greater emphasis on the principle of party autonomy than would have been possible in a traditional socialist legal system, where the State's interests would have preceded any individuals and legal entities have the basic right to chose to initiate legal proceedings before a court of law to protect their legal rights and interests in connections with economic disputes. Additionally, each party in dispute has rights including the right to seek legal representation from an independent lawyer, people's attorney, or another person; the right to withdraw or revise a petition and to settle the dispute; the right to produce evidence and to examine the evidence produced by other parties; the right to request injunctive relief; the right to participate in court hearings or to delegate another person to participate on his behalf; the right to request replacement of judges and other personnel involved in the cases stipulated by law; the right of appeal; the right to copy excerpts from or duplicate a court's decision, and the right to request the execution thereof.

On the other hand, neither the Law on Economic Courts nor the Procedures for Economic Cases specifically prohibit the practice of ex parte contracts in connection with court proceedings. Nor do they abolish the system of peoples' assessors.

Foreigners Litigating

No regulations specific to foreign litigants have yet been issued. However, the Law on Economic Courts does make a few special stipulations where foreign litigants are involved. For example, cases involving non-residents start at the provincial level People's Court even if the value of the dispute is less than VND 50 million (approximately US\$5,000). It is also important for foreign litigants to note that, in general, the time limit for filing appeals is only ten days from the date the verdict is made by the lower court. For foreign litigants, it may be difficult to respond so quickly. Special procedural stipulations for cases involving foreign litigants are expected, but given the Ministry of Justice's heavy workload, it is not anticipated that such regulations will be available soon.

Arbitral Awards

Where foreign judgments or arbitral awards are concerned, it should be noted that Vietnam presently has no mechanism for recognizing or enforcing foreign judgments or arbitral awards. However, according to senior officials of the Ministry of Justice, the following steps will be taken to overcome this problem. First, a Draft Ordinance on Recognition and Enforcement in Vietnam of Foreign Arbitral Awards will be submitted to the Standing Committee of the National Assembly in one of its upcoming meetings. If adopted, it will provide the domestic enabling legislation for Vietnam to recognize and enforce foreign arbitral awards on the basis of the principle of reciprocity. Second, according to the same officials, Vietnam will accede to the relevant international agreements, including the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, and shall continue to expand its nascent network of bilateral judicial assistance agreements.

Conclusion

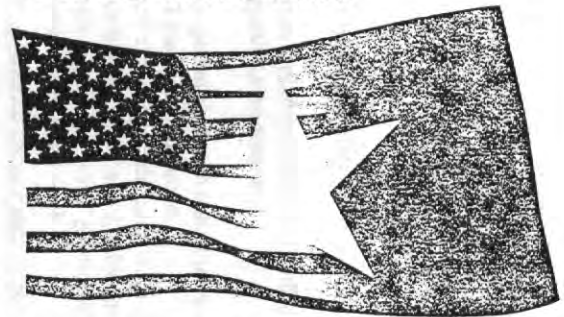
The development of viable dispute resolution mechanisms in Vietnam is one of the most important steps yet to be taken in the implementation of the country's reform program. The establishment of the Economic Courts represents a major step in this direction, but at the same time, it highlights one of the major challenges that Vietnam faces - the development of its "human infrastructure." To establish their credibility and integrity, the Economic Courts will require a substantial number of specially trained and professional judges and lawyers, protected from extra-judicial influences on the application of the law to commercial disputes and the recognition and enforcement of foreign judgements and arbitral awards. Training programs for economic court judges are already underway, and the first new classes of law students are nearing graduation, but considerable time and effort will be required before the system has established the kind of track record required to gain the confidence of the most substantial international investors.

Fred Burke, a partner in the HK office of Baker & McKenzie, was the firm's first chief representative in its Hanoi and HCMC offices.



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VIETNAM

LAND

Area: 127,200 square miles

Cultivated: 20.0% Forest: 31.0% Pasture: 15.0%

Resources: phosphates, coal, manganese, bauxite, chromate, offshore oil deposits, forests

POPULATION

1992 Estimate: 71,122,000

Annual Growth: 2.2%

Life Expectancy: 65 years

Literacy: 88%

Infant Mortality: 46.4

Fertility: 3.45

Ethnic Divisions: Vietnamese: 87%, Chinese: 3%, Thai, Muong, Meo, Khmer, Man, Cham: 10%

Workforce: na

Unemployment: 25% (1992)

Commerce and Services: 10.3% Manufacturing: 11%

Agriculture and Fishing: 72.6% Construction: 2.6%

Government and Public Authorities: 3.4%

Students: Primary and Secondary: na University: na

POLITICAL

Official Name: SOCIALIST REPUBLIC OF VIETNAM

Capital: Hanoi

Type of Government: Communist State; Chairman, Vietnam Communist Party

Chief of State: President Le Duc ANH

Head of Government: Prime Minister Vo Van KIET

Foreign Minister: Nguyen Manh CAM

1994 Freedom House Index (1 is highest, 7 is lowest)

Political Rights: 7

Civil Liberties: 7

1993 Voting with U.S. at U.N.: 6.5%

FY 1993 U.S. Foreign Assistance (Estimated Allocations)

Economic: none

Military: none

ECONOMY

Currency: Dong, 1 US\$ = 10,905 Dong

Major Industries: steel, cement, chemical fertilizer, timber, textiles, paper

Major Agricultural Products: rice, vegetables, seafood, rubber, coffee, tea

Major Imports: petroleum, fertilizer, railroad equipment, chemicals, medicines, military equipment, wheat, corn

Major Exports: oil, rice, fish, wood, coal, coffee, rubber, agricultural and handicraft products

Per Capita GNP: US\$ 220

ECONOMIC STATISTICS

(Billions of US\$, percentages where appropriate)

	1987	1988	1989	1990	1991	1992	1993
GDP	12.8	12.9	14.2	14.84	15.40	9.5	12.8
Growth	2.6%	5.7%	5.5%	4.5%	3.8%	2.5%	8.0%
CPI Rise	1000.0%	700.0%	50.0%	40.0%	100.0%	25%	5.2%
Exports	0.366	0.458	0.740	1.5	na	1.8	3.0
to U.S.	0.0	0.0	0.0	0.0	0.0	0.001	na
Imports	0.541	0.642	0.741	na	na	1.9	3.3
from U.S.	0.023	0.015	0.011	0.0	0.0	0.005	0.007
CurAccount	na	-0.8	-1.6	1.6	-0.44	0.3	0.2
U.S. FDI	na	na	na	na	na	na	na
FDI in U.S.	na	na	na	na	na	na	na

Vietnam is a minor U.S. trading partner.

MILITARY

1992 Military Budget: US\$ 1,750,000,000

Increase over 1991: -6.4%

Outlay as a Share of GDP: 11.0%

As a Share of Government Spending (1994): 9.7%

Total Regular Forces: 857,000

Army: 700,000

Reserves: 3-4,000,000

Navy: 42,000

Air Force: 115,000 (including air defense)

Combat Aircraft: 240

Naval Vessels: 7 Frigates, 8 Fast-Attack Craft (Missile), 19 Fast-Attack Craft (Torpedo), 28 Inshore Patrol Craft, 11 Minesweepers, 7 Amphibious Craft

Security Alliance with U.S.: none

Other Security Alliances: Peace, Friendship, and Cooperation Treaty with Laos (1977); Peace, Friendship, and Cooperation Treaty with Cambodia (1979); Cooperation and Friendship Treaty with USSR (1978)

U.S. Military Installations: none

U.S. Military Personnel: 6, to search for Americans missing from the Vietnam war

Foreign Military Personnel: na

Russian Military Installations: Da Nang Airbase, Cam Ranh Bay Naval and Airbase

Armed Opposition Groups: none

KEEPING THE FAITH

- VIETNAM'S TOP FOREIGN INVESTORS

By Lim Bee Lian & Tina Diaz

The lifting of the US embargo in February this year has brought to the shores of Vietnam an unprecedented and gigantic wave of US investments. This will certainly be viewed as affirmation of Vietnam's tremendous economic potential by the country's older and more established Asian and European investors. Together, they are Vietnam's biggest investors, and the fuel for Vietnam's economic engine.

In the first six months of 1994 the State Committee for Cooperation and Investment (SCCI) approved 139 projects with a total capital of \$1.5 billion, bringing the overall number of SCCI approved foreign investment projects in Vietnam to 974 worth \$9.5 billion.

The latest statistics released by SCCI reaffirms the special relationship between the United States and Vietnam. The US embargo was lifted only at the beginning of the year, but the flood of American investments that followed was enough to put the US as the sixth largest foreign investor for the first half of this year.

American investments were negligible at the start - about eight projects with a total worth of about \$5 million. However, for the first six months of 1994 alone, the SCCI approved seven US projects with capital of \$136.7 million. This is an amazing 2,700% increase in terms of investment dollar, and a doubling of the number of projects. The 1994 American projects average \$19.6 million each compared to the earlier projects that have an average worth of about \$600,000.

The Americans have signed deals with the Vietnamese in the oil and tourism industry, and also in the production of soft drinks and aluminium cans, amongst other projects.

Hong Kong companies invested \$317.8 million in 26 projects, making Hong Kong the top foreign investor in Vietnam for the first half of 1994, and the country with the most number of projects, a total of 195.

Taiwan however leads the pack with total investments of \$1.7 billion and 140 projects. Buckling the trend, the average worth of a Taiwanese project in 1994 of \$6.3 million is almost half of what it used to be.

Japan and South Korea, both aggressive global investors, are ranked amongst the top 10 foreign investors in Vietnam. South Korea is fifth while Japan is seventh. Japan seems to show an increasing interest in Vietnam as is evident in the 22% increase in the number of Japanese projects in the first half of 1994. For the same period, the number of South Korean projects grew by 24%, but its average capital of \$6.5 million is about half of a Japanese project's.

The far east group comprising Hong Kong, Taiwan, Japan and South Korea make up 48% of total foreign capital invested in Vietnam since 1987. The ASEAN countries of Indonesia, Malaysia, Singapore and Thailand contribute 15% to this total, and they look to continue to be important investors. In the first six months of 1994, their combined investments remain as 15% of the total of \$1.5 billion.

Australia which is also in the Asia Pacific region, is a key investor. It is the third largest investor with 43 projects, but with an enormous capital investment of \$756 million. However, for 1994, it seems to be flagging. It is ranked 14th, and the average worth of an Australian project is \$5 million.

Consolidated Foreign Investments By Country

(FOR PERIOD 1987 TO JULY 4, 1994)

POSITION	COUNTRY	NO. OF PROJECTS	TOTAL CAPITAL US DOLLARS
01	Taiwan	140	1 677 377 216
02	Hong Kong	195	1 670 835 602
03	Australia	43	756 097 288
04	France	60	747 112 870
05	South Korea	73	716 305 142
06	Singapore	65	547 897 963
07	Japan	62	517 960 028
08	Malaysia	28	509 504 045
09	England	16	387 430 253
10	Holland	13	379 505 900
11	Switzerland	16	247 288 000
12	Thailand	50	194 200 762
13	Russia	48	173 446 799
14	Indonesia	14	160 467 021
15	United States	15	141 890 361
16	Spain	15	123 296 522
17	British Virgin Isle	14	83 031 748
18	India	7	78 447 400
19	Philippines	11	60 339 359
20	Germany	4	52 133 900
21	Ukraine	6	45 121 622
22	Sweden	1	39 000 000
23	Belarussia	1	37 820 000
24	Italy	1	3 000 000
25	North Korea	3	23 725 060
26	Canada	1	20 735 000
27	New Zealand	2	19 362 500
28	Denmark	1	12 021 567
29	China	20	14 403 679
TOTAL :		974	9 509 915 131

Table 1

France, with historical links to Vietnam is not surprisingly, a keen and consistent investor in Vietnam; and is ranked fourth. A French project on average has a significant value of about \$12 million, and this continues into 1994.

England, Holland and Switzerland are the other western European countries with high investments in Vietnam. In total capital invested, they rank ninth, tenth and eleventh respectively. Of the three, Switzerland has been the most active in 1994 so far: five projects with a total value of \$236 million. For this period, Holland has two projects worth \$30 million, while England has been quiet in the investment front.

China and Russia continue to invest in Vietnam. For the first half of 1994, Russia invested \$9 million in two projects while China's four projects totalled \$3.9 million. However, Russia's 1994 investments translate to a mere 5.5% increase in value whereas China's recent

investments is a 36% increase. This is indicative of the state of the countries' domestic economy; with China being more successful with its economic reforms.

A wire service recently reported that China is to lend \$170 million to renovate an obsolete Vietnamese steel mill. This would make it the largest economic venture between the former enemies since before 1975. It is however, still pending Government approval.

As at July 1994, of the 974 projects, more than 151 projects had their licenses withdrawn or were dissolved; and at least eight have expired. More than 600 companies from 51 countries have invested in Vietnam since the promulgation of the Law on Foreign Investment in 1987. ■

Foreign investors show great confidence in Vietnam's economy. In just the first six months of 1994, it attracted investments worth \$1.5 billion; an amazing 19 per cent increase.

Foreign Investments By Country

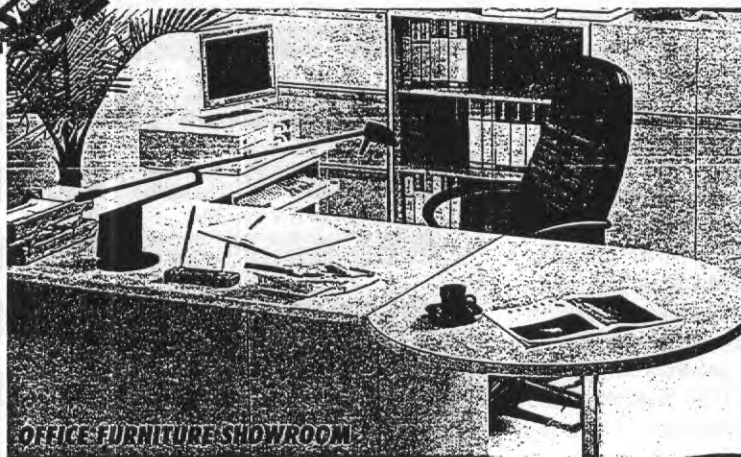
FIRST HALF OF 1994

POSITION	COUNTRY	NO OF PROJECTS	TOTAL CAPITAL US DOLLARS
01	Hong Kong	26	317 808 943
02	Switzerland	5	236 312 000
03	Singapore	12	142 556 086
04	Taiwan	22	138 852 772
05	Japan	11	137 699 462
06	United States	7	136 890 000
07	France	9	105 712 205
08	South Korea	14	90 797 374
09	Malaysia	3	46 942 000
10	Thailand	6	43 385 397
11	Holland	2	30 000 000
12	Denmark	1	24 308 000
13	British Virgin Isles	4	19 603 765
14	Australia	3	15 742 000
15	Guernsey	1	9 025 000
16	Russia	2	9 000 000
17	Cuba	1	6 600 000
18	Luxembourg	1	6 490 000
19	China	4	3 851 000
20	Belgium	1	2 568 000
TOTAL :		139	1 530 221 526

Table 2



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Tel: 886-4-8890125
886-4-8890125

Vietnam (Ho Chi Minh City): Union of Construction and Engineering Enterprises, 93 Nguyen Cong Tru St., Dist 1HCM
Tel: 296818

Vietnam (Hanoi): Office Furniture Showroom, 54D Tran Hung Dao St., Dist Haiba Trung, Hanoi
Tel: 259526

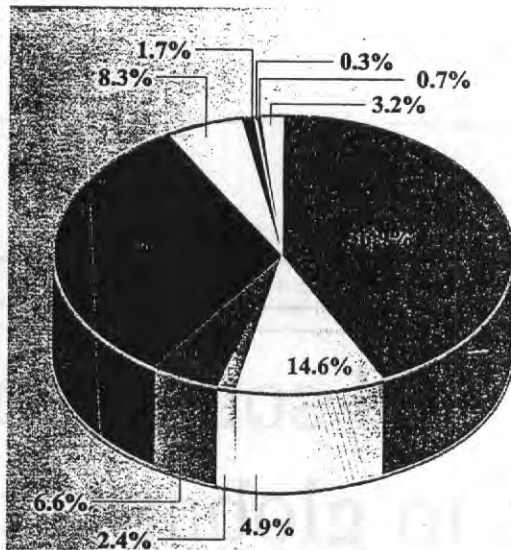
Vietnam (Nhatrang): Office Furniture & Lighting, 145 Thong Nhat Avenue, Nhatrang City
Tel: (01 58) 23595

Vietnam (Dalat): Mong Diep Furniture Shop, 10 Hai Thuong, Dalat
Tel: 21434

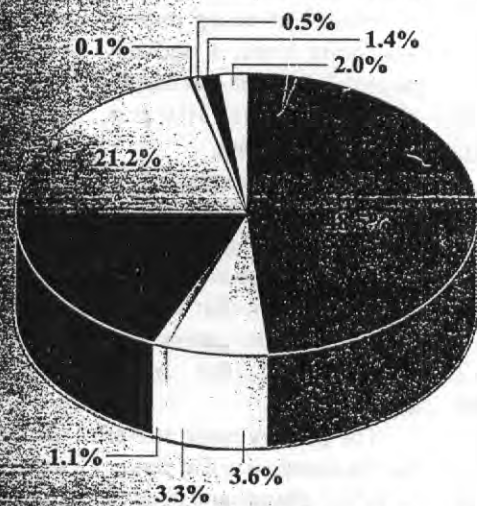
Most of the money invested in the country since 1987 has been spent on industries - \$3.5 billion, representing 36.9% of total invested capital. Another \$2 billion was injected into the hotel and tourism sector, and \$1.4 billion in oil and gas. These three areas accounted for 72% of \$9.5 billion.

In the first six months of this year, \$741 million was invested in 68 projects in the industries sector; \$281 million in 16 hotel and tourism projects; and \$55 million in a project in the oil and gas sector. However, the services sector has taken on greater significance as investments in this sector reached \$325 million for 34 projects.

Most of 1994 projects were set up in Ho Chi Minh City, 42. Hanoi received 38 projects, Haiphong secured five, Dong nai saw 14, Baria-Vung tau had seven and Ha tay had three. The remaining 24 areas to receive investment had one or two projects each. ■



CONSOLIDATED FOREIGN INVESTMENTS BY ECONOMIC SECTOR (1987-JULY '94)



FOREIGN INVESTMENTS BY ECONOMIC SECTOR (FIRST HALF OF 1994)



Consolidated Foreign Investments By Economic Sectors

(FOR PERIOD 1987 TO JULY 4, 1994)

SECTORS	NO. OF PROJECTS	TOTAL CAPITAL US DOLLARS
Industries	491	3 513 192 956
Oil & Gas	27	1 389 950 000
Agriculture & Forestry	82	464 421 016
Aquaculture	46	225 417 352
Transport, Communications and Post	22	632 584 966
Hotel & Tourism	114	1 936 314 609
Services	142	786 747 041
Finance & Banking	15	157 150 000
Construction (Housing)	7	31 358 656
Others	23	65 911 551
Export Processing Zone	5	306 866 984
TOTAL :	974	9 509 915 131

Source: SCCI

Foreign Investments By Economic Sector (FIRST HALF OF 1994)

SECTORS	NO. OF PROJECTS	TOTAL CAPITAL US DOLLARS
Industries	68	741 487 548
Oil & Gas	1	55 000 000
Agriculture & Forestry	4	50 825 000
Aquaculture	2	16 025 000
Hotel & Tourism	16	280 635 850
Services	34	324 918 295
Finance & Banking	2	1 600 000
Construction (Housing)	2	7 600 000
Others	9	22 179 833
Export Processing Zone	1	29 950 000
TOTAL :	139	1 530 221 526

Source: SCCI

SCCI SHORTENS RED TAPE

Local Government authorities have been warned against setting up investment project evaluation committees, and existing operations are now threatened with closure.

The State Committee for Cooperation and Investment (SCCI) chairman, Mr Dau Ngoc Xuan announced the move to encourage

foreign investors to inject more capital in Vietnam. In his statement, announced in the Vietnam Investment Review, Mr Xuan said, "Policies will be enacted to slice away lengthy administrative procedures and licensing requirements."

Under the new legislation, which is yet to be introduced, Mr Xuan

said local authorities which set up their own investment evaluation committees will be reprimanded, and any existing committees will be dissolved. "In the past investors were often forced to seek approval from both local and central authorities. No clear procedure establishing the proper jurisdiction over projects was

By Tina Diaz

ever established," Mr Xuan said. He said the government would try to shorten the project processing time from three months to one or two months, and smaller projects will be processed within one and a half months instead of two. ■

Business

Vietnam Investment Review, 19 - 25 September, 1994

Internet will soon connect Vietnam to global network

COMPUTER users in Vietnam will soon be linked to the rest of the world through Internet, according to a report by Tran Ba Thai and Rob Hurle published during the recent Fourth Informatics Week.

The network has been put together by the Institute of Information Technology (IOIT) with help from the Australian National University (ANU).

Experimental Internet connections with Varenet (Vietnam Academic, Research and Educational Network) have been carried out since 1992 through the ANU. Meanwhile, IOIT has been trying to set up a national network.

The ANU received funding earlier this year from the Australian Government for the Vietnam project. Part of the money has gone towards

upgrading the communications network.

Instead of using public telephone lines, a packet-switching network was used—Austpac in Australia and Vietpac in Vietnam.

IOIT was connected to Internet with the following domain names: gov.vn (for government), ac.vn (for research), edu.vn (for education), com.vn (for commerce) and org.vn (for other organisations).

The primary name server for the names is a file server in ANU: cheops.anu.edu.au. In the first stage, only E-mail service through Internet will be available, with one address: Hanoi combs.anu.edu.au. E-mail messages reaching Hanoi would be forwarded to different addresses through Kermit software.

The development of

Varenet is based on Internet protocol (IP) so that any users of the network can later be connected directly to the Internet system.

IOIT will, in other words, act as a gateway for Vietnam to Internet, which is trying to establish a network of national users who can be connected with other users around the world.

There are now two dedicated modem lines at the Institute of Information Technology. About 30 offices, schools and user groups are hooked up by Varenet.

In order to be a member of Varenet, a user has to have an IBM-PC or compatible PC, one data compression and error correction modem and a telephone line.

It is hoped that the number of users will double every six months.

BP Discovers Two Gas Fields Off Vietnam

Added to Finds Elsewhere,
New Deposits to Raise
Production by 2% a Year

By BHUSHAN BAHREE

Staff Reporter of THE WALL STREET JOURNAL
British Petroleum PLC yesterday disclosed it had discovered two large natural gas fields off Vietnam, had found another significant gas deposit off Norway, and was negotiating to develop and pipe Algerian gas to southern Europe.

In a wide-ranging review of the company's exploration activities with financial analysts in London, BP managing director John Browne also said BP and its partners in a western consortium had agreed to terms to develop two giant oil fields in Azerbaijan, subject to the approval of the terms by authorities in that country.

Mr. Browne said the discoveries in Vietnam, Norway and elsewhere would raise BP's oil and gas output by 2% a year into the next century, raising the company's world-wide production to the equivalent of 1.7 million barrels to 1.8 million barrels a day. Last year, BP's output of oil and gas was just under 1.5 million barrels a day.

Sharply Reduced Costs

BP also has sharply reduced its costs in finding and developing oil and gas fields in the past five years, Mr. Browne said. Finding and development costs now are between \$4 and \$5 a barrel, down from over \$10 a barrel, he said before leaving for New York, where he is scheduled to hold a similar meeting with analysts today. Some of the analysts who attended yesterday's meeting were impressed by Mr. Browne's presentation of BP as a company that again was finding oil and gas, ending a relatively unproductive period in the 1980s that followed such giant finds as Alaska's Prudhoe Bay and the Forties field in the North Sea. Nonetheless, they didn't expect a lasting impact on the price of the company's shares.

"To an extent, we already knew the story," said Elizabeth Butler, an analyst at Panmure Gordon, a part of Nations Bank of the U.S., in London. "Without spending a lot of money, BP is finding oil," Ms. Butler acknowledged. Still, she expected nothing more than "a short-term spike" in the price of BP, which closed yesterday at 420 pence (\$6.58), up 2 pence, on the London stock exchange. In New York Stock Exchange composite trading, the company's stock closed at \$78.875, up 50 cents.

2 Trillion Cubic Feet of Gas

Mr. Browne said the two large gas fields off Vietnam were estimated to contain recoverable reserves of some 2 trillion cubic feet of gas. That would be enough fuel, for instance, to generate enough electricity for the Ho Chi Minh City area for the next 25 years.

BP has a 30% stake in the find, some 350 kilometers, or 217 miles, off Vietnam. Norway's state-owned oil company Statoil has 15% in the venture, and India's state-owned Oil & Natural Gas Commission holds 55%. Petrovietnam has the option to acquire a 5% share from the BP and Statoil interests.

Development costs for the two gas fields are estimated at \$1 billion, and gas could start to flow by 1998. BP said it planned to pipe the gas to Ho Chi Minh City, where it could be used by the industrial sector to make fertilizers and to generate power.

BP officials declined to specify the estimated gas reserves that have been discovered in the deposit off Norway, but industry officials said the find was roughly equivalent to the 2 trillion cubic feet found off Vietnam. BP has a 15% stake in this find, with Statoil and Norsk Hydro AS holding the remainder.

Earlier this month, BP also had announced a much larger gas find of about 5 trillion cubic feet close to some giant oil fields it has discovered in Colombia.

Destination Vietnam

Travel Essentials

Travelling in Vietnam can be a richly rewarding experience for the prepared.

■ *Remember, Vietnam has only opened up as a destination in the past two or three years, so don't expect slick efficiency.*

■ Visas

Although improving, a visa application can be a complex procedure which does not encourage independent travellers making their own arrangements.

1. All intending visitors must register an application inside Vietnam with the Immigration Authorities. This can be done through a registered travel company inside Vietnam, or an external business travel agent. The process takes between five to seven days.

2. An authorisation fax is sent to the Vietnamese diplomatic mission in your country, for you to collect. An additional standard fee is levied by the Embassy for the stamping of visa, and varies in accordance with duration of visa requested.

If there is no Vietnamese diplomatic presence in your own country, you can register as Step 1, then arrive in-country with your authorisation. Visa can be issued on arrival for a fee of \$25 (if there is no embassy in your company). But you must register inside Vietnam first.

• We recommend that first time visitors engage a business travel consultant outside to handle travel arrangements and obtain pre arrival registration to avoid international communication difficulties.

Note : If you intent on arriving at one airport and leaving from another, be sure that your visa states both cities. For example, Ho Chin Minh City and Vung Tau. If the visa didn't specify Vung Tau, there may be a Local Tax!

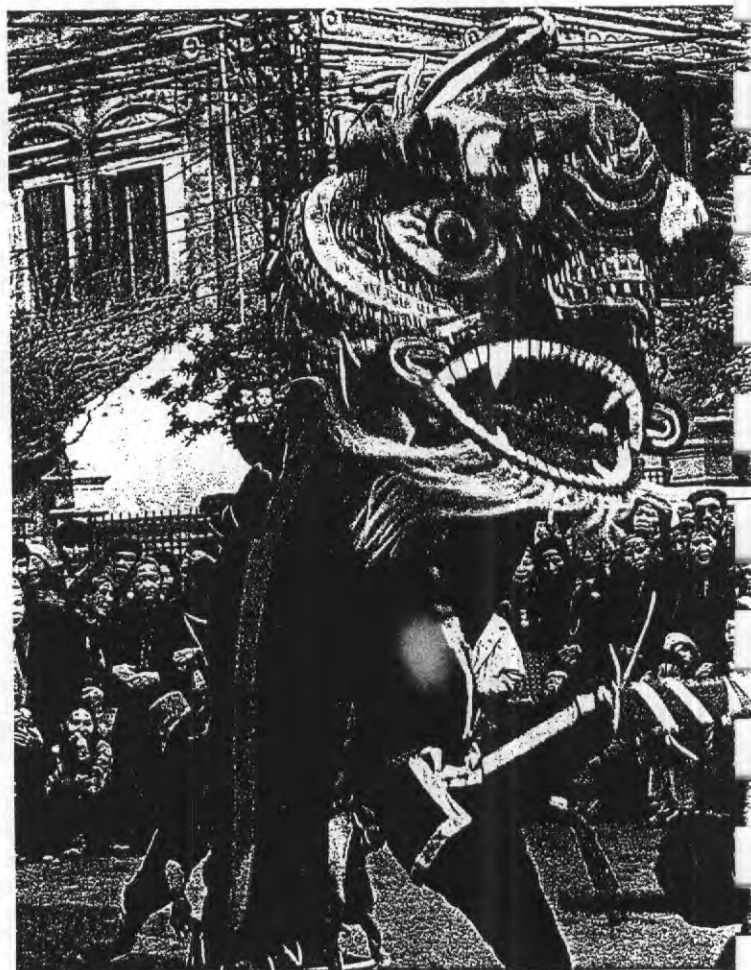
■ Visa Extensions

After the standard two week stay, should a visa extension be required, your travel company can obtain one easily. A visa extension fee of around \$15 is levied.

■ Customs

Customs procedures are strict. On entry, a form must be completed (in duplicate) which declares the standard prohibited goods, etc.

In addition, you must declare all - cameras, film, video and camcorders,



tape recorders, tapes, electronic goods, etc.

• You must also declare all foreign currency amounts above \$3,000 and credit cards.

• We recommend that you prepare this list in advance to avoid searching for serial numbers. On the plane.

Customs will then review the form, stamp it and return the unimposing looking copy to you, for you to present on leaving the country.

! Do not lose your Customs Entry Declaration copy-the replacement procedure is complex, (since they have to trace the top-copy,) and a fine is levied for the lost forms at the airport.

■ Registration & Travel Permits

Prior to 1st April 1993 all foreigners had to register their hotel residence with the local police, and

when they wished to stay overnight in another town, Internal Travel Permits had to be applied for.

These have since been abolished for foreigners-except for certain restricted areas.

Vietnamese however are still governed by these restrictions.

■ Guides

As with Registration and Travel Permits, official guides were also required when travelling outside the main centres.

Regulations remain unclear as to whether guides are still required - some tourist companies insist they are, while others don't seem to bother!

■ Airport Transfers

HCM City: A Vietnam Airlines taxi service is available from the airport to the City (15-20 mins).

■ VISA FEES

Visa Fees for foreigners have been established by the Ministries of Interior and Foreign Affairs:-

Visa	
Single entry/exit/transit	\$25.00
Multiple entry/exit (3 months)	\$50.00
Multiple entry/exit (6 months)	\$100.00

■ Modifications/Extensions

Any other modification in content	\$5.00
Single entry extension	\$10.00
Multiple entry extension	\$20.00
Single entry-6 month multiple entry	\$25.00
Temporary residence extension	\$3.00
Permit/extension for restricted areas	\$2.00



Average fare : \$10 - \$15

- Radio-taxi services have been introduced:

HCMC 1st km = 0.80¢ + 0.20¢ per additional 300 metres.

Tel: 848 222990

Hanoi: Vietnam Airlines mini buses are available at Noi Bai into town for \$4.00.

Hanoi 1st km = \$2.00 + 0.25¢ per additional 300 metres.

Taxis: Average fare, \$20 - \$25

The trip can take up to 1hr 45 mins.

- Hotels can arrange transport from their own motor pool, if required.

Demand is high: Pre-book with your hotel well in advance.

■ Money

Vietnam's unit of currency is the Dong - jokes and puns about this are regarded as being in bad taste... mainly because we've heard them all before!

The Exchange Rate fluctuates around the 10,900 VND - US\$1. Unlike the former Eastern Bloc, there is virtually no currency black market. Most shops will gladly accept your US\$ as payment, and return either US\$ or Dong as change - at the correct rate.

■ Credit Cards

The US Embargo which forbade US Bank-issued Visa and Amex cards from being used in Vietnam is now over. Visa, Amex, Mastercard and JCB credit cards can be used at major international hotels, but it is still quite rare outside Hanoi & HCM City.

■ Health

W.H.O. doctors recommend a Polio booster and vaccinations against Tetanus, Diphtheria, Meningitis and Gamma Globulin (Hepatitis A).

! Water : The general advice is "Don't drink the Water", and refuse drinks with ice, although hotel water is usually safe. Fruit juice with water or ice is also suspect. Tea, coffee or bottled beverages are generally acceptable.

! Food : As a rule the local food is healthy and nutritious, but use your common sense when dining at street stalls.

Malaria is endemic to many areas of Vietnam, including major cities.

■ Aids

Aids known locally by the French name, SIDA. In April 1994, alone, more than 110 cases of HIV positive have been identified in Ho Chi Minh City, and more than 1,431 throughout the country!

AIDS related deaths now number more than 30!

But according to Health department reports, this is likely to be under-

estimated due to the shortage of diagnosis facilities.

- Medical: There is currently only one hospital in HCMC able to treat foreigners. Several Polyclinics have been set up recently to treat foreigners. Emergency assistance is available.

AEA:

Tel: 848 298520

SOS:

HCMC - 848-242866

Hanoi - 844-294386

■ Telephones

Local phone installation can cost around \$1,000 excluding cable replacement if the wires are old.

There can be a three month (or longer) wait from application to installation. Cost in Hanoi varies from \$300- \$500 and installation takes approximately one month or less from date of application. IDD calls are expensive, and are charged when your number starts ringing (not when it is answered!)

Telephone services are at a premium.

■ Hand phones

Cellular hand phones cost around \$1,300, and provide an alternative to the long wait for telephone installation.

■ Faxes

Direct faxes to Asian countries range from \$3.20 to \$4.55 for the first minute, and \$2.70 to \$3.50 for subsequent minutes. Faxes through fax centres range from \$4.80 to \$8.25 for the first page, and for subsequent pages, \$4.05 to \$6.82.

- Do not expect urgent business to be conducted by fax instantly.

- Hotels usually charge for receiving faxes on your behalf.

■ Electricity

Vietnam uses both 110v and 240v power. It is not unusual to have two completely different circuits wired into many houses.

Plugs tend to follow either the French 1950's model, the US two pin or a strange looking contraption of probable Russian origin,

■ What to bring:

- Extra passport size photographs
- Corporate brochures
- Batteries
- Transparency film (print film can be obtained and processed easily in major centres)
- Women's fashion magazines are greatly appreciated gifts for secretaries and hotel staff; and in the smaller hotels usually guarantees that important early morning wake-up-call!

! Take care with Video Cameras as Customs pay particular attention to them these days. There have been instances of anti-state videos being produced on amateur looking equipment. ■

Note: To curb prostitution, Vietnamese (of either sex) are not permitted in foreigner's hotel rooms whilst the guest is present -this is policed by hotel staff.

This can lead to embarrassing situations for local people who have to decline when invited to the room of a foreigner for even the most innocent of reasons - Our advice, ask your guests to wait in the lobby or bar while you collect what you have to from your room.

■ Forbidden Imports

- Drugs (Heroin, marijuana etc)
- Depraved and reactionary cultural products
- Weapons, ammunition, military uniforms
- Cigarettes

■ Forbidden Exports

- Drugs (Heroin, marijuana etc)
- Weapons, ammunition, military uniforms
- Antiques (or cultural products under State ownership)
- Timber
- Rare animals / animal products

☎ Dialing Codes

To/From	HCM City	Hanoi	Vung Tau	Danang
HCM (6 digit)	-	01848	018	018
Hanoi	014	-	014	014
Vung Tau (4 digits)	01645	01645	-	01645
Danang (4 digits)	0151	0151	0151	-

To Impact On Vietnam's Telecommunications

Motorola, the \$20 billion company, is in Vietnam selling telecommunications infrastructure and equipment. "Basically it's Motorola's policy to put people in every country on earth where we think there is an opportunity for business," said Mr Frank Marciano, country manager Vietnam for Motorola.

That however is not the only reason why the company, which specialises in wireless telephones, set up a branch office in Ho Chi Minh City and a representative office in Hanoi in November 1993. "We see good possibilities in Vietnam," Mr Marciano said. "We are look-

ing at any opportunity for telecoms infrastructure," he said describing the company's best hope for business in Vietnam.

Mr Marciano believes that sales of Motorola's GSM handphones and pagers will pick up as Vietnam prospers - "It will take off with the economy".

Although Motorola is planning to make an impact in Vietnam, it is the Europeans who had a head-start. The use of handphones and pagers in Vietnam is made possible because of an Ericsson system in the south and an Alcatel network in the north. ■



THE 1994 US-VIETNAM BUSINESS GUIDE

This book is meant to provide a fast start to the American business first-timer to Vietnam. As such, it is not bogged down with too much information, but filled with listings of information resources that the reader can immediately tap.

It is especially useful for the businessman who is interested in the potential that Vietnam has to offer, but who is not familiar with the country. There is the short but adequate requisite introduction to the country, inclusive of travel trips. The newcomer will also appreciate the basic and essential information that any foreign investor needs to know to do business in Vietnam.

Although brief, the book's coverage of the different aspects of doing business is sufficient for the first-timer to Vietnam. There is mention of the legal and tax environment, the various forms of foreign investments allowed, investment application procedures and

even contract dispute resolutions. The only section that does not live up to its promise is the analysis of trade and investment opportunities. It lists the industries that have potential, but analysis of each sector is skimpy.

The guide also addresses the needs of the Vietnam business veteran, and herein lies its strength and its objective. It offers a comprehensive range of listings. Each listing contains the name of the organisation, address, telephone and facsimile numbers, contact person and a short description of the services. The listings are arranged in the following order:

IN THE US;

**TRADE ASSOCIATIONS,
BUSINESS DEVELOPMENT FIRMS,
LAW FIRMS,
US GOVERNMENT, STATE
AND LOCAL RESOURCES,
MAGAZINES, NEWSLETTERS
AND BOOKS AND**

CONFERENCES, TOURS AND EXHIBITIONS.

IN VIETNAM;

**VIETNAM GOVERNMENT RESOURCES,
BUSINESS DEVELOPMENT RESOURCES,
SHIPPING,
BANKS,
AIRLINES AND
HOTELS**

There are also listings of US firms active in Vietnam, and it ends with the US-Vietnam Business Directory. The listings in the guide can be the starting point from which more help, contacts and detailed information can be obtained.

More of a listing and business directory, the US-Vietnam Business Guide provides an excellent source of information and contact which will help American businesses get established in Vietnam, an indication of American companies already there and business opportunities. It is also a handy refer-

ence of addresses, phone and fax numbers of firms, short description of the services, and agencies and organisations active in both the US and Vietnam.

Due to the rapid economic growth and changes that Vietnam is undergoing, The US-Vietnam Business Guide will be released annually.

ABOUT THE EDITORS:

William S. Loiry, Editor, is president of Global Business Inc., an international business development firm specialising in emerging markets.

Virginia B. Foote, Co-Editor, is president of the United States - Vietnam Trade Council

Glenn P. Hendrix, Esq., Editor of the Guide's Legal Section, is a partner with Arnall Golden & Gregory, a law firm in Atlanta, Georgia

Economic report

August industrial output increased by 12.2% compared with the same period last year. Inflation was at 0.9%. Exports reached \$316 million, up 11% and imports were worth \$326.3 million, up 14.9%. Exports of crude oil rose by nine per cent, rice by 5.1%, rubber sales increased almost five-fold and textile & garment sales doubled. Prices of several domestic goods were higher because of recent storms and seasonality. Basic foodstuff prices rose by 1.6% and school supplies and garments by three to 10%, mostly due to school starting.

Source: General Department of Statistics

Indicators

	Aug '94	July '94	Aug '93
Inflation% (1)			
Overall	0.9	0.3	0.5
Hanoi	1.9	0.5	0.8
Ho Chi Minh City	0.3	0.6	0.8

	Aug '94	July '94	Aug '93
Industrial Output%			
(compared with same period last year)			
State	11.7	15.0	13.4
Non-state	13.4	11.2	106.6
Exports (\$ million)	316	285	224
Imports (\$ million)	326.3	284	217.8

(1) Inflation calculated on retail price index. Figure compares with the previous month.

(2) Figures for June not available.

Source: General Department of Statistics

Commodities index

Export Prices from Vietnam (FOB Vietnamese ports \$/tonne)

Commodity	Aug '94	Jul '94	Aug '93
White rice 5% broken	220	215	205
Robusta black coffee (grade 2)	2,750	1,800	780
Green tea (grade OP)	1,290	1,285	1,265
Shelled peanut (grade 1)	610	590	580
Raw cashew	710	705	740
Rubber (grade CSV5L)	1,100	930	820
Crude oil (\$/barrel)	13.75	13.75	14.90
Coal (grade number 5)	54	54	50

Source: Institute for Research on Market & Price

Buyer's basket* : retail prices (dong per kg)

Commodity	Aug '94	Jul '94	Aug '93
White rice	2,300	2,200	1,800
Wheat flour	2,950	2,900	2,550
Pork loin	17,000	16,500	16,500
Beef	23,500	23,000	22,000
Live chicken	16,800	16,500	14,800
White sugar	6,500	6,700	5,200
'333' beer (per can)	6,000	6,000	5,400
Ground coffee	45,000	32,000	18,000
Dried tea	29,500	30,000	24,500

* NOTE: not the basket of goods used to calculate inflation

Source: Institute for Research on Market & Price

Gold & the Dollar

The rate for dong against the dollar remained stable throughout August. The gold index dropped 0.1%.

Gold Index%	Aug '94	July '94	Aug '93
Overall	-0.1	0.6	1.9
Hanoi	-0.3	0.8	-0.2
HCMC	-0.7	0.7	2.0

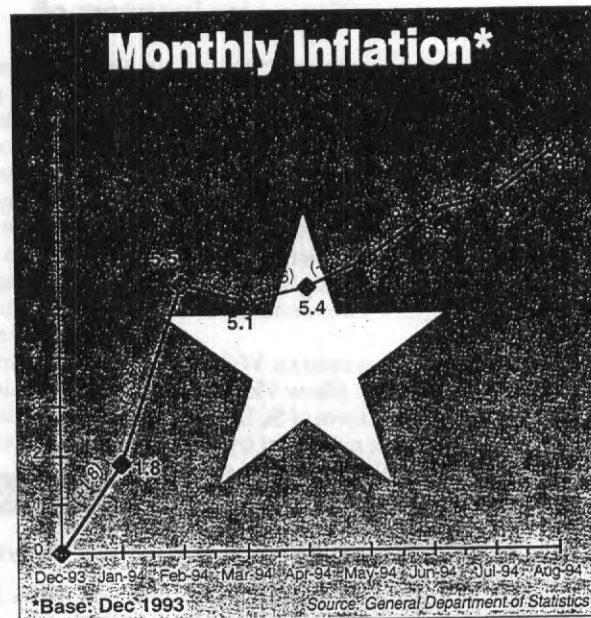
US Dollar vs Dong%	Aug '94	July '94	Aug '93
Overall	0.0	-0.1	0.2
Hanoi	0.0	-0.1	-0.2
HCMC	0.0	0.0	0.2

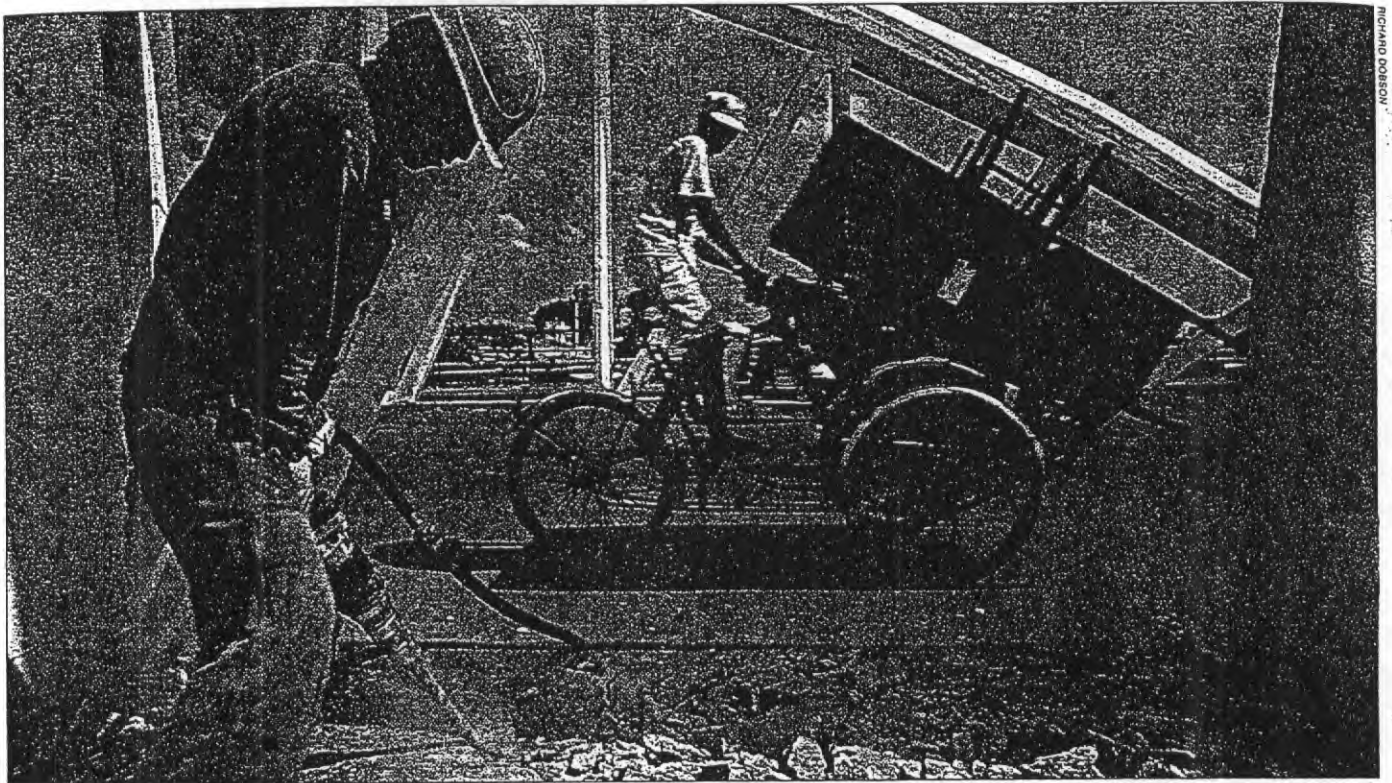
Source: General Department of Statistics

Exchange rates (Dong versus all currencies)

	Cash & Cheques	Buying Transfer	Selling
British Pound	16,240	17,148	17,462
US Dollar	10,977	10,995	11,005
Hong Kong Dollar	1,337	1,409	1,438
French Franc	1,949	2,054	2,096
Swiss Franc	8,034	8,483	8,639
German Mark	6,801	7,030	7,159
Japanese Yen	105	110.67	112.70
Thai Baht	414	436	445
Australian Dollar	7,643	8,054	8,218
Canadian Dollar	7,660	8,073	8,237
Singapore Dollar	6,952	7,341	7,475
Swedish Krona		1,451	1,496
Norwegian Krone		1,595	1,644
Danish Krone		1,778	1,833
Belgian Franc		339	350
Dutch Guilder		6,236	6,429
Italian Lira		6.93	7.14
Finnish Markka		2,216	2,284
Indonesian Rupiah		344	358
Austrian Schilling		990	1,020

Source: Vietcombank





The building blocks of Vietnam's economic future are being put into place, but many investors find the going too slow.

ECONOMIES

Romance Meets Reality

In the race for the investment dollar, Vietnam is no longer fettered by the U.S. embargo. But high costs and a fearsome bureaucracy are putting some investors off.

By Michael Vatikiotis in Bangkok



Shortly after the United States lifted its economic embargo on Vietnam, American businessman Bill Willert stood on Danang's fabled "China Beach" and dreamed of setting up a factory to make his line of household disinfectants.

Back then, the only resistance Willert expected to meet was from fellow Vietnam War veterans in his home town of St. Louis, Missouri. Today, after six months of trying to secure land for the plant, he's less sanguine. "It isn't going as fast as I thought it would." Now, he's considering a site at Subic Bay in the Philippines. "There, they have laws you can go with," Willert says. "In Vietnam, it's still a hazy situation."

The lifting of the 30-year-old embargo

in February erased Vietnam's last major disadvantage, in international economic terms. But it also stripped it of its special status as a country whose potential was artificially chained by its past. Now that Vietnam is playing on a level field, business people are taking a hard look at how it measures up as an investment destination against regional competitors such as Malaysia, Indonesia, Thailand, the Philippines, Burma and China.

The comparison is not always flattering. In its favour, Vietnam has an able, low-cost workforce, a wealth of natural resources, a potentially important domestic

market, and what Hanoi-based diplomats generally consider a stable political climate. But weighing against these attractions is the high cost of doing business in Vietnam, the shortcomings of its industrial, legal, and financial infrastructure, and the fearsome bureaucracy of the investment-approval process.

Despite the obstacles, the momentum of foreign investment has clearly continued to build since the lifting of the embargo. The government is moving ahead with its economic reforms, and several major foreign firms are laying the groundwork for long-term ventures. Some investors who got in early are starting to see their commitment pay off.

As these and other building blocks of Vietnam's economic future fall into place, there seems little doubt that it will succeed in lifting itself out of the ranks of the world's poorest nations. How long that takes, however, may depend largely on how competitive it can make itself in the race for the investment dollar. And in that race, Vietnam hasn't been as fast out of the starting blocks as some boosters had

On Other Pages

77 Taiwanese Takeover

81 Now Boarding

The Leaders

Foreign investment in Vietnam

Country	No. of projects	Total approved investment (US\$)
Hong Kong	204	1.75 billion
Taiwan	152	1.71 billion
South Korea	85	782 million
Australia	45	760 million
France	63	739 million
Singapore	69	578 million
Malaysia	27	559 million
Japan	59	517 million
Britain	17	402 million
Netherlands	13	380 million
Switzerland	16	247 million
Thailand	52	220 million
Russia	49	174 million
Indonesia	11	161 million
United States	16	159 million

As of August 11, 1994

Source: State Committee for Cooperation and Investment

hoped. "Investing is a matter of facts and figures, not sentiment," notes Piet Steel, Belgium's former ambassador to Hanoi. "The Vietnamese sometimes seem to forget that."

Japanese Prime Minister Tomiichi Murayama delivered the same message during his visit to Vietnam in August. Hanoi officials chided Murayama over the fact that although Japan is Vietnam's biggest trading partner and aid donor, it ranks only eighth in terms of approved investment. Murayama replied that it was up to Vietnam to make its investment environment more attractive to private firms.

"I rate the long-term potential of this country as extremely high," says Andreas Schlaepfer, managing director of Thai-Nestle Group. "But there are a lot of difficult hurdles to overcome to attain cruising speed." Schlaepfer would know: Nestle has been negotiating with the government for more than two years over the terms of buying back a pre-1975 plant in former South Vietnam.

By far the most commonly heard gripe is how long it takes to get started in Vietnam. It wasn't supposed to be that way. The State Committee for Cooperation and Investment (SCCI), the authority that licenses all foreign investment, was conceived as a one-stop investment centre. But as one local economist quips: "It's more like one stop with many doors."

Though the SCCI pledges to rule on investment licence applications within 30 days, investors are often hamstrung by other ministries, departments and local administrations that insist on vetting projects, either before or after they go through the SCCI. As a result, getting approvals can take anything from one to three years. And with corruption commonplace, the process can be a costly one.

The country's top leadership is aware of this, as it is of most problems facing foreign investors in Vietnam. "Procedures have been made so complicated that if we fail to readjust, they must hamper our efforts as well as the eagerness of foreign business," Deputy Premier Phan Van Khai reminded the bureaucracy in a recent address. But efforts to dismantle administrative fiefdoms meet zealous resistance, especially at the local level. "Regulations have become regionalised, which means added frustration," says John Dick, a lawyer with the Australian firm Freehill, Hollingdale and Page.

One Australian developer found this out the hard way. After erecting an 11-storey office building in the centre of Ho Chi Minh City, the Norfolk Group was informed by the local People's Committee that the top five floors must be removed. Yet the blueprint had been approved by

the Ministry of Construction in Hanoi. The matter is still unresolved.

Bureaucratic nightmares like this can be encountered anywhere in the region, as veteran investors in China can readily testify. But Thailand and Malaysia have streamlined their investment-approval processes in recent years, while Burma is showing a flexibility that matches its eagerness to break out of economic isolation. "Vietnam is in danger of falling into the 'too hard' category," says Raymond Eaton, chairman of the Bangkok-based Export Development Trading Corp.

The increasingly high cost of doing business in Vietnam makes the long wait for investment approvals even more painful. Property firm Richard Ellis calculates that one square metre of prime office space in Ho Chi Minh City can rent for US\$570 a year, more than in any other Southeast Asian capital. Standard rents for

industrial property at a Malaysian-run export-processing zone in Danang, meanwhile, are 50% higher than those in industrial estates along Thailand's eastern seaboard. That can make Vietnam's US\$35 minimum monthly wage look less of a bargain.

Telecommunications links are good but pricey: Sending a one-page fax from Ho Chi Minh City to Bangkok costs about US\$5, compared with US\$2 to send it the other way. But in a sign that it recognises the risk of pricing Vietnam out of the market, the government recently announced a 10% cut in international communications rates. It plans to bring them into line with regional rates over the next few years.

Many foreign businesses are willing to tolerate high costs for the sake of Vietnam's opportunities. But they can't afford outrageous ones. For Preben Hjortlund, the Hanoi-based country manager for trading firm Schmidt Vietnam, the 10% cut will help take the sting out of his US\$8,000 monthly communications bill. "It's margins like these which can make a difference to whether you come here or stay in Thailand or Malaysia," he says.

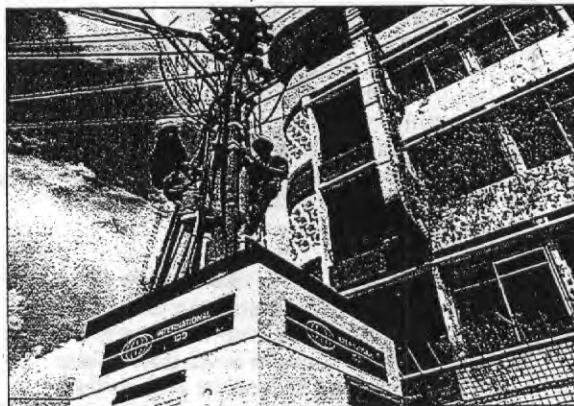
Some manufacturers are attracted to Vietnam not only by its workforce, but also by the potential of a domestic market of 70 million. Yet official per-capita GDP now is a mere US\$220, though unofficial calculations put it at up to US\$800 in urban areas. Industrial infrastructure remains minimal. "We are not ready for the Philips of this world," says Nguyen Trung Truc, managing director of Peregrine Capital Vietnam, referring to the Dutch electronics giant. "We lack industrial linkages and can only afford cheaper, low-end products."

Vietnam's export markets, for the moment, also remain limited. That could change if the U.S. grants

most-favoured-nation trade status, but the issue of missing U.S. servicemen may delay that step. In the highly competitive garment sector, meanwhile, Vietnam obtained a quota to export just 22,000 tonnes a year to the European Union in 1993, minuscule compared to quotas for producers such as Taiwan, Thailand and the Philippines.

Peregrine's Truc suggests that all these factors are adding up to dampen the enthusiasm of potential investors. "People are getting fed up and frustrated. There is a realisation that doing business in Vietnam is no bed of roses," he says.

Some of these problems are being addressed. No longer fettered by the U.S. embargo, the World Bank, IMF and Asian Development Bank (ADB) are disbursing the first tranches of close to US\$1 billion in soft loans they have earmarked for Vietnam. Much of the World Bank and ADB



Telecommunications: a magnet for investment.

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money targets infrastructure. In the meantime, Hanoi is trying to bypass the shortcomings of its roads and ports by offering tax breaks to lure manufacturers to self-contained export-processing zones.

The number of foreign banks with branches in Vietnam has climbed to 13, helping to compensate for the weaknesses of the local banking system. Hanoi’s National Assembly is steadily churning out economic laws that buttress the foreign-investment code adopted in December 1987, one of the most liberal in the region. Vietnam is taking the slower path of picking and choosing individual laws, however, rather than simply adopting an existing body of laws from another country and legislating exceptions. That means it is lagging behind even Burma, which has a body of commercial law.

“Learn, not copy” is how Prime Minister Vo Van Kiet describes Vietnam’s approach. That adage reflects a proud nationalism that carried Vietnam through war, but the sentiment can sometimes translate into tough going for foreign investors. Since the lifting of the embargo, official newspapers have carried articles accusing foreigners of everything from cheating their inexperienced Vietnamese business partners to causing Hanoi’s traffic problems. Diplomats believe the communist leadership, which regularly warns about the dangers of “peaceful evolution,” is fostering a more restrictive political atmosphere to maintain stability as it presses ahead with economic reforms.

Vietnamese authorities do have some economic justification for their wariness, however. Numerous early investors turned out to be small-time operators who acquired licences for projects they had no hope of financing; many planned instead to try to sell the licences for a profit. As a result, many approved projects never saw the light, and their licences were revoked.

The total value of cancelled projects has reached US\$734 million, out of total approved investment of US\$10 billion. Hong Kong companies top the list for most licences revoked, dropping the colony to second behind Taiwan in terms of total value of active projects.

The government has now adopted a more discriminatory approach, which runs to using international accounting firms to conduct credit checks on applicants. That rigour is welcomed by bankers and fund managers scouting for solid investments. “The carpetbaggers were giving the legitimate investors and Vietnam a bad name,” says Eugene Davis of the Bangkok-based merchant bank Finansa Thai. “Now we can separate the fake from the real.”

Indeed, the average size of licensed projects has climbed to nearly US\$10 million from US\$1 million in 1990. “You are

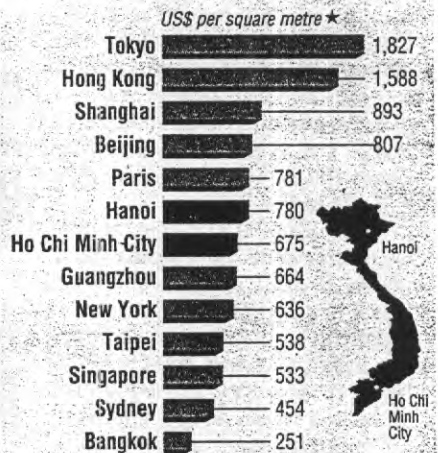
now getting household-name companies with real money and real projects,” says Bill Magennis, a lawyer for the Australian firm of Phillips Fox in Hanoi. South Korean companies were among the leaders of the trend towards larger ventures: They obtained licences for 15 projects worth US\$108 million in the first five months of 1994, compared with over 40 projects worth US\$116 million over the whole of 1993.

There are other signs that the momentum of foreign investment in Vietnam is continuing to build. Hanoi licensed projects with a total value of US\$2.6 billion in the first eight months of 1994, compared with US\$2.8 billion in all of 1993.

The big-name U.S. firms with licensed ventures in Vietnam include PepsiCo, Coca Cola and Mobil Oil. The Americans have started out slowly: In the six months after

A Premium on Property

Vietnam rents are world-class



* Includes yearly rent, service charges and tax for prime commercial property

Source: Richard Ellis

the lifting of the embargo, the SCCI approved 16 U.S.-invested projects worth US\$159 million. But with close to 60 U.S. firms having posted representatives to Vietnam, more projects are sure to follow.

Tony Cailao, who heads up Citibank’s representative office in Ho Chi Minh City observes that pre-embargo expectations of a wave of U.S. investment were too optimistic. “You have to give U.S. companies time,” he says. “Remember, the U.S. is coming out of a recession.”

Japanese firms have been notoriously slow in matching their aid and trade volume with investment dollars, but there are signs that is starting to change. Securities house Nomura announced on September 1 that it had signed a joint-venture agreement giving it a 70% stake in a US\$120 million export-processing zone in the northern port city of Haiphong. Japanese trade officials say more big projects are in

Taiwanese Takeover

Island's entrepreneurs are leading the way

By Julian Baum in Taipei



After two years of talking, Taiwanese industrialist Huang Shi-hui was ready to abandon his investment plans in Vietnam. He had discovered there was no

way his prospective business partners could make good on several key promises.

For instance, Huang had been told by the municipal authorities in Ho Chi Minh City that electricity wouldn't be a problem if he wanted to build an industrial park. He later learned from meetings with officials in Hanoi that factories in the south were shut down as often as three days a week because of power shortages.

When he confronted his Vietnamese colleagues, they suggested he build a power plant as well. "I was so angry I was ready to give up and go home," recalls Huang, chairman of Ching Fong Global, a trading-chair-construction group, and San Yang Industry, Taiwan's leading motorcycle maker.

Instead, Huang stayed put. Now his perseverance may be paying off. Three years after he learned a hard lesson about doing business in communist Vietnam, he has invested in projects worth more than US\$300 million. These include two motorcycle-assembly plants, in Hanoi and at Dong Mai, south of Ho Chi Minh City; a motorcycle-parts factory in Hanoi; a cement plant near the northern port of Haiphong; and the first Taiwanese bank with a branch in Vietnam, Cathay Investment & Trust, soon to be renamed Chinfon Bank.

Ranked as one of Vietnam's top foreign investors, Huang, 68, says business ventures should benefit both sides. For starters, he is trying to improve local sourcing of components. He recently invited 16 other Taiwanese companies to invest in Vietnam to supply motorcycle parts for his "Bonus" and "Angel" brand bikes. Although it's too soon to talk about profits, Huang says, his plants churn out 4,000 motorcycles a month. He calculates he won't see a return on his investments for at least five years.

Huang is not a typical investor. Trained as a neurosurgeon in the United States, he took over the family-owned Ching Fong business group from his father 15 years

the pipeline, including a US\$300 million cement plant involving Nihon Cement and Mitsubishi Material.

Some other Japanese firms are hedging risks through alliances with Southeast Asian firms. Mitsubishi Motors will manufacture light utility vehicles with its Malaysian partner Proton, and Mitsubishi Electric is negotiating to build a consumer-products plant in Vietnam together with Thai manufacturer Kang Yong Electric.

All of Japan's top trading companies have offices in Vietnam. The most active is Nissho Iwai with around 21 Japanese executives stationed there. Unlike other traders, Nissho kept its Vietnam office open during the 1979-89 Vietnamese occupation of Cambodia. Now it's cashing in on its loyalty. Nissho is a partner in a recently launched wood-chip venture in Danang and an oil-exploration project off the south coast of Vietnam.

Having laid extensive groundwork, there's little doubt that Japanese companies will continue to step up their investment. "The way things are going now, it looks as if Vietnam may come on stream as an attractive investment destination about the time political and other risks begin to build up in China," says a spokesman in Tokyo for the Keidanren, Japan's leading business association.

Some investors who got in early, meanwhile, have learned to navigate around the obstacles in Vietnam's economy. One thing they have found out is that Hanoi, paradoxically, is now emerging as an easier place to do business than Ho Chi Minh City. They say a deluge of projects in the former Saigon has made local authorities more selective, so approvals can take longer. Hanoi's authorities are more eager and are accepting projects with lower capital requirements. A hotel project in Ho Chi Minh City, for example, requires a minimum investment of US\$10 million; Hanoi accepts hotel projects with minimum investments of US\$100,000.

Ventures that generate hard currency — such as hotels, offices, and services geared towards foreigners — are still the choice of many foreign investors. One of the most successful examples is a tie-up between Telstra, an Australian telecoms company, and the Directorate General of Posts and Telecommunications. Telstra was a pioneer investor when it set up the country's international telephone network in 1986; it has been rewarded with a third of the revenues from overseas calls, which are billed in dollars.

After getting that lucrative foot in the door, Telstra has increased its initial US\$1 million investment to US\$197 million, financed largely by operating profits. "We don't have to rely on raising money from the local economy; every foreigner doing business here has to use our telephone service," says Robert Scoble, Telstra's busi-

ness development manager in Hanoi.

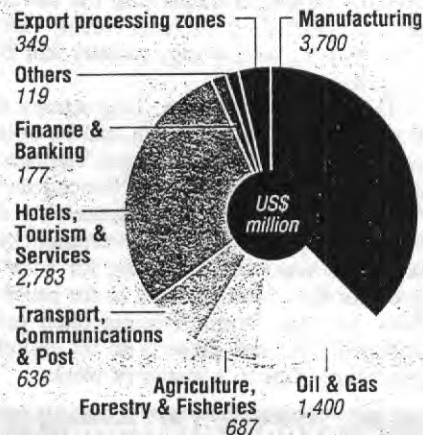
Citibank's Cailao agrees with the principle, and points to a different approach. "If you look at where the investment is going, it's in real-estate," he says. In Hanoi, property projects made up 45% of total licensed investments in the past six months, against 25% in industry.

But Eugene Matthews, another early arrival, has decided to target the domestic market. Like other Americans who started off in Vietnam as consultants, he's seized the opportunity of the embargo's removal to use his valuable in-country knowledge for investment on his own behalf. Matthews' choice? A milk company. He's working on a prospective US\$18 million tie-up with state-owned Vinamilk, which owns Nestle's former plant.

"We picked milk because the country is spending US\$23 million a year to purchase imported milk products," explains Matthews. Because Vietnam wants to develop import-substitutes, he'll be delivering what both the government and market are seeking. "It beats thinking about making

A Piece of the Action

Manufacturing and hotels are Vietnam investor favourites



Note: Approved foreign investment by sector as of August 11, 1994

Source: State Committee for Cooperation and Investment

widgets here that no one could afford to use," he says.

Experienced Vietnam hands like Matthews and Schmidt Vietnam's Hjortlund remain confident of Vietnam's future. They see the difficulties facing investors as characteristic of a transition period as the country catches up with its neighbours.

"Some of these problems are the same ones we faced in Thailand or Indonesia 10 years ago or more; but here the transition period will be faster," says Hjortlund. "If you see where the country was four years ago and where it is today, that should give you confidence that things will move much faster." ■

ago. He has since diversified the 100-year-old trading company into banking, construction, advertising and motor-vehicle making.

The Taiwan-born entrepreneur first visited Vietnam in 1989. As an early visitor to the country, he had access to top government officials. He was eventually won over by the willingness of the Vietnamese authorities to cooperate with him on a variety of investment proposals.

"It's true that Vietnam's laws and regulations are not well established, so it's risky to invest there," he admits. "The good thing is the Vietnamese Government is taking our advice seriously."

Taiwan is Vietnam's leading source of foreign capital. (Although Hong Kong officially ranks first, many of its project licences have been revoked.) According to Vietnamese government data, Taiwanese firms have won permission to invest US\$1.7 billion in 152 ventures.

Taiwanese projects are diverse: They include shoe, textile and food-additive factories, pig and chicken farms, and banana and sugar plantations. Projects range from joint ventures with the government to tie-ups with some of the more than 800,000 ethnic-Chinese who make up the heart of Vietnam's thriving private sector.

What's more, Vietnam has become one of the top destinations in Asia for Taiwanese investors curious about business opportunities outside China. About 10,000 Taiwanese visit Vietnam every month. By comparison, 13,200 went to Indonesia this May. (Many more go to China, though — an average of 125,000 a month last year.)

The largest investor in Vietnam is Central Trading & Development, a venture-capital company controlled by Taiwan's ruling party, the Kuomintang (KMT). While some other KMT-affiliated firms have recently invested in Indonesia, Central Trading is staking its future on four long-term projects in Vietnam. Altogether they represent an approved investment of about US\$600 million.

The decision to focus on Vietnam came after several years of research, says Central Trading's chairman, Lawrence Ting. The company surveyed Russia, Hungary, Poland, Iran, Iraq, South Africa and Burma. Ting says the honesty of Vietnam's officials and the high quality of its labour force were decisive factors. "There's an abundance of cheap labour in the region," explained Ting. What won Ting over? "Vietnam has the last intelligent, cost-effective labour in Asia."

Another factor was the narrow spread between the official and blackmarket rates for the



Part of the Taiwanese stake in Vietnam.

local currency compared with many other countries, particularly Burma. Currency spreads are usually taken as a measure of the stability of the local economy and of the dependability of the local currency.

Meanwhile, the KMT's prohibition against its companies investing in China, where most of Taiwan's outbound investors have set up shop, worked in Vietnam's favour. "Mainland China had the advantage of opening up 15 years earlier," says Ting, "but it's such a huge country that it's unmanageable."

Like Huang, however, Ting admits to frustrations. "The difficulties can be overwhelming," he says, referring to Vietnam's cumbersome bureaucratic procedures. "But we've developed a relationship of trust with the Vietnamese Government because we went there looking for what's good for the country as well as for profit." Now he says Central Trading often gets approval for new projects in its export-processing zone in a matter of weeks.

Central Trading's first project was to reforest 60,000 hectares of land in Kien Giang province, near the Cambodian border, which had been barren for hundreds of years. During the first few years, experts identified species of eucalyptus trees that can grow in the region's highly acidic soil and successfully completed an experimental planting. The company is now seeding the first 3,000 hectares in the US\$27 million project. "This project required a long-term vision which has gained us confidence from the Vietnamese side," Ting says.

The company's best-known venture is the 300-hectare Tan Thuan Export Processing Zone on the Saigon River next to the port in Ho Chi Minh City. It's one of six licensed export zones in Vietnam but the only one currently operating, Ting says. So far 44 companies have rented sites there. In addition, three factories produce textiles and other products, and eight more are expected to open by year-end. The zone is a 70-30 joint venture with the Ho Chi Minh City government under a profit-sharing arrangement. The land has been leased for 50 years.

In a related project at nearby Hiep Phuoc, just south of Ho Chi Minh City, a 675-megawatt power plant will supply power to the zone and to adjoining urban areas. The power project has an approved investment of US\$205 million. (Taiwanese investors have criticised the Tan Thuan export zone as expensive; space leases for US\$100 a square metre for 50 years and users have to rely on costly small generating-sets for power.) Ting says the first phase of the three-stage power project — scheduled for completion by 1997 — has already been sold out and the second phase is under construction. While 80% of the zone's clients are Taiwanese, companies from Japan, Thailand and South Korea are also moving in. Ting says he expects U.S. companies to lease space in the zone by the end of the year.

But Central Trading's biggest challenge is an expansion of Ho Chi Minh City. The Saigon South Development Project will be managed by Phu My Hung, a joint venture between Central Trading and the Ho Chi Minh City Government. An 18-kilometre highway will serve the export-processing zone; around it will rise a 2,600-hectare metropolitan area with a commercial district, two universities, hotels, parks and residential areas. According to Central Trading, among the first commitments from international developers is the Conrad hotel chain. Initial infrastructure costs are estimated at US\$242 million.



Now Boarding

Vietnam funds have no trouble raising cash



Business people on the ground in Vietnam may harbour doubts about how quickly they can turn a profit, but that hasn't stopped mutual-fund managers from peddling the country as Asia's next economic superstar. Though Vietnam has no stockmarket and precious few local enterprises worth buying into, four mutual funds have raised US\$275 million to invest there. Only time will tell whether these fund managers know something others don't — or whether they're simply capitalising on Vietnam fever.

The biggest and newest of the pack is Singapore-based Templeton Investment Management, which expects to raise US\$105 million when it lists the closed-end Vietnam Opportunities Fund on the New York Stock Exchange late this month. "The fund is basically sold," says Templeton President Mark Mobius. "Demand has been tremendous."

Mobius' reputation as one of the savviest fund managers in the world of developing equity markets helped ensure a good response. But even Mobius himself concedes he isn't sure how he'll put the money to work. Mobius isn't overly optimistic that Vietnam will have a capital market within the next two years, or that many companies will be ready to list even when there is one. "We hope for the best, but expect the worst," he says.

To secure a New York listing, Templeton had to build in investor safeguards. If by October 1997 at least 65% of the fund's total assets have not been invested in Vietnamese companies (or concerns which derive at least 50% of revenue or profit from Vietnam), shareholders will be asked either to change the fund's investment focus or liquidate it altogether.

Even fund managers without Mobius' status have tapped the market. One is the Vietnam Frontier Fund, set up by Bangkok-based merchant bank Finansa Thai and listed on the Irish Stock Exchange in August. It has raised US\$50 million, mostly from securities firms in North America, Japan and Europe.

It's uncertain where the funds will invest all this money. The Hong Kong-based Vietnam Fund, set up in October 1991, has evaluated more than 300 projects. But of its US\$54 million in total assets (all of it raised before the United States dropped its 30-year-old economic embargo in February), it has committed or invested US\$20.9 million in just seven ventures.

Some fund managers, figuring to make a virtue of necessity, plan to act as venture capitalists and wait for the inauguration of a stockmarket in order to cash out.

"We don't need a capital market in Vietnam just yet," insists Eugene Davis, managing director of the Vietnam Frontier Fund. The key to making capital work in Vietnam, he says, is to go in and manage it: "If you invest money and train people, you're making sure that your company operates properly." What's more, he says, the government likes this approach because it entails the transfer of skills and technology.

While the Vietnam Frontier Fund has so far invested none of the funds it has raised, it is eyeing stakes in light manufacturing industries like textiles, shoes, toys



On the list of fund managers.

and consumer electronics that produce both for export and local consumption.

Banking also looks promising as an investment, say fund managers, because late last year the State Bank of Vietnam approved the idea of foreign partnerships in joint-stock commercial banks. Finansa Thai has permission to buy up to 30% of Haiphong's Maritime Bank. With assets of US\$52.3 million, the institution is Vietnam's third-largest private commercial bank. Its loan book grew 300% in 1993 and its deposit base 140%.

Frontier is also close to investing in TN-Vina-Thai, a joint venture between Thai personal-products manufacturer TN Intertrade and state-owned Hanoi Pharmaceutical Industries. Further off is the prospect of revenue from the Bong Mieu Gold Mine in Danang province. For that, Finansa Thai has teamed up with Canadian-based Indochina Gold Fields, which has other mining assets in Asia.

Finansa Thai's strategy requires not

only investing in Vietnamese companies but also managing them. Templeton takes a different approach: It is waiting patiently for a capital market to evolve, and in the meantime parking most of its funds outside Vietnam. "We are not venture capitalists," says Mobius, Templeton's president. "We are totally passive and won't get involved in managing the companies we invest in." Templeton generally won't be targeting unlisted companies, unless they're likely to list on a future Vietnam bourse.

Between the hands-on approach of Finansa Thai and the hands-off strategy of the Templeton Fund stands the Vietnam Fund. "We're not taking our people and putting them into individual projects," says Managing Director Martin Adams. But the Vietnam Fund will expect to place a representative on the board of many of the companies it invests in.

Like the Frontier fund, the Vietnam Fund focuses on sectors expected to offer the quickest returns. Its largest commitment to date is in a Singapore-controlled real-estate venture in Hanoi. Dragon Properties Asia is a mix of commercial, residential and retail development which has already invested US\$10.1 million of the estimated US\$40 million final cost, though business people in Hanoi say the project has yet to clear all the approval hurdles.

Leading the Vietnam Fund's actual investments is Agravina, formerly Bio-Organics International, an export-oriented flower and vegetable operation in the hill town of Dalat. The fund has put nearly US\$500,000 into the firm, and has invested a further US\$2.3 million in Maritime Bank.

A problem for all these funds is the dearth of enterprises in which to invest. Even with a capital market, which is optimistically forecast for late 1996, no one is sure there'll be suitable listed vehicles. "We think in the early years, joint ventures won't be allowed to list," says one fund manager. That would leave only Vietnamese companies, which are much riskier.

In the meantime, the funds have little option but to invest in multinational companies with exposure to Vietnam. Such ventures may not be exclusively Vietnam-oriented, and could be listed on other regional bourses. Thailand's stock exchange already anticipates listing Vietnam companies in Bangkok, along the lines of the China stocks traded in Hong Kong. The Thai exchange's senior vice-president, Chaipat Sahasakul, says a Vietnamese company could list on the Bangkok bourse by the end of next year. ■ Michael Vatikiotis

Investment licensing on target, \$3.5b year in sight

By Hoal Van

FIVE per cent of foreign invested projects take longer than the government stipulated three months for approval and licensing by the State Committee for Cooperation and Investment (SCCI), according to SCCI figures.

More than half of all licensed foreign invested projects spend less than six weeks in evaluation, 24 per cent take from six to eight weeks and 19 per cent take between two and three months.

An SCCI official blamed the excessive delays on documentation that did not conform to requirements, and requests for concessions for which the project was not eligible.

Inadequate planning and discrepancies among the visions of different Vietnamese agencies were other reasons for hold ups.

The required feasibility studies for small and 100 per cent foreign owned projects are still too complicated for the evaluation period to be cut further.

SCCI figures show a 17 per cent increase in investment this year over last year. Officials say it is still too early to read into these figures any effect of the lifting of the US embargo, as most of the US projects were negotiated before the embargo

came off. Included in these are Mobil's interest in the Blue Dragon oil field, and Pepsi Cola and Coca Cola's bottling and can making projects.

The SCCI official said that not enough data had been collected in July and August to appraise specific results of foreign investment activity since the beginning of 1994.

As of June, enterprises with foreign invested capital produced goods and services worth US\$326 million. Exports and foreign currency earnings were US\$173 million, and taxes another US\$38 million.

In the first six months of this year foreign invested enterprises made 20,000 tonnes of steel and steel products, 25,000 tonnes of lubricant, 11 million garment items, 25 million metres of cloth, 250,000 spinning spindles, 8.9 million pairs of shoes and sandals, 50 million litres of beer, 30 million litres of soft drinks, and 9,500 tonnes of MSG. They assembled 3,500 automobiles, 70,000 motorbikes, 100,000 TV sets and radio cassettes. Foreign invested enterprises also put 4,600 hectares of land under trees, built 1,811 hotel rooms, and made 372 million medicinal pills and 26 million ampoules.

These enterprises created 23,000 jobs in the first six months of this year, about half the total amount cre-



25 million metres of cloth produced in the first 6 months of 1994

ated using foreign capital in the period 1988 to 1993.

The view is not so rosy at the export processing zones. The government hoped these would be po-

tent sources of foreign exchange as well as of employment. At the most successful zone, Tan Thuan, only a few of the 18 licensed enterprises are currently operating. The SCCI offi-

cial commented that EPZs are generally operating slower than agreed in the licences.

Once again the fault lies with the foreigners, this time for "not arranging their capital in such a way as to facilitate construction as planned."

During the remaining quarter of 1994, the SCCI will issue criteria for project evaluation and review current practices with a view to further reducing evaluation times. The SCCI official projected that foreign invested enterprises totaling US\$3.5 billion will be licensed for the year.

Larger projects which could be licensed this year include a 6000 tonne per day sugar manufacturing plant in Thanh Hoa, cement plants in Thanh Hoa, Hai Hung and Quang Binh, infrastructure for industrial parks at Hai Phong, Hanoi, Dong Nai, Song Be and Ho Chi Minh City and gas collection, transportation system and LPG manufacturing plant in Thu Duc.

This year the government has moved to resolve problems ranging from land allocation to issuing import licences. Its objective here has been to increase capital reserved for construction and business to around US\$1.3 billion to \$1.4 billion - surpassing the US\$1 billion figure projected by the Government earlier this year.

MISSION II

INTERNATIONAL TRADE EXHIBITIONS

An invitation to a free information session on how to....

Growth rate reaches eight to nine per cent

VIETNAM'S gross domestic product (GDP) growth rate this year has reached eight to nine per cent, despite considerable losses to the winter rice crop due to weather, Le Van Toan, director of the General Department of Statistics said last week.

The rate is still within the target set by the National Assembly for the year (ten per

cent) and in line with expectations for this time of year (8.5 per cent).

Toan said the increase was not affected by the rice crop losses in northern and southern regions, as the agricultural output now represents only 30 per cent of the GDP while the commercial and service sectors account for as much as 40 per cent.

The industrial sector accounts for as much as 20 per cent.

Also according to Toan, August inflation was 0.8-0.9 per cent nationwide. Toan said with such a price increase, keeping 1994 inflation at one digit would not be difficult.

Toan still warned against a sudden increase in prices that might occur in the remain-

ing months of the year.

The Department General of Statistics said that more than 50 per cent of 91,000 households polled say that over the past three years, their living standards have increased.

Toan said that average cost of living in Vietnam is now VND119,000 (US\$10.8) per person per month.

Related to market prices, August saw an increase in the consumer price index at 0.9 per cent compared with July, bringing inflation of the year to August to 8.2 per cent.

The price of books, notebooks and other school supplies increased the most in August - two per cent.

Prices of foodstuffs and clothing increased 1.6 per cent and fuel increased 1.1 per cent.

The price of building materials decreased by 0.2 per cent.

In some provinces, such as Ha Bac in the north, Thua Thien-Hue in central Vietnam, and Can Tho, Dong Thap and Tien Giang in the south, the consumer price index in Au-



GDP increases despite losses in rice crop

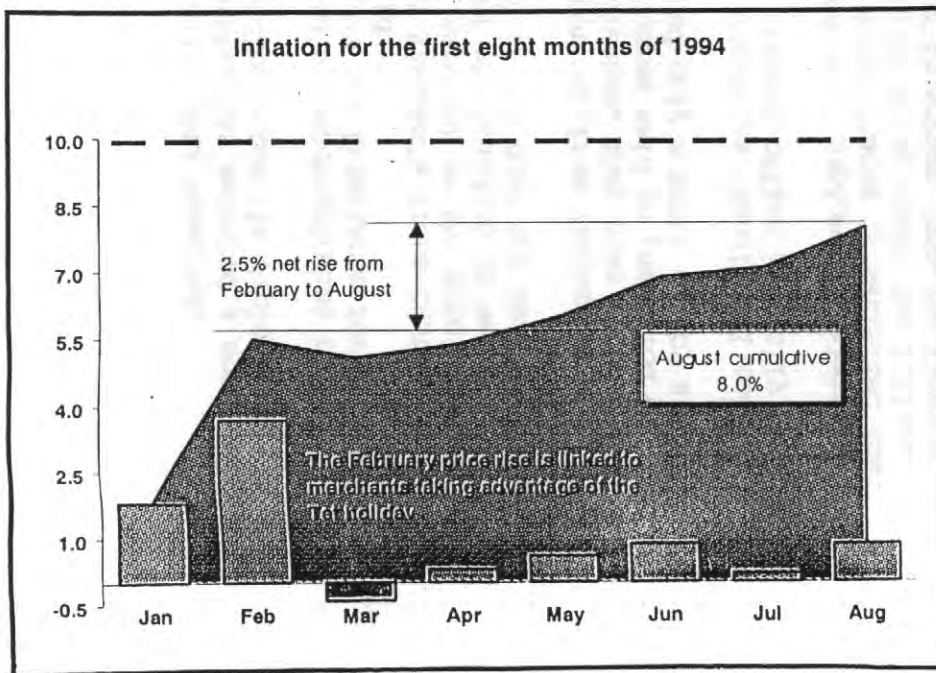
gust decreased by 0.1-0.3 per cent compared with July.

In Ho Chi Minh City, the total sales in August increased by 2.9 per cent compared with July. State-owned businesses accounted for one third of the total sales (VND812 billion of the total VND2,412 billion) showing an increase of 4.9 per cent.

The price index of goods and services in August increased slightly, only 0.26 per cent over July.

In general, prices in Ho Chi Minh City have been stable. The price index in August showed an increase of only 6.43 per cent compared with December 1993.

Due to increasing production and measures to mobilise capital for the stabilisation of the monetary system, for the first time since early this year, the price of the US dollar was stable in August. Gold prices dropped 0.1 per cent compared with July.



AP Online

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HANOI, Vietnam (AP) — The United States has selected a sparkling new nine-story glass tower with marble floors for its diplomatic mission in Hanoi, sources said Monday.

The United States is also considering a French-colonial building with large windows, balconies, staircases and fireplaces for the future ambassador's residence, the sources said.

The French-style building now houses Vietnam's Press Center, which provides translators, guides and other services to the foreign press corps. The Press Center is moving out of the building on Wednesday. While its architecture is beautiful, it is run down and badly in need of renovation.

U.S. officials are awaiting final approval from Vietnam to take over the buildings. After a nearly 40-year absence, they plan to open the liaison office by early October, the sources said on condition of anonymity. The new building was completed only a month ago by a Vietnamese construction company.

Under the agreement between the two countries, Hanoi will open a liaison office in Washington. The U.S. liaison office initially will be staffed by 11 Americans.

The offices are the first steps toward full diplomatic relations and the exchange of ambassadors, once the United States is satisfied that Vietnam has done all that it can in helping bring about the fullest possible accounting of Americans missing in action from the Vietnam war.

One of the main functions will be to follow up on the MIA issue. It also will deal with issues such as human rights, trade and economics and will provide consular services for American citizens arrested in Vietnam. This has been a major concern of U.S. citizens, particularly Vietnamese Americans.

It will also provide some services for U.S. businessmen considering investing in Vietnam and for Vietnamese traveling to the United States.

Travel for Vietnamese now is restricted mostly to a small number of students and official delegations. It has held many of them back from visiting, especially the southern Vietnamese who were allied with the United States and the South Vietnamese government in their war against Communist North Vietnam.

The United States closed its consulate in Hanoi on Dec. 12, 1955, after refusing to recognize the Communist Vietminh. The Vietminh defeated the French and ended colonial rule in 1954.

The Geneva Agreements signed in 1954 divided the country into the Communist North and non-Communist South and set the stage for the entry of the United States into the second Indochina War on the side of South Vietnam.

That war ended on April 30, 1975, with the chaotic evacuation of the U.S. embassy in Saigon and the takeover of the capital by North Vietnamese forces.

which were going in for investments worth billions of dollars, the U.S. and France were also trying to gain a foothold in the New Vietnam.

"The German firms however face the prospect of losing out to traditional and newer partners of Vietnam -- a country with a population of 70 million and an extremely hard-working low-wage labor force," added Pinger.

However, German development assistance -- which was resumed 1990 after Hanoi withdrew troops from Cambodia -- was contributing its share to the success of market reform.

Since then, Bonn had disbursed or agreed to provide 148 million marks (\$92.50 million).

Also political foundations "Friedrich Ebert Stiftung" (FES) and "Konrad Adenauer Stiftung" (KAS) -- close to the opposition social democratic SPD and the conservative CDU respectively -- had taken up the challenge well in advance.

The FES had worked out proposals securing workers' rights. These have meanwhile become law. KAS has been assisting the minister of justice in Hanoi on new legislation. Consultancy is also being provided to adjust the country's fiscal institutions to the requirements of the market reforms.

In addition, Bonn was backing reintegration programs for Vietnamese residents in Germany. Twelve million marks (\$7.5 million) had been loaned to 500 small enterprises in Vietnam, said the CDU parliamentarian Pinger.

However, the reintegration programs -- especially those involving Vietnamese employed in the now-defunct communist Eastern Germany (GDR) within the framework of inter-governmental accords -- are subject to criticism.

Diplomatic sources wishing to remain anonymous talk of Bonn "pressurizing" Hanoi to take back the "contract workers in former GDR."

And the widespread view in the general public is that Vietnamese men and women prefer to eke out an existence by selling smuggled cigarettes and textiles from neighboring Poland rather than return home where they might not be getting even a morsel of the prosperity cake.

A recent IPS report from Hanoi said Vietnam's success in market reforms was getting rave views abroad, but inside the country there were mixed feelings over the country's growing reputation as the next Asian economic Tiger.

Last page !

Vietnam, Despite Promise, Faces

WALL STREET JOURNAL 8/18/94

Human Capital Is About All It Has in the Bank

By ROBERT KEATLEY

Staff Reporter of THE WALL STREET JOURNAL
BENTRE, Vietnam — The economic future of this poor country rests in the hands of people like Nguyen Thanh Phuong.

He's a 33-year-old metalworker in this Mekong River town's central market, where he and three grimy workers bend, bang and weld steel strips into window grills. Mr. Phuong takes in about \$40 a day, while paying his employees only \$30 to \$60 a month, "according to skill."

"More and more people are building houses or fixing their old ones," he says, and since Vietnam introduced free-market reforms a few years ago "local people can pay higher prices."

Hanoi wants more of that sort of thinking as it nudges this overcrowded nation toward prosperity. With 70 million people and limited resources, the country needs local entrepreneurs to create jobs and keep living standards above the poverty line. Foreign investors are essential, but Vietnam won't find real success unless it also finds many more Mr. Phuongs willing to start labor-intensive businesses.

Natural Resources Lacking

"The country will have to develop on the basis of human resources rather than natural resources," warns a World Bank study. Vietnam's offshore oil fields lure developers but at best the country will become another Malaysia, not a Saudi Arabia. The forests are being decimated and mineral deposits are limited. Its overworked farmland has three times the population density of China, and each year brings 1.5 million new mouths to feed. Half the children under age six are malnourished, and malaria is on the rise. Some see a Malthusian disaster taking shape.

Yet most analysts say Vietnam is off to a good start and may well become, given more local entrepreneurial growth, an Asian economic tiger like its neighbors. So

far, despite an 8% growth rate, it's more of a kitten.

"You need to be a little bit cynical about all the foreign enthusiasm," cautions the Hong Kong-based manager of a Vietnam investment fund, who finds more companies ready to talk big than invest big.

There are signs of real progress. Hanoi is even intensifying free-market reforms. Inflation has been cut from 70% in 1990 to only 5.2% last year. Yet Vietnam's total yearly economic output is only \$15 billion; it remains an extremely poor nation.

Many of the problems start in Hanoi, where the no-longer-quite-so-Communist leaders don't know what a free market means. Their economics comes largely from Soviet texts, and until the current *doi moi* or "renewal" policy got under way, were effectively shut off from the capitalist world. "Our professors were educated as central planners, and market economics hasn't yet replaced those ideas," says Do Duc Dinh of Hanoi's Institute on World Economy, its leading think tank. "So they teach what they still have in their minds and this mixture is confusing."

Almost daily, new rules are announced to push the free market along, covering things such as bankruptcy and property rights. Hanoi calls in scores of foreign lawyers and consultants to help draft investment laws. It sends central bankers to the International Monetary Fund to learn how to run a commercial banking system, which is being reinvented. KPMG Peat Marwick has a \$1.6 million contract to help privatize stodgy state factories.

But midlevel bureaucrats often don't know much about applying these laws, and the legal system is unreliable. That's why, says a banker, it's important to make friends with the local police. For a price, moonlighting cops will play tough guy and collect overdue bills or enforce contracts. Meanwhile, some civil servants delay reforms they don't like, especially in state companies and ministries that control them. They're afraid privatization might eliminate their jobs.

Local entrepreneurs, vital to Vietnam's recovery, face a shortage of capital brought about by low savings rates and an underdeveloped banking system. There's also growing corruption. Dau Ngoc Xuan, head of the important State Committee for Cooperation and Investment, complains about local-government "fees." One company had to pay 120 fees to get investment plans approved, 80 of them illegal.

"This is really important," says Mr. Dinh, the economist. "If we can't combat corruption, then we can't direct the economy. We don't think we have to kill someone [to make him an example], but we have to put more in jail."

Beyond issues of policy and management, there are serious physical problems after 20 years of deferred maintenance. Electricity brownouts are frequent, and hotels, offices and factories must have

backup generators. Nowhere in Vietnam is tap water safe to drink. The rail system is rickety. Moving cargo from the port of Haiphong is difficult.

But all is hardly lost. "The country certainly has fantastic potential," says a World Bank economist. Capital is coming. Foreign aid suppliers have pledged nearly \$1.9 billion of infrastructure and technical assistance, including major power generation, transport and education projects. In addition some private companies are taking the plunge. General Electric Co. of the U.S. and Broken Hill Proprietary Co. of Australia plan an \$810 million gas-fired power plant and fertilizer factory. Many large Western and Japanese oil companies, and some from Russia, are finding petroleum and gas. In addition, the Vietnamese diaspora remits \$500 million a year to relatives and increasingly returns to sniff out business opportunities.

But foreign investors alone can't solve Vietnam's employment problems, which grow as state firms shed workers and the army demobilizes more troops. By mid-year, one foreign banker estimates, all overseas investors combined had created only 10,000 new jobs.

That's why the government plans more loans to former soldiers and bureaucrats; it wants them launched firmly into the market system and off the state payroll for good. Likewise, some private money is available. For example, James Rockwell, a young American who founded Vatico, a consulting and investment firm in Hanoi, has a \$1 million fund for financing small-time entrepreneurs.

One Man's Journey

A visit with Nguyen Van Than, a scarred rice farmer with one eye askew who lives in Nhi Quy hamlet of the delta's Tien Giang province suggests the entrepreneurial spirit may carry the day.

Years ago he worked for a U.S. contractor at Saigon's Tan Son Nhut airport. But that job ended when most Americans left in 1973, so he came home to do what seemed logical, join his father and brother as a squad leader in the Vietcong. But after the Communists won, they divided the rice paddy, and his politically correct family had to surrender some of their land to folks he clearly considers undeserving.

But the collective system collapsed in 1985, following crop failures and food shortages, and the family plot was restored. Mr. Than clearly prefers life in the free market system. He complains about stiff taxes and fertilizer prices, but the levies really are no higher than before, while his production has doubled and income has tripled. In 1990, a new grid brought low-cost electricity to his flimsy thatch hut. He uses it only for light and pumping irrigation water.

Why not buy a television like so many neighbors? "I'm saving my money," he says. "I'm going to buy more land."

Procter & Gamble to Form Joint Venture in Vietnam

By a WALL STREET JOURNAL Staff Reporter
CINCINNATI—Procter & Gamble Co. plans to form a joint venture in Vietnam, making it one of the first well-known U.S. consumer-products companies to invest there.

P&G said it signed a letter of intent to form a \$14.3 million venture with Consumer & Industrial Chemicals Corp. of Vietnam to make shampoo, soap, toothpaste and detergent.

The U.S. company, which would have a 70% stake, said initial terms of the venture include building a plant to produce personal-care products. Its Vietnamese partner would own 30% of the venture.

The plan requires clearance from the Vietnamese agency that regulates foreign investment.