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Mutual fund managers rush to Vietnam

NEW YORK — For a country that doesn't have a stock market, Vietnam is attracting a surprising rush of mutual-fund managers, most of them hoping Vietnam will become Asia's next economic success story.

Five mutual funds have been established to invest in Vietnam of late, and more are on the way. The first US-based entrant is the Templeton Vietnam Opportunities fund, a US\$150 million fund being organized by Franklin Resources and sold to investors by Kidder Peabody. Meanwhile, Yamaichi Securities, the big Japanese broker, is expected to announce shortly its Emerging Vietnam Fund. Another half-dozen Vietnam funds are in various stages of planning.

This frenzy is heightened by big-name personalities such as William Colby, former director of the US Central Intelligence Agency, who now works for the Blackstone Group. Colby is busy promoting the Vietnam Frontier Fund,

which was recently launched by a Thai merchant bank. Then there is Derek Tonkin, former British ambassador to Vietnam, who is advising the Beta Vietnam Fund, based in Ho Chi Minh City. And Lord Walker of Worcester, a former British agricultural minister, is serving as chairman of the Hong Kong-based Vietnam Fund.

Amid all this hoopla, however, there is a well-grounded concern emerging that the flow of money into Vietnam funds may be too much too soon, especially given the backward state of the country's financial, legal and physical infrastructure.

"There is more hope and hype out there than there are realistic investment opportunities," says Leigh Scott Kemmis, chief executive of Indochina Enterprises Ltd, a Hanoi-based investment company. "A lot of institutions are eager to find a window in Vietnam, but they

don't realize just how small that opening is at the moment. All the country funds are struggling to find deals to invest in and we are seeing large amounts of investment capital being raised with nowhere to go. Finding investable projects is a real problem."

Indeed, of the total US\$254 million gathered by the five existing Vietnam funds, only about 15 per cent has actually been invested in Vietnam. For example, the Vietnam Fund, which is the oldest of the lot, having been formed in 1991, has been able to invest only about US\$11 million of its US\$55 million. Beta Vietnam Fund has invested only about US\$15 million of its US\$64 million. And the Kepple Group's Vietnam Investment Fund (Singapore) Ltd has invested only around US\$4 million of its 90 million.

The Vietnamese government is trying hard to establish modern financial markets as part of its effort to end the

country's dependency on agriculture, which now supports 70 per cent of the population and 40 per cent of the economy. Government officials hope to have a bond market in place by the end of next year and a computerized stock exchange with trading floors in Ho Chi Minh City and Hanoi within two or three years.

Until that happens, investments in Vietnam by foreign mutual funds will continue to involve negotiating specific deals, more akin to placing venture capital than doing traditional stock picking. To date, the various Vietnam mutual funds have invested in a shipyard, real estate holdings, garment-making operations and agribusiness firms.

"We want to invest but are finding it quite difficult," says Dominic Scriven, associate director of Peregrine Capital Vietnam Ltd, which is said to be considering a Vietnam fund of its own.

"The problem for everyone is that the availability of capital is not matched by easily accessible opportunities."

This has raised fears that, if things keep going at the current tempo, Vietnam could suffer a kind of China Syndrome. "Three years ago there were only about three China country funds in existence, and they hadn't been active in years," recalls Peter Innes-Ker, director of corporate finance for HG Asia London, which raised money for the Vietnam Frontier Fund. "Then China opened up and almost overnight you had a couple of dozen funds spring to life, raising a couple of billion dollars. Today, only half a dozen or so of those funds have had any progress in making actual investments. The rest are languishing."

Already there are some faint signs that some investors are becoming cautious about Vietnam. Although managers of the Vietnam Frontier Fund say the US\$50 million they raised last month was exactly what they hoped for, the fund had

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made provisions to raise another 50 million but it never materialized.

Similarly, the Kepple Group's Vietnam Investment Fund (Singapore) ran into weaker-than-expected investor response with its second offering, which closed earlier this month after gathering US\$30 million in new commitments instead of the 50 million originally sought.

Some share prices are slipping, too. For example, shares in the Beta Vietnam Fund, which were valued at 50 each when the fund was listed on the Dublin stock exchange in September 1993, soared to a high of 95 in the wake of the lifting of the US embargo on trade with Vietnam last February but have since slipped back to around 60. Similarly, the Vietnam Fund was recently at about 16, off its high of 19, though still above its 10 offering price. On paper, at least, Vietnam has everything a country needs to fulfil its future growth expectations: abundant natural resources, political stability, rich oil reserves, timber and fishing grounds, gold and other valuable minerals, not to mention a hardworking, relatively well-educated labour force that is willing to work at salaries well below the Asian average.

Eager to get a foothold in this promising market of US\$73 million consumers, American businessmen are pouring into Hanoi and Ho Chi Minh City. More than 60 US companies have established some type of presence in Vietnam, including the likes of Citicorp, BankAmerica, American Express, General Electric, Caterpillar, Philip Morris, IBM, Digital Equipment, Motorola, PepsiCo, to mention a few.

The Vietnamese themselves are also acting confident about their economic prospects. To cite one example: There were fewer than 300,000

motorbikes registered in Ho Chi Minh City seven years ago; today, there more than one million. The number of bicycles has doubled to two million, while the number of cars has grown eightfold over the same time span.

The Vietnamese people's willingness to spend on new forms of transport is one of the most visible signs of Vietnam's new prosperity - and hope. This springs from free-market reforms introduced seven years ago and, more recently, from a more conciliatory policy toward Vietnamese who fled the country during the war years but who are now returning loaded with cash. (The number of motorbikes in Ho Chi Minh City nearly doubled in one month during the Tet holidays last year, with money smuggled into the country by returning Vietnamese.)

No one knows for sure how much money is hidden beneath the floors or buried in the yards in villages throughout Vietnam, nor the exact amount smuggled in by returning Vietnamese, but estimates range as high as US\$2 billion.

Government economists privately guess the 'parallel economy' may account for as much as 60 per cent of the official economy, which totalled US\$4.5 billion in 1992.

"Compared with three years ago, personal incomes have risen dramatically," says Shinji Yasuda, chief representative of the Bank of Tokyo's local office, which opened last year. "There are estimates that as much as US\$300 million a year is pouring into the country from the US and other overseas Vietnamese communities, while the rest of the money is coming out from under the mattresses. I've seen 1934 and 1951 series US hundred-dollar bills in circulation. It is quite remarkable."

Whatever its size or impact, the flood of cash

into the economy has helped generate an economic boom in this Southeast Asian nation that would have been unimaginable a decade ago when Marxist planners controlled the economy with an iron grip and ran the inflation rate up to 700 per cent a year at one point.

Although slow at the outset, Vietnam's economic reforms, known as *doi moi*, have shown impressive results. True, Vietnam remains one of the poorest countries in Southeast Asia with per-capita gross domestic product of only 220. But its standing has been improving rapidly. Between 1988 and 1993, the country's economy expanded at an average annual pace of 5.2 per cent, and it achieved a record eight per cent growth last year. The Asian Development Bank projects economic growth of nine per cent this year and ten per cent next.

Industrial output rose by 11 per cent last year, while an extremely tight monetary policy has reduced inflation to a manageable 5.2 per cent. Foreign investors have pledged more than US\$8.2 billion worth of projects in the six years since the country began allowing foreign investment. Exports, buoyed by rising sales of crude oil, rice, textiles and marine products, have been growing by more than 20 per cent.

The lifting of the 20-year-old US trade embargo on Vietnam has further brightened its economic outlook. According to some estimates about US\$3 billion worth of trade and investment is expected to flow into the country during the next two years and nearly \$10 billion by the year 2000, much of it anticipated from the US.

This is not to overlook Vietnam's serious developmental problems, some of which may take decades to resolve. Chief among these impediments are corruption, a 50 per cent unemployment rate and a widening gap between

the minority urban rich and the majority rural poor, a division that is giving some government officials pause. In fact, Vietnamese leaders have recently taken to peppering their speeches with references to 'fair growth' and the need to include all people in the country's progress. But given the success of free-market reforms, no substantial policy changes are expected soon.

Far more worrisome than any ideological backsliding right now are structural and legal obstacles to growth. "Vietnam is a country that has very little in terms of legal or physical infrastructure and needs everything," says Alain Chaillet, manager of the Ho Chi Minh City branch of Banque Nationale de Paris. "Every time I read about plans for some new cement or steel plant planned somewhere outside the city, I laugh. There isn't enough electricity to service this city, much less power an energy-consuming cement plant or heavy manufacturing facility. Much of this country's potential is just that — potential." Without question, rebuilding a nation that has been at war for most of the 20th century will not be easy.

The Vietnam Frontier Fund, for one, concedes as much. In the fund's prospectus, its managers discuss "the high degree of risk" involved in investing in Vietnam, including political, social, legal and economic uncertainty, high inflation, price volatility, limited liquidity, less rigorous regulatory, disclosure and financial reporting requirements, restrictions on foreign investment and repatriation of capital and income, fluctuations of currency exchange rates, currency devaluations and the possibility that the exchange of a foreign currency may be blocked.

Such is the nature of gambling that a longtime socialist economy will successfully arise from its torpor.